

# Midlands Perspectives

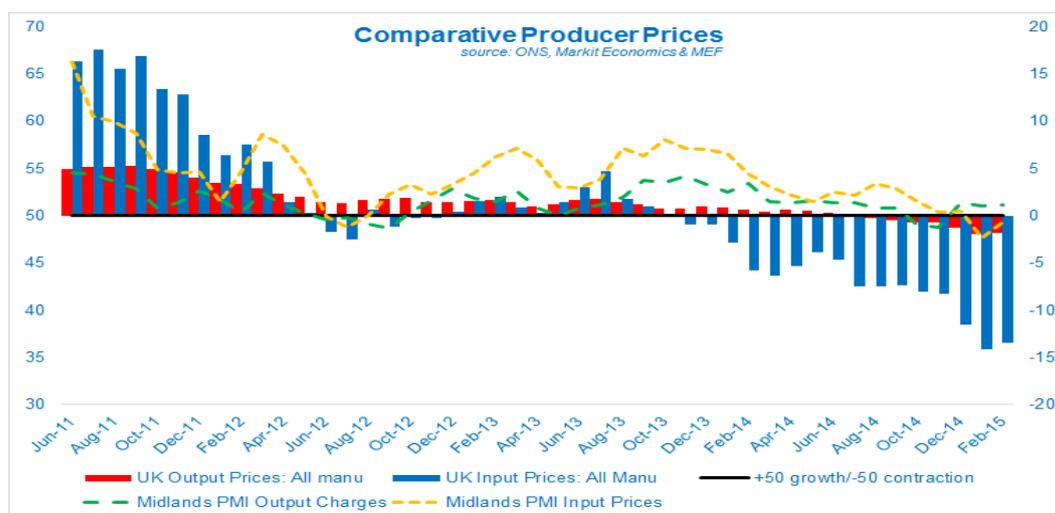
Placing the region in a global context

March 2015

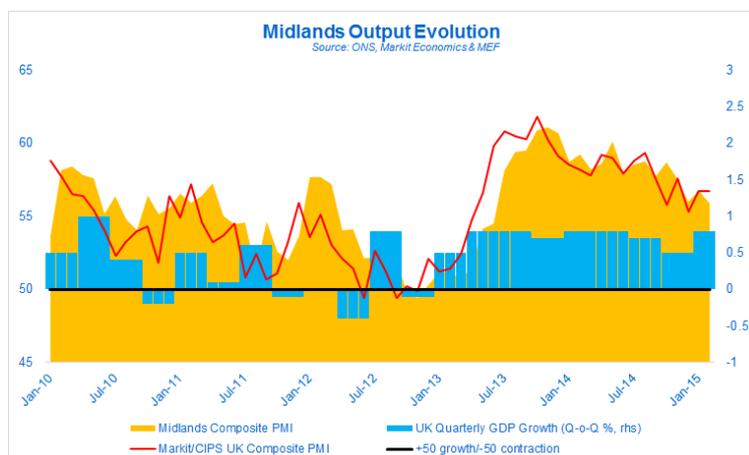
## Overview

- Disinflation offers potential to increase market share, deflation potential as yet unquantified
- Transport & connectivity capacity constraints limiting growth potential
- Manufacturing servitisation key to enhancing productivity & competitiveness
- Export performance flat but market penetration (& growth) sustained in key markets

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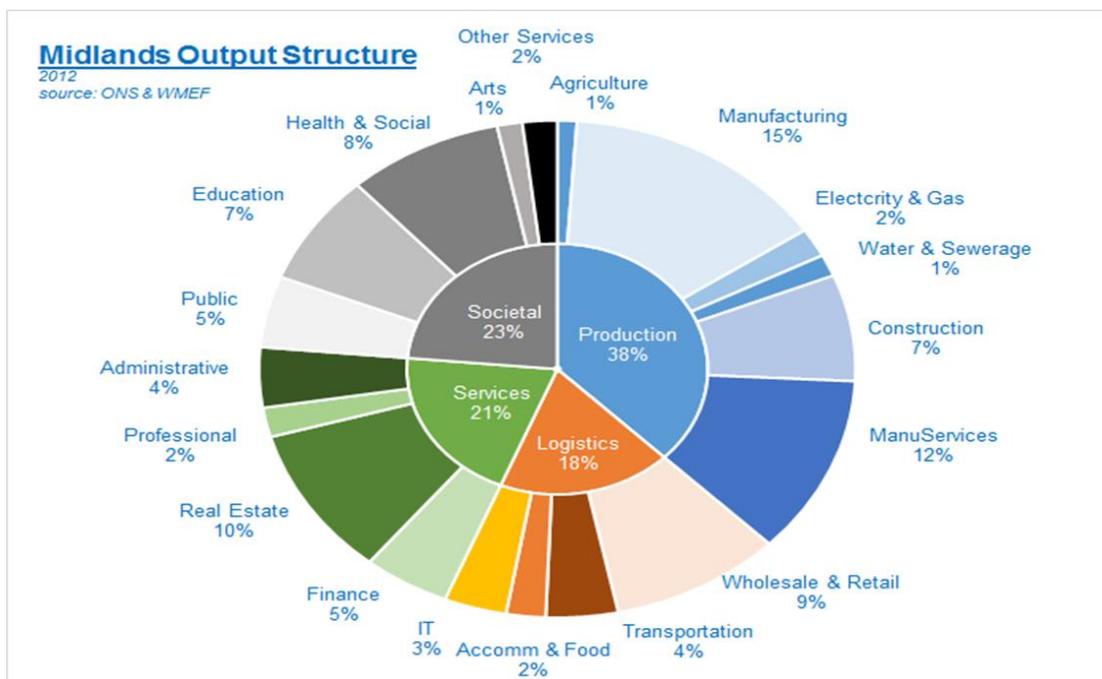


