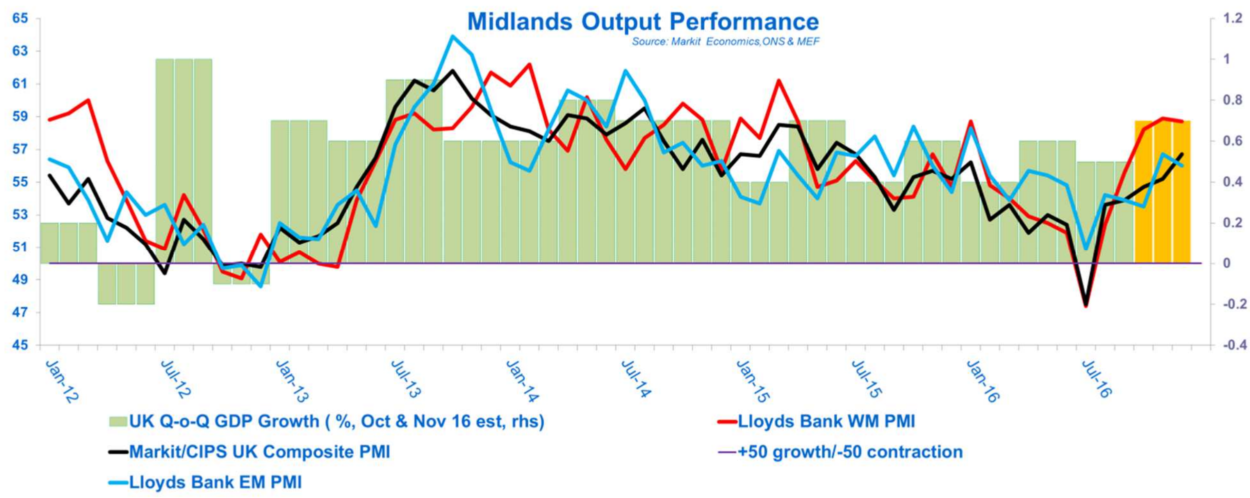
Press Release: 0900 Monday 17th January 2017

Region's Strong Growth Performance Continues

According to the latest Lloyds Bank regional PMI for December released today:

- Output growth in the WM remains robust with PMI at 58.7 from 58.9 in November
- EM PMI eases slightly to 56.0 from 56.7 previously
- WM PMI again shows one of the strongest rates of growth nationally with new orders growing at a 21-month high.
- Price pressures remain elevated in both East and West Midlands
- Employment growth continues in line with the rest of the UK.
- Growth momentum in both EM & WM expected to be sustained into H1 2017



According to the latest regional PMI data, the Midlands continued its robust output performance in December. At 58.7 (previously 58.9) the West Midlands continues to outperform the national economy, with the East Midlands easing very slightly from 56.7 to 56.0. On a national level, PMI data has rebounded strongly from its post-referendum low and now stands at its highest level since mid-2015.

National performance was buoyant across sectors with the relative strength of manufacturing (a 30-month high at 56.1 in December), which was one reason for the good performance of the Midlands in the final quarter of 2016 given its relatively large manufacturing sector and associated ManuServices. Similarly, growth in the services sector accelerated once again to its highest level for almost 18 months, whilst construction output appears to have rebounded from its dip earlier in the year to 54.2 – it's highest level for almost a year.

These figures are in line with the Markit/REC report on jobs which showed the Midlands performing particularly well with permanent placements growing at their strongest pace for over a year (and the sharpest rise in the UK). Increased labour demand appears to have been the driving factor, which indicates further tightening of labour market conditions going into the New Year. Temporary placements also increased in December, suggesting that the regional jobs market as a whole proved buoyant at the end of 2016.

Professor Julian Beer, Deputy Vice-Chancellor at Birmingham City University, said: "*The apparent continued resilience of the regional economy in the wake of the Brexit vote is good news with the area set to begin the New Year on a firm footing. Nevertheless, it is clear that investment in skills and infrastructure is needed to enable the region to remain competitive moving forward. Further research on the impact of Brexit on the region will be needed. As a major exporter, the West Midlands is heavily reliant on trade and investing in our future will ensure that we continue to thrive.*"

