Dorset LEP - Monthly Economic Commentary – December 2024

This short paper highlights some key economic developments over the past 1-2 months – both nationally and relevant to the local Dorset and Bournemouth, Christchurch and Poole (BCP) economy.

1. Context – national and international trends

The latest Gross Domestic Product (GDP – a measurement of total value of goods and services produced in the UK economy) figures released by the Office of National Statistics (ONS) showed that the UK economy remains in a particularly soft patch. The latest early estimate (which will be subject to revision) for October (noting this was pre-Budget) indicated that real GDP fell by 0.1%, following a similar fall in Sept. This was estimated to have grown by 0.1% in the three months to October compared to the previous quarter, illustrating that any growth is anaemic at best.

Services output was static in in both September and October, and actually fell by 0.1% over quarter. Perhaps more worryingly, production output fell by 0.6% in October, primarily due to falls in manufacturing and mining, and this followed a similar (0.5%) fall in September. Construction output also fell by 0.4% in October, but did grow by 0.4% over the quarter.

Output in consumer facing services fell by 0.6% in October but rose by 0.4% over the quarter. The main drivers of the growth in consumer facing services were a 1.2% rise in output in retail trade (excluding motor vehicles), but this was partially offset by a 0.7% decline in food and beverage services and a fall of 2.4% in activities associated with travel. **The overall picture of a stagnant/flatlining economy is clearly something the new UK Government is grappling with, and how it can promote stronger growth with limited fiscal (spending) tools available, and the heavily commented increases in taxes such as employer National Insurance contributions having an influence on business costs. Many businesses (large and small) have indicated these additional costs will weigh on their hiring intentions and/or their ability to increase wages for existing employees.**

Chart 1: Monthly UK GDP (2019=100)

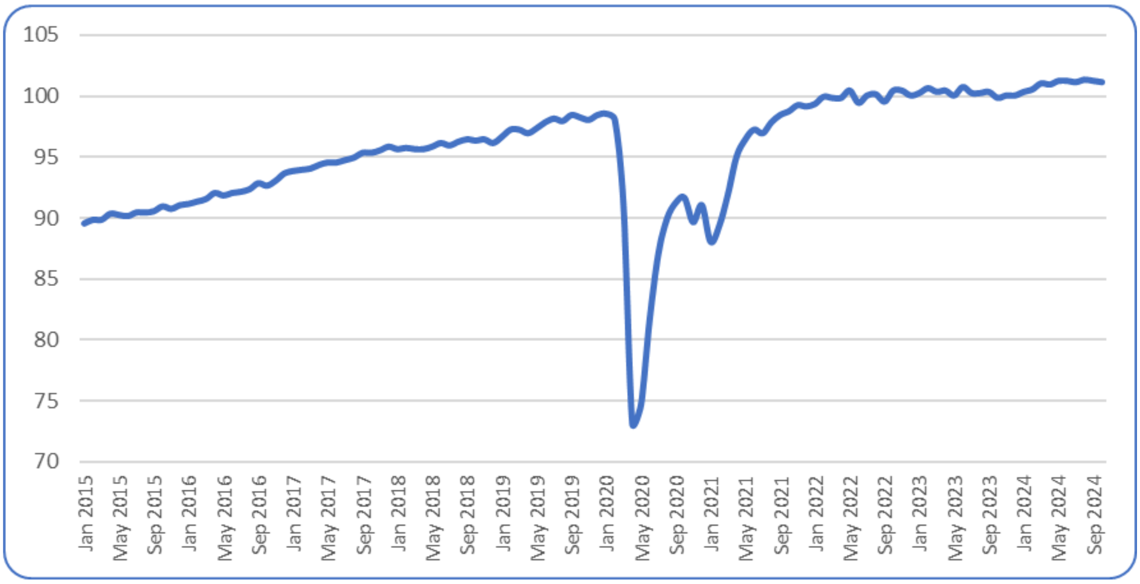


Chart 2: Contributions to monthly GDP growth (percentage points)