National CPI recorded 0% this month, the lowest on current records, raising the prospect of disinflation, if not outright deflation, for the first time since the early 1960s. This has been attributed to a number of factors, not least the sharp falls in global oil prices and the strength of Sterling. It is apparent however, from both Producer Input and Output Prices that this trend is likely to persist through the course of 2015. Although there are no official data available for regional price pressures, regional PMI data for Output Charges and Input Prices indicate a similar price compression over the same period. Given the erosion of inflationary pressures, this may offer the opportunity to gain market share.

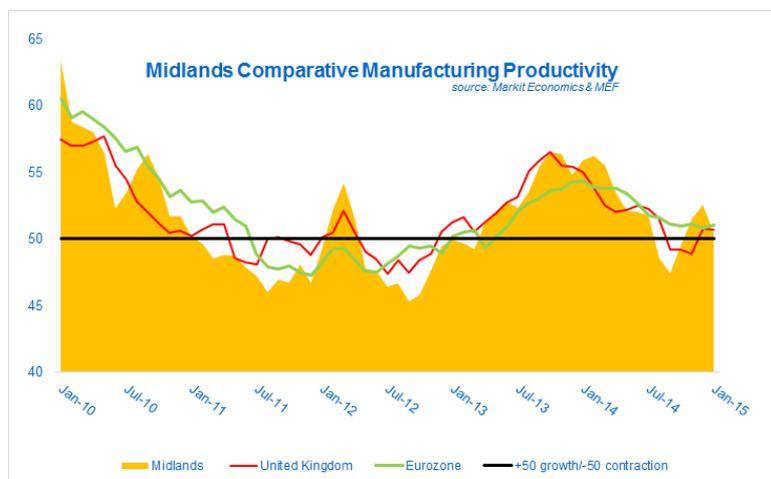


According to the most recent ONS data, the regional economy expanded in nominal terms by an average of just under 3% in the three years until the end of 2013, on the back of the much stronger recovery of almost 6% in 2010. Although this was at the same rate as that achieved nationally, data from the regional PMI indicates that for much

of this period, and indeed up until the first quarter of 2015, Midlands' output performance most probably exceeded this. Furthermore, between 2009 and 2013, regional manufacturing output expanded by over a fifth, which would suggest that given the effective dependency of a range of services enterprises on supporting manufacturing, that actual growth was firmer. Additionally, the robust pace of export growth since 2008 could also indicate local growth is being understated with exports estimated to be equivalent to over a third of regional output.

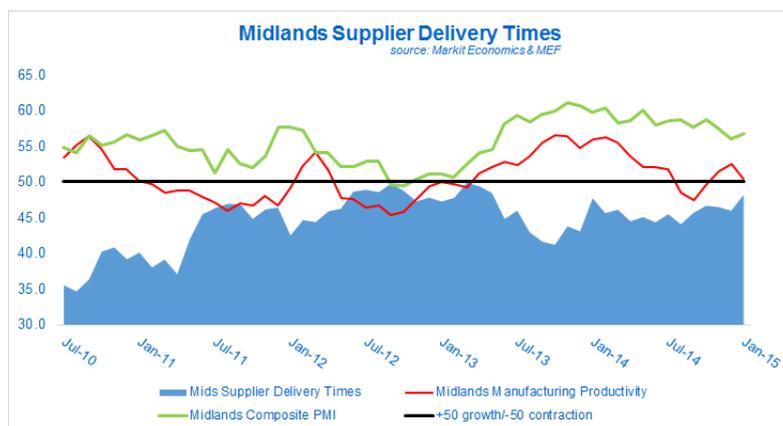


Midlands manufacturing output in 2013, was equivalent to almost a quarter of total English manufacturing, and estimated to provide a fifth of all exports. In our recent research, MEF estimates that the wider impact of manufacturing is equivalent to 38% of regional GVA, with the services sectors, solely or entirely, dependant on manufacturing estimated to be in the region of 12% of output.