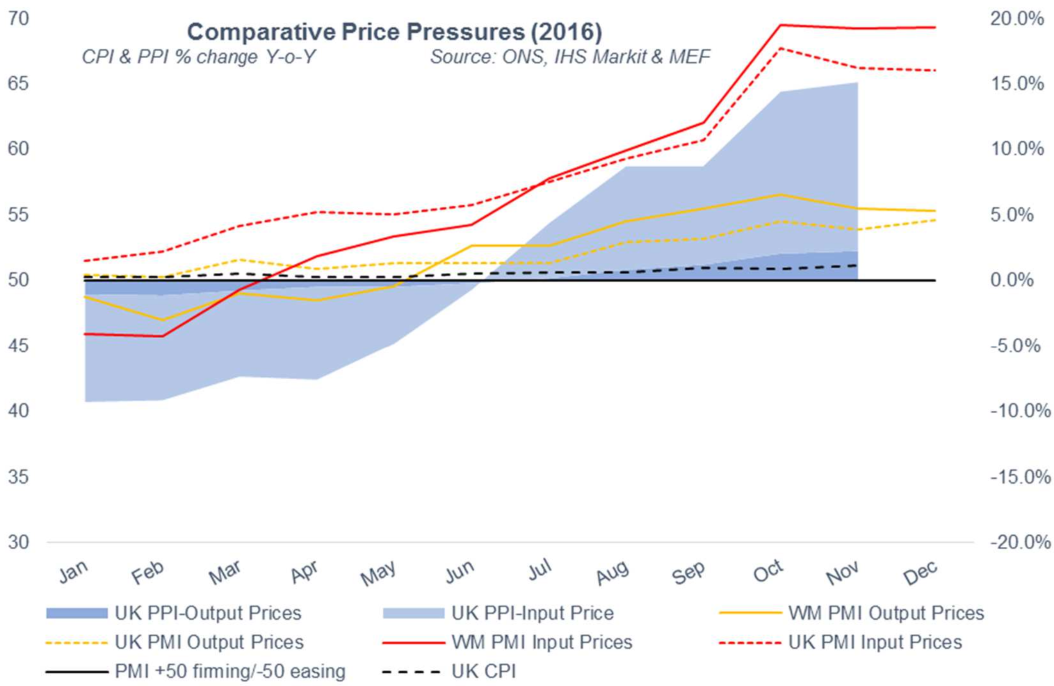
Official ONS data on production are only available to November (with services data available to October). However, the official data thus far available appears to corroborate the earlier picture painted by PMIs with manufacturing output in November rebounding. In particular, on a national level the beleaguered metals sector (which continues to contribute a significant portion of the West Midlands' manufacturing output) grew by 1% in November.

Likewise, national output in the transport manufacturing sector (the largest manufacturing industry in the Midlands and the major driver of the region's export prowess) grew by 1% and the buoyant automotive sector saw growth of almost 1.3%. The latter figure suggests that output in the sector was some 20% higher than the average monthly output in 2013. All three figures bode well for regional output. According to the latest PMI data, work-in-hand increased once again, marking the fourth consecutive month of increase. This appears to have been driven by more buoyant demand conditions and insufficient capacity to meet this stronger demand.

Corin Crane, Chief Executive of the Black Country Chamber of Commerce, commented, "*Whilst these figures are good news, it is clear that we are running up against capacity constraints, particularly around transport. Significant upgrades to the region's road and rail network are needed to ensure that our manufacturers are as productive as possible. This is reflected in our conversations with local businesses and it is likely that these capacity constraints are contributing to the rise in output prices that the latest figures show.*"

The continued weakness of sterling (relative to pre-referendum levels) is now providing some stimulus to the region's exporters and manufacturers. It is perhaps unsurprising that the Midlands should be an early major beneficiary of this effect as it is the UK's principal export region (accounting for 22.8% of England's exports in 2015). Nevertheless, it is clear that the depreciation of Sterling has had an impact on cost pressures with the latest PMI readings showing that regional and national costs are continuing to increase and this is now feeding through into output prices.

Moreover, Sterling weakness is not the sole contributor to rising inflation. The rally in global commodities markets started in early 2016 well before the June Referendum and has continued to gather strength during the year. As such, global inflationary pressures have risen, with those in the UK becoming particularly acute due to currency movements.



Paul Kalinauckas of BCRS Business Loans said, "*Access to finance remains a crucial barriers for many SMEs who form the backbone of our economy. Whilst evidence of economic strength and dynamism is welcome, many smaller companies continue to find access to capital a barrier. As an engine of growth, the SME sector cannot just rely on big international banks".*

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Notes:

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The university works with in excess of 5,000 businesses, regionally, nationally and internationally, with our courses informed by Industry Advisory Boards, where information about business needs are reviewed and skills challenges are discussed. In 2015 we launched Advantage, the business growth service from Birmingham City University enabling organisations and individuals to get connected with knowledge, skills and money in business, innovation and enterprise.

We have extensive sector linkages providing detailed intelligence and input into future innovation, driving thinking around smart specialisation, the creative economy, advanced manufacturing and health-related life sciences. Through our work with partners such as the GBS LEP, WMCA, Science City, and Creative City Partnership, we take a lead on cross innovation, design and climate change. Innovation is at the core of our work. Working in partnership is at the core of our approach to business.

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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