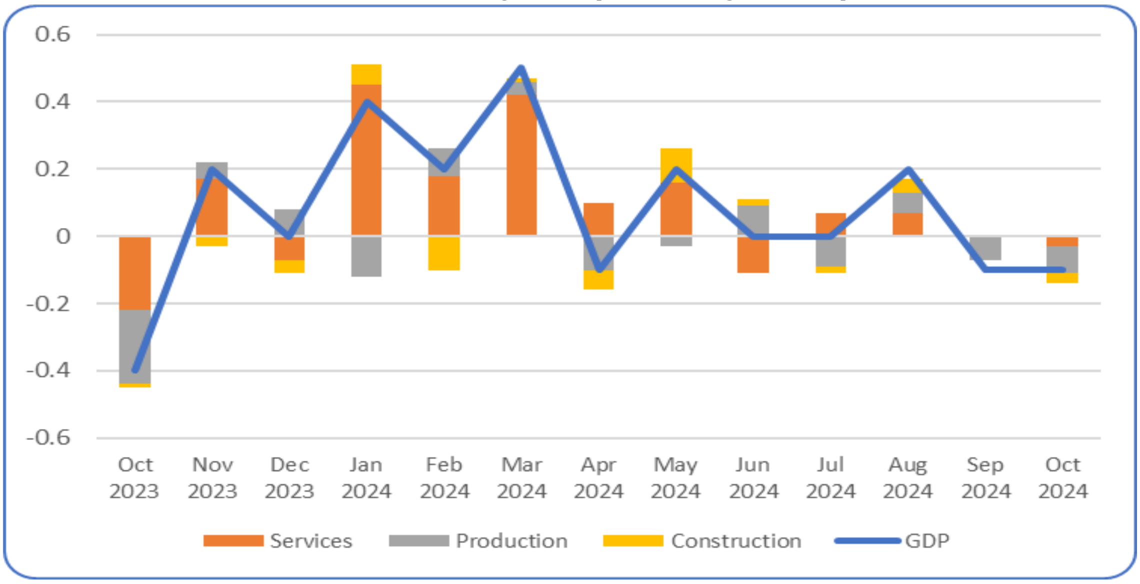
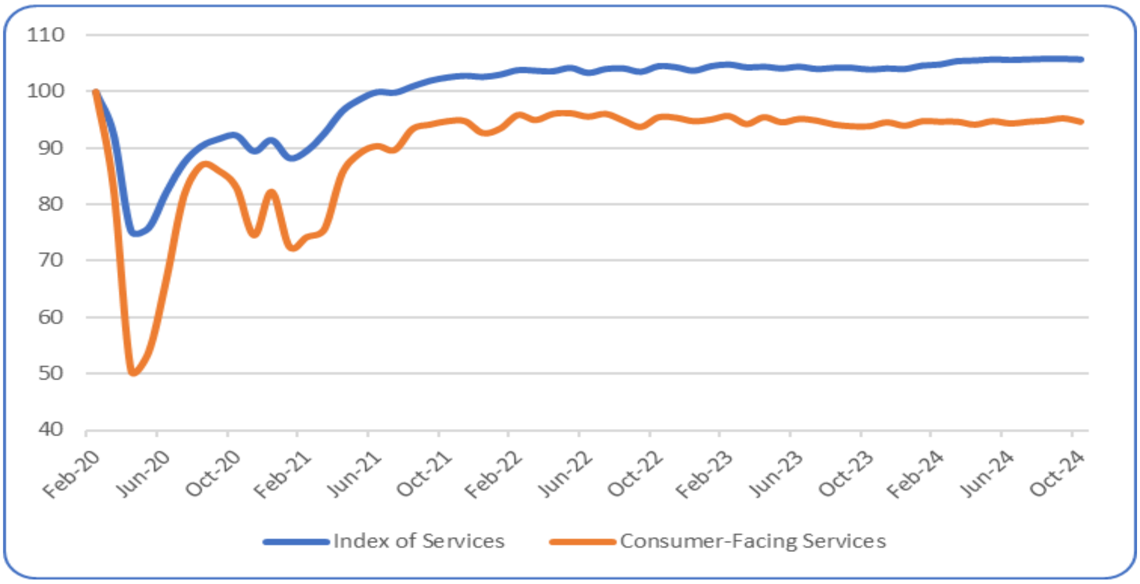


Chart 3: Consumer-facing services in Great Britain (volume) (2020=100)

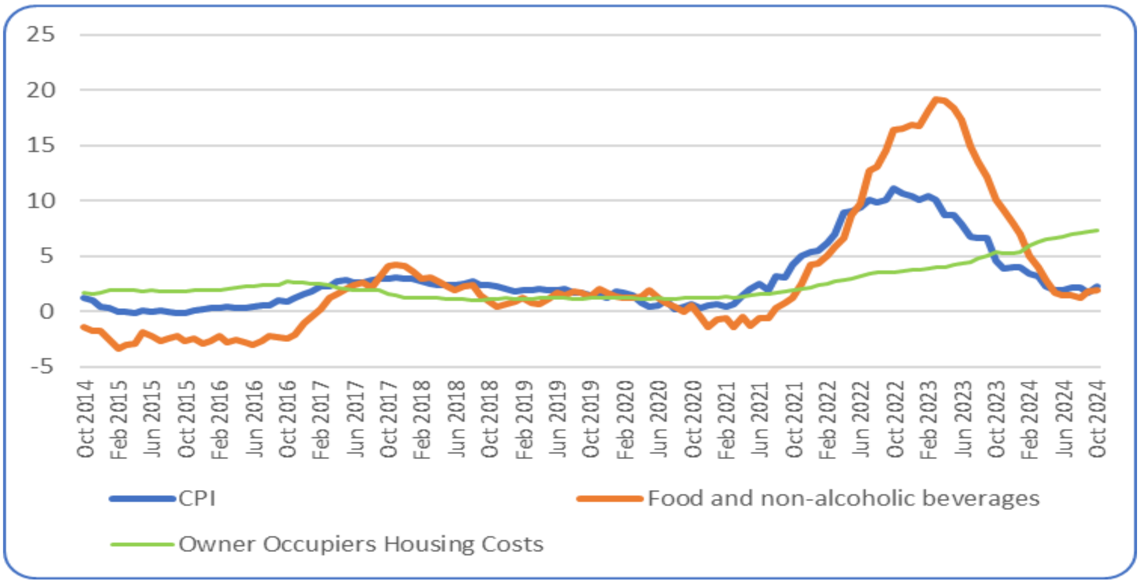


The latest inflation data for October 24 showed a perhaps surprising increase in annual inflation, leading many commentators to speculate that Bank of England base rates might not come down as quickly as previously envisaged. The Consumer Price Index (CPI) was 2.3% in the 12 months to Oct 24, up from 1.7% in September. On a monthly basis, the CPI rose by 0.6% in October 24.

