Dorset LEP - Monthly Economic Commentary – July 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)] provided data that that the UK economy showed some forward momentum in Spring 2024. Real GDP is estimated to have increased by 0.9% in the three months to May 2024, on a monthly basis it is estimated to have grown 0.4% in May, after showing no growth in April (noting these figures are often subject to revision).

This was largely driven by growth in the service sector – increasing by 0.3% in May 2024, following growth of 0.3% in April. Production output grew by 0.2% following a fall of 0.9% in April. There was a fall in manufacturing output. Construction output grew strongly by 1.9% in May after a fall of 1.1% in April, although it fell by 0.7% in the three months to May 24. The main contributors to the monthly increase were a 2.8% increase in new housing work, with both private and public new housing output increasing on the month, and infrastructure new work which rose by 3.5% in May.

Output in consumer facing services grew by 0.5% in the three months to May 24. The main drivers of the growth in consumer facing services were a 0.9% rise in output in retail trade (excluding motor vehicles), 3.6% growth in other personal services, and 1.7% growth in food and beverage services. The largest negative contributor was related to the property sector – either purchasing or renting, which fell by 0.8% in the three months to May.

Chart 1: Monthly UK GDP (2019=100)

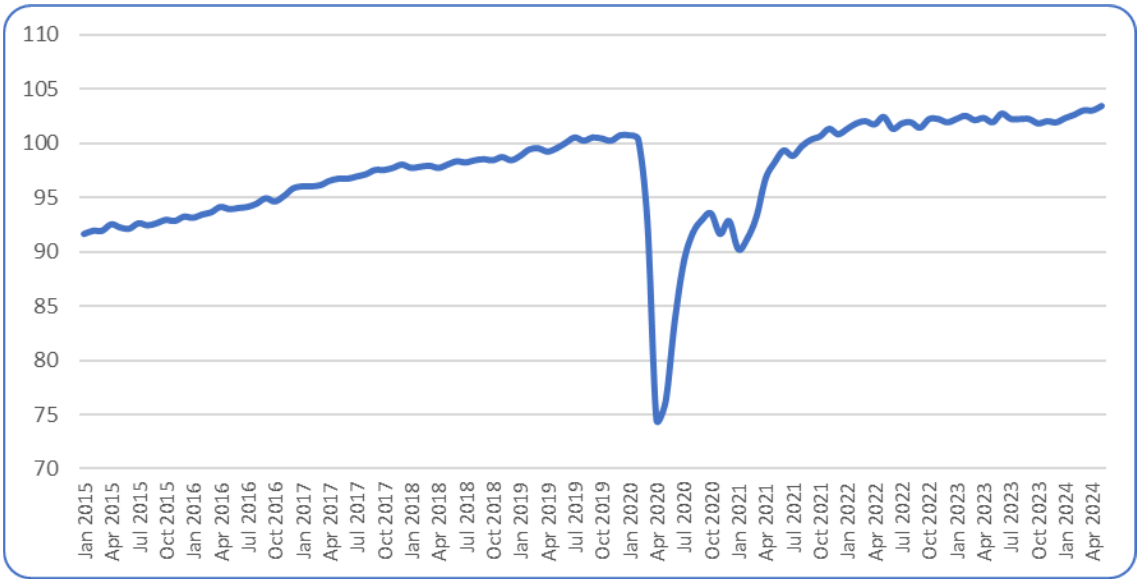


Chart 2: Contributions to monthly GDP growth (percentage points)