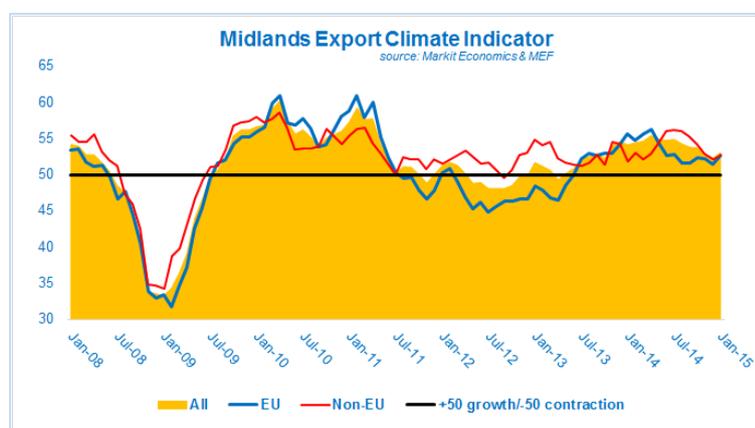
Output productivity growth remains weak, and low by international comparisons, with the OECD attributing subdued productivity post-2009 to easing investment flows, weakening labour efficiency and increased labour availability. The trend was evident prior to the recession, however constrained access to finance, most notably for SMEs, has exacerbated this.

Moreover, lower public sector capital investment growth has been an additional factor, whilst greater wage elasticity may have enabled many enterprises to defer capital investment by increasing the labour component. Regional productivity growth according to PMI-based data has however kept pace with both UK performance and indeed comparable international developments such as within the Eurozone.



A key factor influencing regional productivity performance appears to be supplier delivery times. Given the dispersed nature of the manufacturing supply-chain, whereby a number of SMEs, especially micro-enterprises, combine to produce a single product, the capability to transport outputs and inputs

speedily across and within the region is critical to competitiveness. In this instance, we have taken PMI-derived supplier delivery times as a proxy for the effectiveness of the regional transport and connectivity infrastructure, with an apparent correlation between lengthening delivery times and productivity growth.



Import demand in the Midlands principal export markets strengthened in both EU and Non-EU markets in the immediate aftermath of the recession. Weaker performance in the EU between 2011-13 led to some slackening of this demand, but since 2014 import demand in these markets has firmed. The Midlands Export

Climate Indicator (ECI) suggests that overall that potential export demand is likely to remain firm if not robust through 2015.

Indeed the evolution of the export demand structure outlined by the ECI is reflected in the actual export performance of the Midlands – very strong growth in Non-EU markets (by 74% between 2008 and 2014) and despite some weakening in the middle of the period, sustained demand within the EU (up 10% between 2008 and 2014). As a result the Midlands continued to be largest exporting region in the UK providing 17% of merchandise exports in 2014 and recording overall growth of 40% between the pre-09 peak in 2008 and 2014.

The region continues to be successful in the most difficult export markets, namely those that demand high-quality, high-precision, high-reliability and cost competitiveness, that is the markets of the USA, China, the EU and economies such as Singapore. Growth has been subdued over the course of 2014 but again the region has been able to enhance its market penetration in a number of key economies.

Midlands Export Markets	2014	2013	% of total	% change 2013-14
1 USA	7,049,752	7,235,321	14.64%	-2.56
2 PRC	6,236,391	4,734,273	12.95%	31.73
3 Germany	4,561,161	4,703,631	9.47%	-3.03
4 France	2,759,018	2,821,661	5.73%	-2.22
5 Rep of Ireland	2,291,616	2,062,990	4.76%	11.08
6 Belgium	1,943,060	2,050,169	4.03%	-5.22
7 Netherlands	1,676,221	1,706,301	3.48%	-1.76
8 Italy	1,602,421	1,599,265	3.33%	0.20
9 Spain	1,264,895	1,244,654	2.63%	1.63
10 Singapore	1,243,711	1,587,903	2.58%	-21.68
98 Total	48,167,970	48,228,451	100.00%	flat
EU	20,158,183	20,255,226	42.00%	flat
Rest of the World	19,372,852	19,444,095	58.00%	flat
Oil Producers	3,927,901	3,984,573	8.00%	flat
(£'000)		Source: HMRC & MEF		

Midlands Basic Data			
Total Size (square km)	28,630	Population	10,273,400
Economically Active	5,118,000 49.8%	Age Cohort (16-64)	6,473,900 63%
Qualifications (GCSEs) 1	54.5%	Qualifications (Degrees) 2	28.3%
Notes – 1:5 GCE's A*-C inc. Mathematics & English 2: Degree & equivalent			

This is the first in our new series of *Midlands Perspectives* reports on the comparative performance, international competitiveness and future prospects of the Midlands. Comments on how we could develop new perspectives on the regional economy are welcomed – we aim to create a dialogue rather than a monologue. [info@midlandseconomicforum.co.uk](mailto:info@midlandseconomicforum.co.uk)

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*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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### Glossary

GDP	Gross Domestic Product	ONS	Office of National Statistics
GVA	Gross Value Added	PMI	Purchasing Managers' Index
HMRC	HM Revenue & Customs	SME	Small & Medium Enterprises
IMF	International Monetary Fund		
OECD	Organisation of Economic Co-Operation & Development		