The largest upward contribution to the monthly change in the annual inflation rate came from housing and household services, mainly because of gas and electricity price rises. The largest offsetting contribution came from recreation and culture.

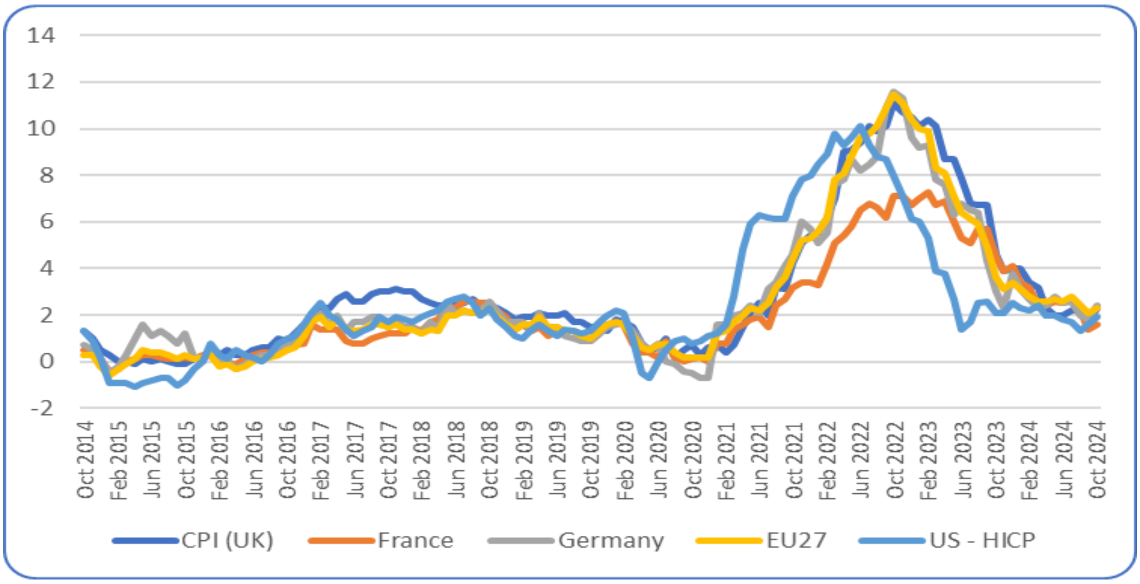
The owner occupiers' housing costs (OOH) component (which includes those costs of housing services associated with owning, maintaining and living in one's own home – distinct from the cost of purchasing a house) rose by 7.4% in the 12 months to Oct 2024, up from 7.2% in the 12 months to Sept. This remains high in historical terms and illustrates that household budgets still remain under pressure, even though the headline inflation rate has fallen from the highs experienced previously.

Chart 4: Consumer Price Inflation, Food and Housing Costs Inflation (% annual increase)



Overall – based on the CPI – UK inflation is broadly similar to the EU average and in countries such as Germany. However, in recent months the rate of annual inflation has dipped more markedly in France and the US. In broad terms, most developed economies have annual inflation much lower than the 2022 peak, although a 'floor' may have been reached in many.

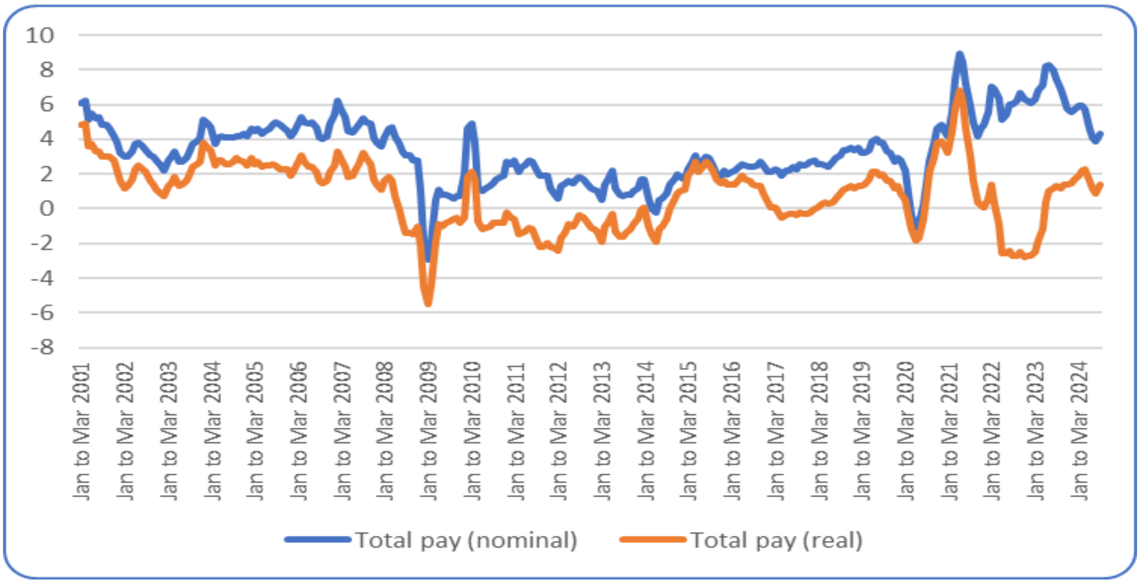
Chart 5: UK CPI compared to selected G7 and EU annual inflation rates



[According to the latest statistics released by the ONS], annual growth in regular wages (excluding bonuses) was 4.8% in July to Sept 24. This was marginally higher than seen in the previous quarter. However, annual growth in real terms (adjusted for inflation) was 1.9% for regular pay. Annual average regular earnings growth for the public sector was 4.7% in July to Sept 24. Public sector total earnings are still affected by civil service one-off non-consolidated payments. However, the impact is smaller than when the NHS one-off payments were included in the previous quarter. For the private sector annual pay growth was 4.8%, the same as the previous three-month period. This rate of private sector growth is relatively robust.