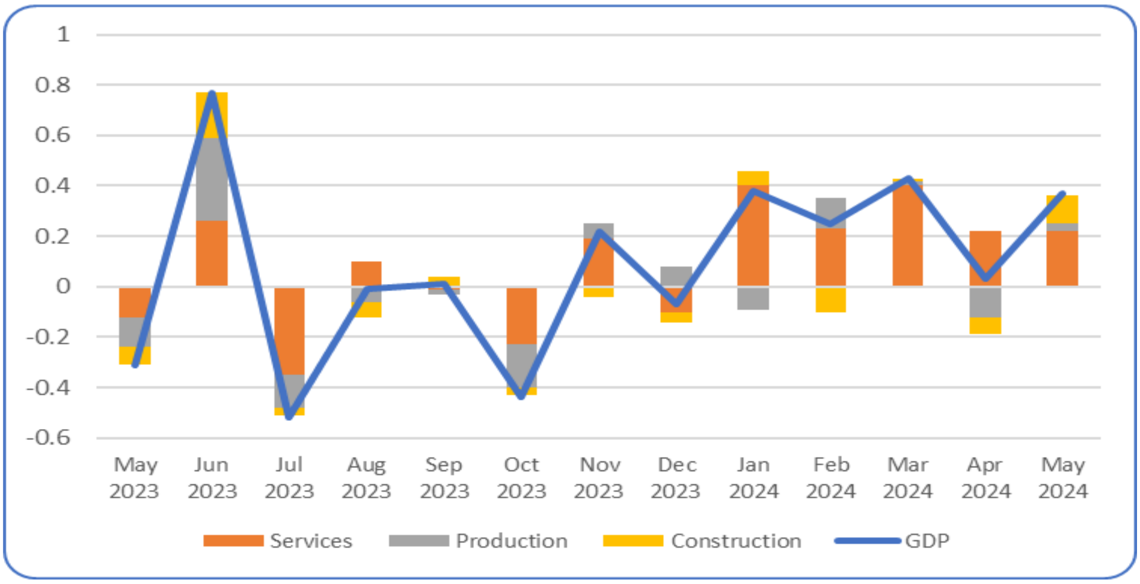
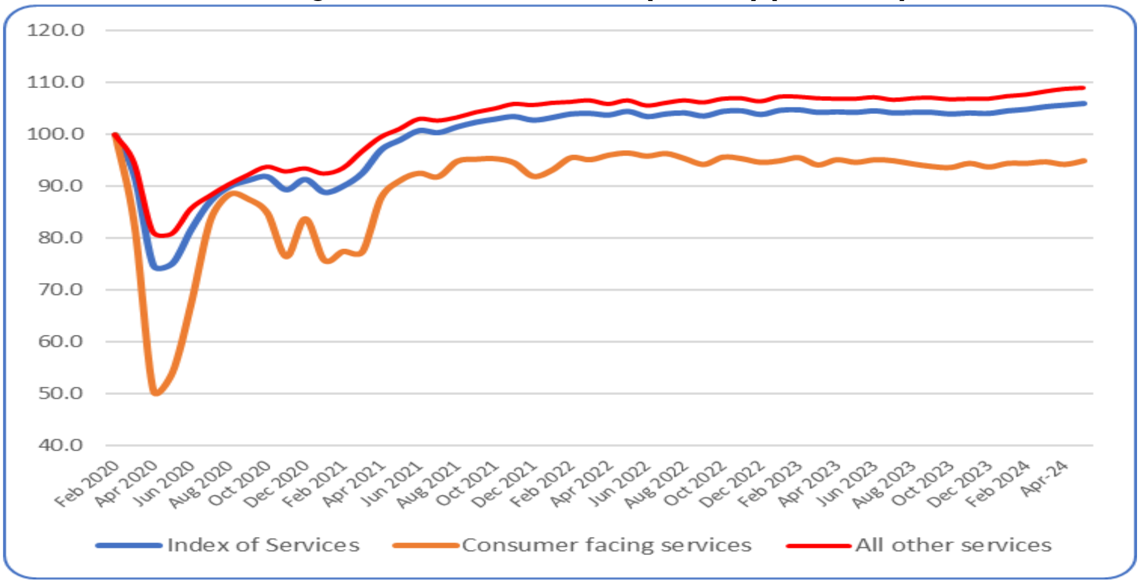


Chart 3: Consumer-facing services in Great Britain (volume) (2020=100)