The manufacturing sector saw the largest annual regular growth rate again at 6.0%, while the construction sector saw the smallest annual regular growth rate at 4.3%. Again, it is noteworthy that the construction sector experienced the weakest pay growth amongst the main broad sectors.

Chart 6: UK pay growth (nominal and real) (% annual growth)



The [latest data on payrolled employees] (ONS' primary indicator of the number of people in work) indicate that the number of payrolled employees increased by 0.3% in October 24 compared with 12 months previous – an increase equivalent to 95,000 employees. The number of payrolled employees was largely unchanged in October 2024, when compared with September 2024, decreasing slightly by 5,000 employees (although this figure is often subject to revision –this initial 'flash' estimate tends to be quite volatile).

As with the previous months, the overall, the increase in payrolled employees has been strongly driven by health and social work sector (an increase of 161,000 employees nationally), as well as education – an increase of c53,500 employees and public administration (+39,000). As with previous months, there were declines in accommodation and food services (a significant decline of c69,000), retail and ICT. There were also declines in the number employed in professional, scientific and technical professions.

The annual growth in the number of payrolled employees across Dorset CC (year to Oct 24) was estimated to be 0.2%. In BCP, the ONS estimates that payrolled employees fell by 0.2% Therefore – as with the previous couple of months – there are indications that the growth in local employment levels is not keeping match with that seen nationally (+0.3%). This has now been in place for a few months, suggesting a trend of (slightly) softer conditions locally.

Chart 7: Payrolled employees – UK (million)

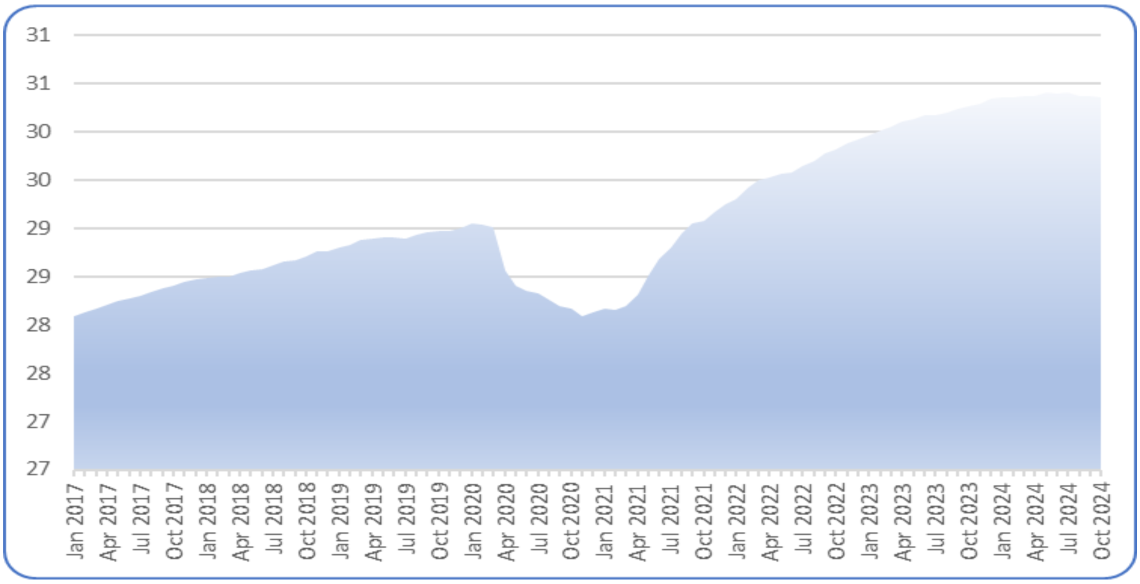


Chart 8: Growth in UK payrolled employees (% annual growth)

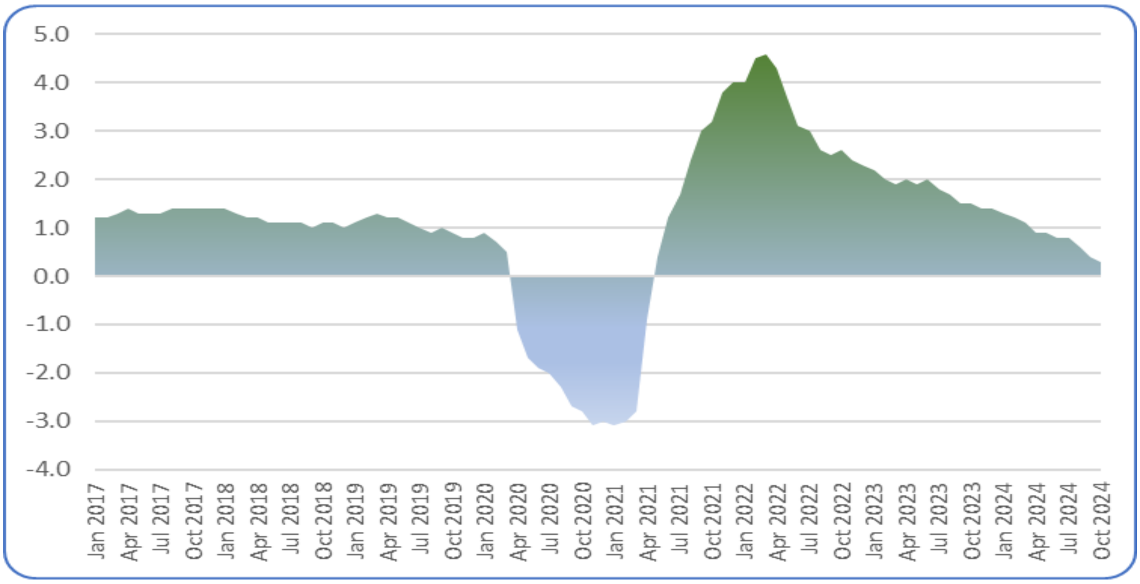


Chart 8 (above) shows that the growth in UK employment levels have definitely dropped (quite significantly) since the significant growth seen in the post-pandemic period. The chart illustrates that it is now near the point where negative employment growth could be experienced. Clearly the labour market in terms of strength of demand has become more fragile and is dependent on the strength in the underlying economy (see earlier comment on the latest GDP estimates). The estimated number of UK vacancies are now around 831,000 (August to Oct 24) – significantly down from its peak of c1.1mn post-pandemic (and 35,000 from the previous quarter (May to July 24). Total estimated vacancies were down by 130,000 (13.6%) from the level of a year ago in August to October 2024, although they remained 35,000 (4.4%) above their pre-pandemic levels.

Chart 9 shows the change in payrolled employees by broad age range, with the main declines occurring in the younger age groups. It is interesting to note that a good proportion of the net figure is represented by an increase of approximately 91,000 over 65 year olds returning back to the payroll.

Chart 9: Annual change in payrolled employees by broad age range (Oct 23-Oct 24)

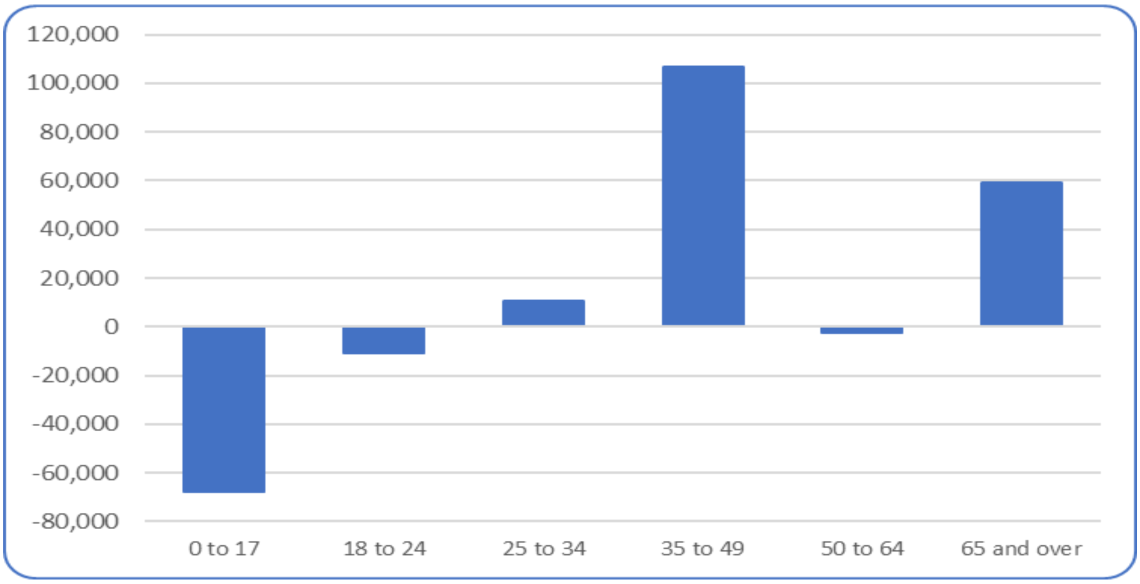
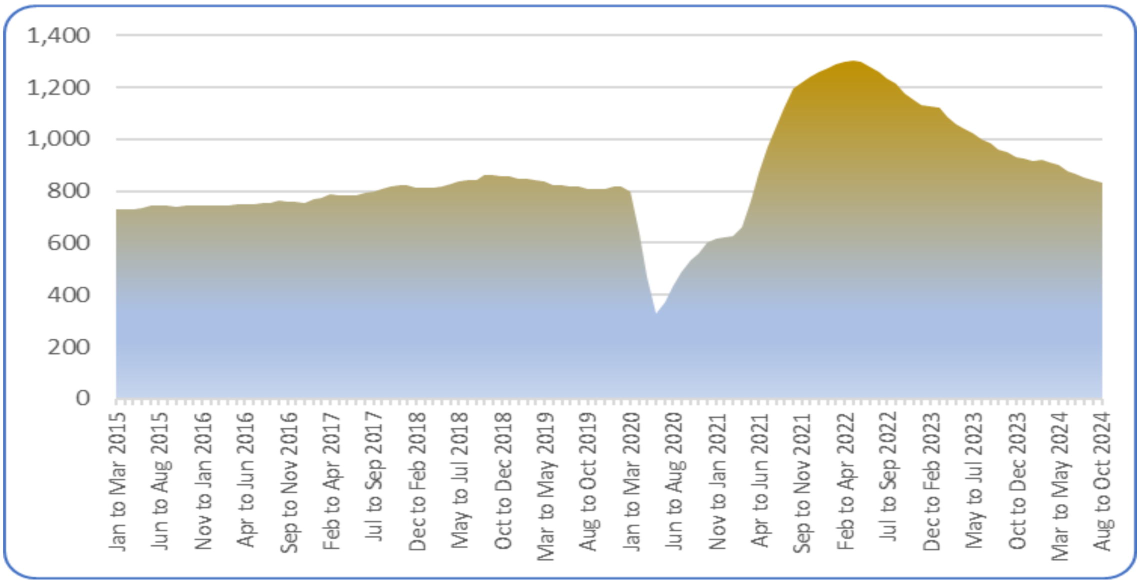