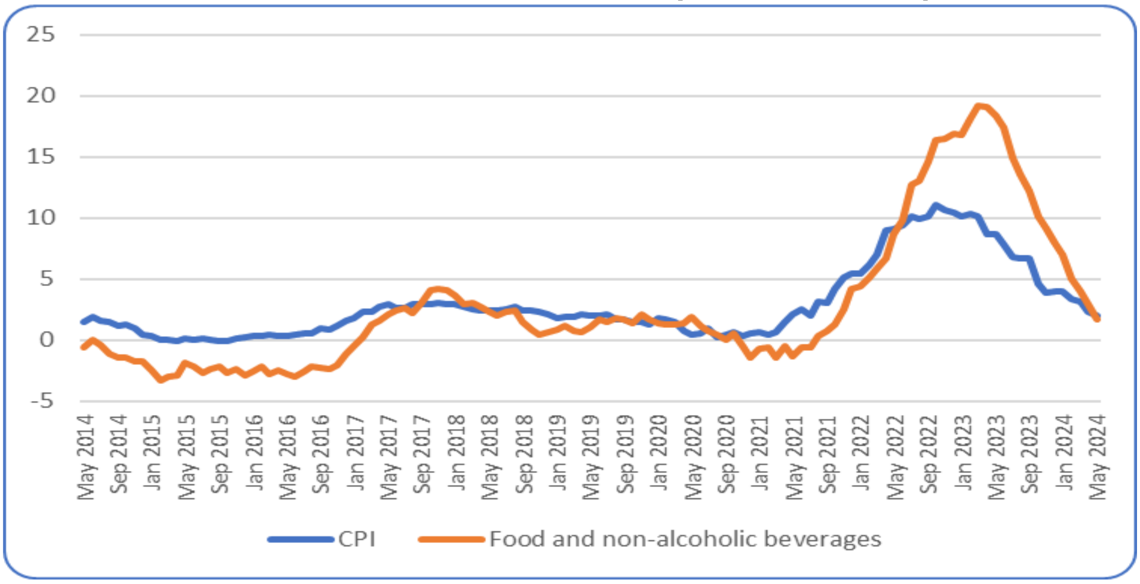


The latest inflation data for May 24 largely continued the picture of easing inflation. The Consumer Price Index (CPI) was 2.0% in the 12 months to May 24, down from 2.3% in April and now meeting the target set for the Bank of England. On a monthly basis, the CPI rose by 0.3% in May 24. The further easing in the annual rate between April and May 2024 was a result of prices rising by 0.3% on the month, compared with a rise of 0.7% a year earlier.

The largest downward contribution to the monthly change in the CPI annual rate came from came from food, with prices falling this year but rising a year ago; the largest upward contribution came from motor fuels, with prices rising slightly this year but falling a year ago. This highlights that prices at the pump remain stubbornly high.

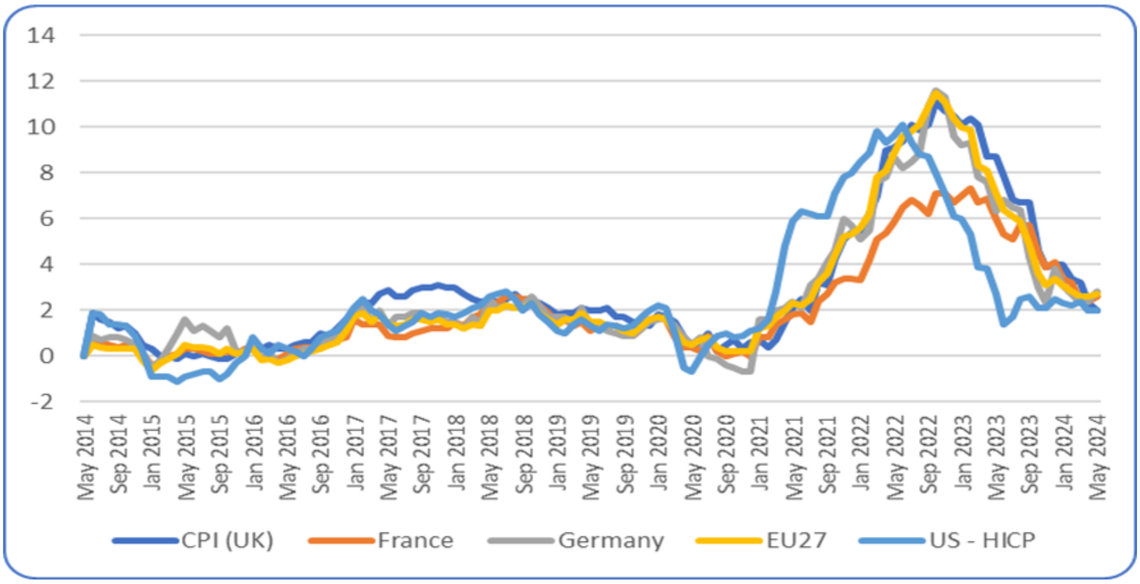
The owner occupiers' housing costs (OOH) component (which includes those costs of housing services associated with owning, maintaining and living in one's own home – distinct from the cost of purchasing a house) rose by 2.8% in the 12 months to May 2024, down from 3.0% in February and down from a peak of 9.6% in October 2022.