Chart 10: Number of vacancies in the UK (000s)



The latest local estimates available via the ONS (taken from Pay as You Earn Real Time Information) indicates that the average monthly pay in Dorset CC area in May was £2,236, and in Bournemouth, Christchurch and Poole (BCP) it was £2,336. This compares against a UK average of £2,438. At a national level this represented an increase of 7.0% compared with 12 months previously.

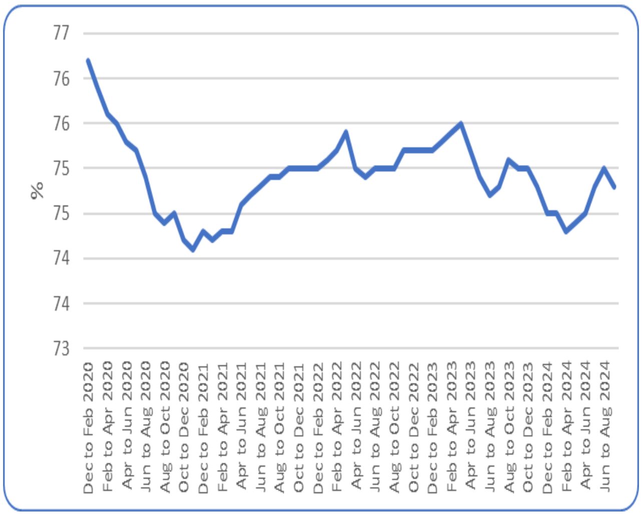
Despite the above picture of a slowing growth in employed workers and falling scale of vacancies [other labour market indicators point](#) to some robustness in labour market conditions. For example, the UK employment rate was largely unchanged at 74.8% on both a quarterly and annual basis.

Conversely, the UK unemployment rate for people aged 16 and over was estimated at 4.3% in July to Sept 24, above where it was a year ago. The economic inactivity rate fell by 0.4ppt on a quarterly basis, but increased by 1.2ppt on an annual basis – now at 21.8% of those aged 16-64.

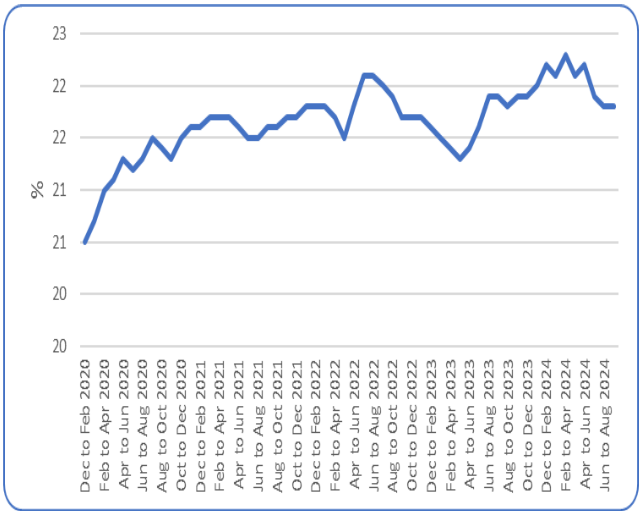
Locally, employment rates remain higher than the national average and generally unemployment and economic inactivity rates lower.

Chart 11: Key Labour Market Statistics

Employment rate – UK (aged 16-64)



Economic inactivity rate – UK (aged 16-64)



Unemployment rate – UK (aged 16-64)

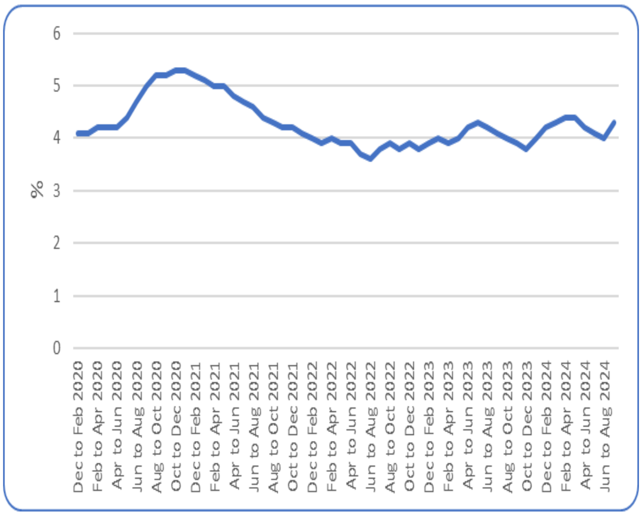


Chart 12: Local Labour Market Statistics (% aged 16-64)

	Employment rate (July 22-Jun 23)	Employment rate (Jul 23-June 24)
UK	75.5	75.4
BCP	79.1	74.7
Dorset CC	77.0	82.1

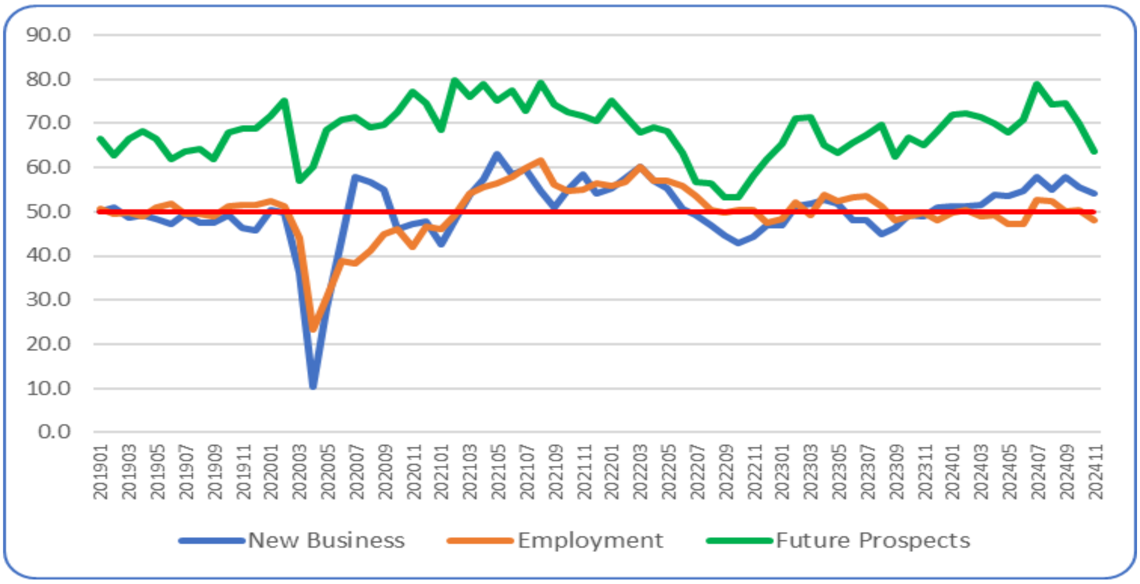
	Unemployment rate (July 22-Jun 23)	Unemployment rate (Jul 23-June 24)
UK	3.8	3.7
BCP	3.9	2.1
Dorset CC	2.6	2.1

	Economic inactivity rate (July 22-Jun 23)	Economic inactivity rate rate (Jul 23-June 24)
UK	21.5	21.6
BCP	17.7	23.8
Dorset CC	20.9	16.1

The regional South West Purchasing Managers Index (PMI) produced by S&P Global on behalf of NatWest is a seasonally adjusted index that measures the month-on-month change in sentiment from a panel of businesses. The indices on several measures vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease.

The latest survey response data (based on the survey undertaken in November) suggests South West businesses still remain broadly positive about prospects, but this has dipped from higher sentiment at the end of the summer. At 51.6 in November, the headline South West Growth Tracker Business Activity Index was above the neutral mark of 50.0 for the ninth straight month and signalled continuous growth of local activity. Sentiment around output growth across the region was actually the strongest of the 12 UK regions and second strongest around new business activity, although sentiment was weaker around employment prospects i.e. future hiring intentions. Firms that reported greater output remarked on new product offerings and demand resilience. Those that posted a reduction cited subdued client confidence.

Chart 13: NatWest Purchasing Managers Index – South West – November 24 (>50 increasing confidence, <50 decreasing confidence)



In terms of the housing market, the latest monthly residential market survey undertaken by the Royal Institute of Chartered Surveyors (RICs) for October continue to signal an improving market backdrop, evidenced by modestly positive readings once again being returned across all headline measures of activity. Looking at buyer demand, the headline net balance for the new buyer enquiries gauge registered a reading of +12% in October (little changed from +13% previously). With respect to agreed sales, an aggregate net balance of +9% of respondents reported an increase in sales volumes over the latest survey period, up from a figure of +5% recorded last month.

A positive net balance of contributors foresee sales volumes rising over the next twelve months. For new instructions, the October net balance of +14% is, for the fourth month in a row, pointing to an increase in the flow of instructions coming onto the sales market. A headline net balance of +16% of survey participants reported a rise in house prices over the October survey period.

Competition remains intense in the rental market, leading to continued upward pressure on rental costs. New research by Zoopla (which covers more than 80% of the rental market) indicate that the cost of renting a newly let property is on average £270 per month more expensive than at the end of the pandemic. The average cost of renting is now £1,270 a month, or £15,240 a year. Demand is estimated to be nearly a third higher than in the pre-pandemic period, accentuated by fewer properties as landlords have faced increased costs and/or regulation. Rental costs began to increase quickly in 2021 and have continued to rise. However, the research indicates that the rate at which rents are rising is now the slowest for the last three years – which is some good news for hard pushed renters.