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



Overall – based on the CPI – UK inflation remains higher than countries such as France and Germany, although as Chart 6 illustrates most countries have experienced a similar significant spike in price inflation over the last couple of years.

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

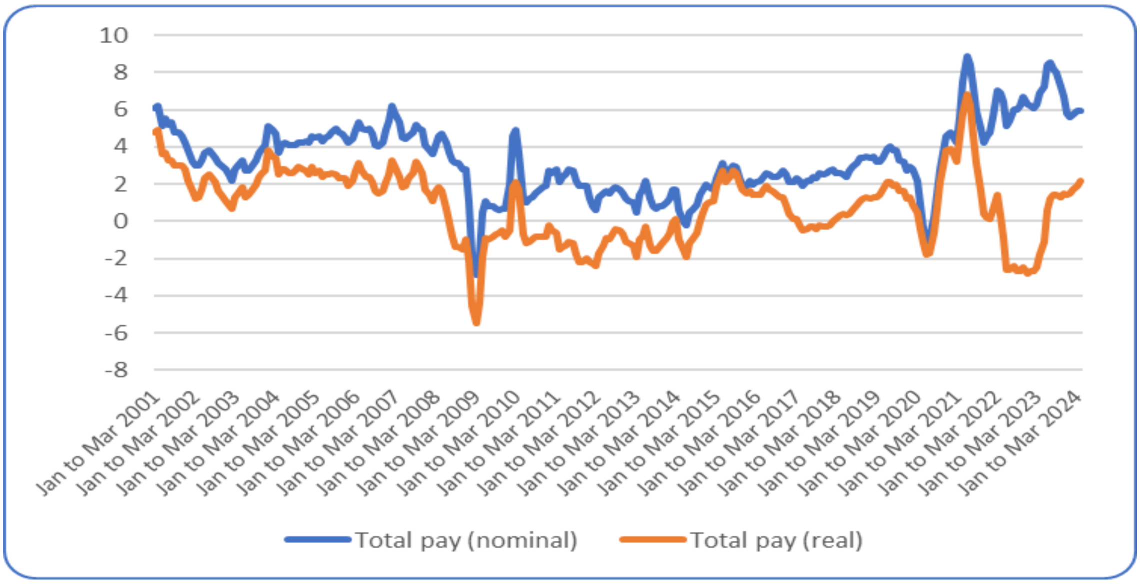


According to the latest statistics released by the ONS, annual growth in regular wages (excluding bonuses) was 6.0% in February to April 24. This was a similar strength of wage growth seen in previous months. Annual average regular earnings growth for the public sector was 6.4% in February to April 24. For the private sector this was 5.8%, with signs that this has softened.

In this latest period the finance and business services sector continued to experience the largest annual regular pay growth, at 6.9%. The construction sector saw the smallest annual regular pay growth across sectors, at 2.9%. The construction sector has seen the weakest pay growth for some time now.

In real term (adjusted for inflation), total real pay rose by 2.3% annually – a healthy rate of real growth. As stated in previous updates, real pay growth has now been positive for several months, a continued consequence of the combination of the falling rate of inflation and strong nominal pay growth.