2. Long-term educational outcomes

The Department for Education recently released some interesting research looking at how different socio-demographic factors affect labour market outcomes for individuals. This research looked at how longer-term outcomes are affected by:

- Ethnicity
- Socioeconomic status (SES)
- Special educational needs (SEN)

This report looks at the early labour market outcomes of the 4.5 million individuals who were part of the cohorts that took their GCSEs exams in England between 06-09. The Longitudinal Education Outcomes (LEO) dataset contains a range of anonymised information about individuals including personal characteristics, education attainment, employment and income, and benefits claimed. Two outcomes are reported on: a measure combining earnings and employment (good outcome) and novel analysis using a measure of out-of-work benefits (poor outcome), both measured when individuals are in their mid to late 20s.

The broad findings of this research are summarised below:

- Growing up in the most affluent circumstances (highest SES quintile) greatly increases the probability that an individual achieves a good labour market outcome. In addition, Chinese and Indian individuals are also disproportionately likely to achieve this outcome.

- However, the presence of a statement of SEN significantly reduces this probability. The research also found that, for males, having SEN without a statement, growing up in the lowest SES quintile and those from a black Caribbean background reduces the probability of achieving a good labour market outcome.
- The observed differences are greater for females than they are for males. For example, being in the highest SES quintile has a greater positive impact for females than for males, whereas being in the lowest has a greater negative effect.

This analysis also sought to understand the characteristics associated with individuals in a poor labour market outcome. The most common characteristics associated with this are shown below. Perhaps unsurprisingly, they are broadly the 'converse' of the characteristics affecting the probability of being in a good outcome:

- The presence of a statement of SEN is associated with the highest probability of being in a poor outcome. Having SEN without a statement, being from the black Caribbean ethnic group or growing up in the lowest SES quintile also increase the chance of a poor outcome.
- However, being from the Indian or Chinese ethnic group, growing up in a less disadvantaged SES background or no identification of SEN reduce the probability of a poor outcome.
- For all characteristics, females are more likely to be in a poor outcome than males. In addition, the difference between groups is greater. For example, the gap in the chance of poor outcome between those from the highest and lowest socioeconomic status quintiles is bigger for females than for males.

3. Get Britain's Labour Market Stats Working

The Resolution Foundation recently took a closer look at some of the main issues affecting labour market statistics. This paper is an interesting and relevant read because of the significant policy focus on getting more people into work – a key policy focus for the new Government's recently released 'Get Britain Working' White Paper (see below comment). The White Paper restates the Government's ambition to reach an 80% employment rate. That is, 80% of those aged 16-64 to be in employment – currently standing at 75.4% (Jul 23-Jun 24).

This work focused on problems associated with ONS' Labour Force Survey (LFS), and how it affects confidence in interpreting the labour market statistics that come from the LFS. Put simply, the fall in the LFS survey sample undermines confidence that it serves as a comprehensive and representative indicator of the whole (UK and - to a greater extent – local) labour force. This has recently been acknowledged by the Bank of England – as recently highlighted by a private letter (made public) sent by the BoE to the ONS. This was also recently highlighted as a key risk to robust evidence-based policy making by the Treasury select Committee.

Using other data sources, the Resolution Foundation presents an alternative time series for the employment rate which suggests that the true rate is likely materially higher than that recorded in the current LFS data. The research argues that if the LFS is underestimating the employment rate, then it must be overestimating either or both of unemployment or economic inactivity. The true rate of unemployment may be lower than the LFS' latest estimate of 4.3%, but it seems unlikely that it could be significantly lower. A higher employment rate would therefore require that the true inactivity rate is now significantly lower than thought and – with much less certainty – it could potentially be no higher than in 2019, with a rise in inactivity due to long-term sickness offset, among other things, by fewer people out of work because they are looking after their children or home.

4. Get Britain Working

The UK Government has recently published its Get Britain Working White Paper, which sets out its ambition to achieve an 80% employment rate. It identifies 6 key issues that currently serve as barriers (many of which are well known and rehearsed) to achieving this aim.

- too many people are excluded from the labour market – especially those with health conditions, caring responsibilities or lower skill levels
- too many young people leave school without essential skills or access to high-quality further learning, an apprenticeship or support
- too many people are stuck in insecure, poor quality and often low-paying work, which contributes to a weaker economy and also affects their health and wellbeing
- too many women who care for their families still experience challenges staying in and progressing in work
- too many employers cannot fill their vacancies due to labour and skills shortages
- there is too great a disparity in labour market outcomes between different places and for different groups of people

Amongst the broad measures included in the White Paper include (as summarised):

- **Scaling up and deepening the contribution of the NHS and wider health system to improve employment outcomes** – including expanding access to expert employment advisers as part of treatment and care pathways
- **Backing local areas to shape an effective work, health and skills offer for local people, with mayoral authorities leading the way in England** – including providing support in all areas of England to develop a 'Get Britain Working Plan which should aim at reducing economic inactivity and taking forward the Youth Guarantee in all areas (see below)
- **Delivering a Youth Guarantee so that all 18 to 21-year-olds in England have access to education, training or help to find a job or an apprenticeship** – including transforming the Apprenticeship Levy into a more flexible Growth and Skills Levy. As a first step, it aims to create new foundation and shorter apprenticeship opportunities for young people in key sectors
- **Creating a new jobs and careers service to help people get into work and get on at work** – including forging closer partnership between Jobcentre Plus and the National Careers Service in England
- **Launching an independent review into the role of UK employers in promoting healthy and inclusive workplaces**

Clearly these represent stretching ambitions and the imperfections in the labour market – not least inequalities of opportunities and outcomes resulting in many either outside or marginalised – are long-standing and deep-rooted. There is much work to do.