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

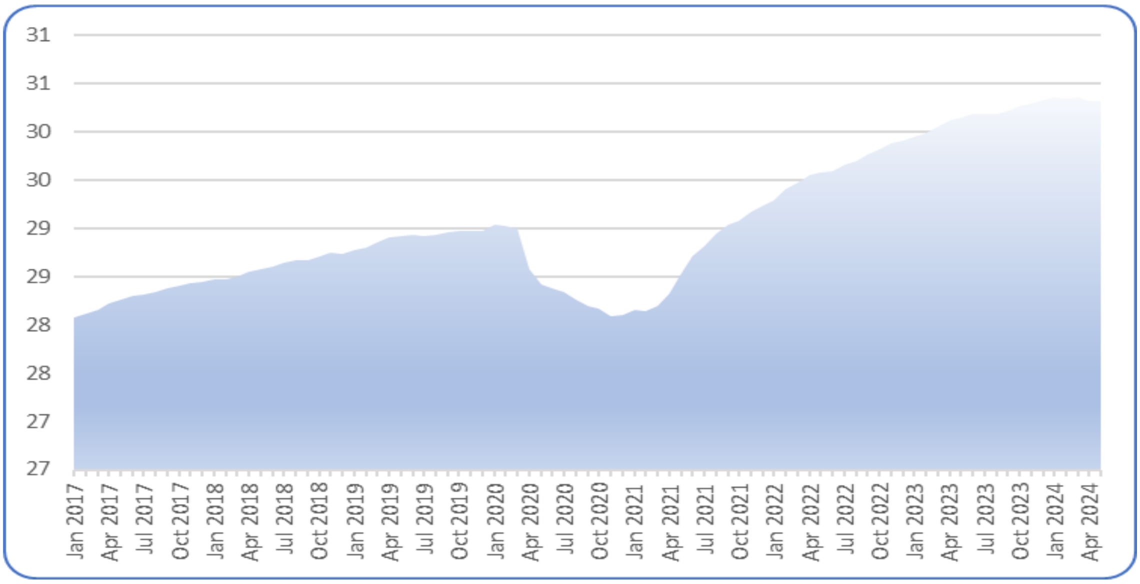


The latest data on payrolled employees (ONS' primary indicator of the number of people in work) indicate that the number of payrolled employees increased by 0.6% in May 24 compared with 12 months previous – an increase equivalent to 167,000 employees. Payrolled employees broadly stayed the same in May when compared to Apr 24. Therefore, this latest set of data was slightly more robust than in previous months where there had definitely been a softening in payrolled employees.

As with the previous months, the overall, the increase in payrolled employees has been strongly driven by the health and social work sector (an increase of 155,000 employees nationally), as well as education – experiencing an increase of c90,000 employees. As with previous months, there were declines in sectors such as accommodation and food services (a decline of c60,000), ICT and a small decline in retail.

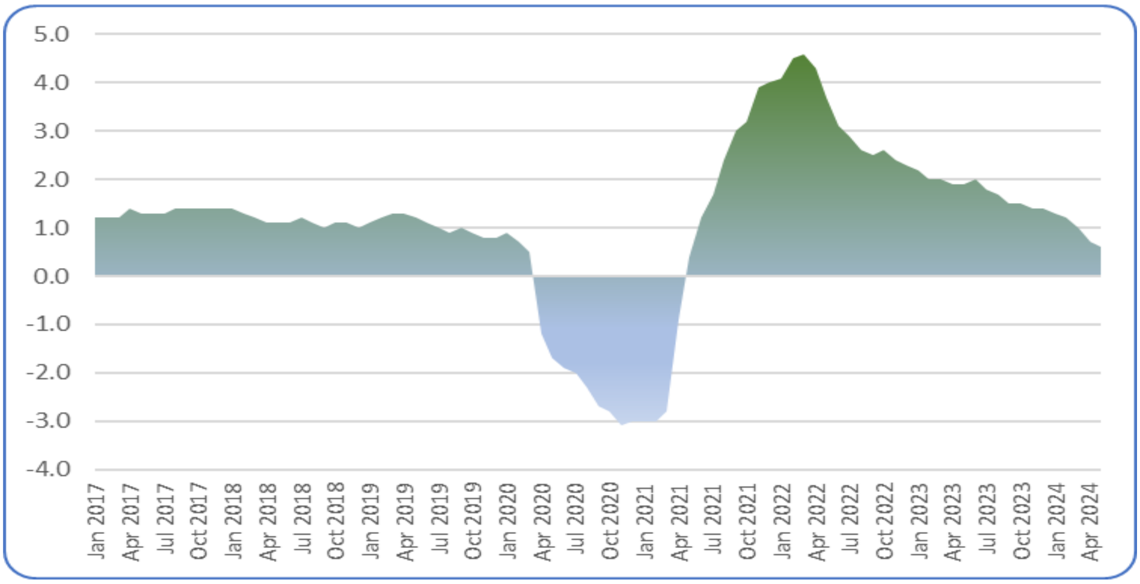
The annual growth in the number of payrolled employees across Dorset CC (year to May 24) was estimated to be just 0.1%. In BCP, the ONS estimates that payrolled employees had remained unchanged. Therefore – as with the previous couple of months – there are indications that the growth in local employment levels are not keeping match with that seen nationally. This has now been in place for a few months, suggesting a trend of softer conditions locally.

Chart 7: Payrolled employees – UK (million)



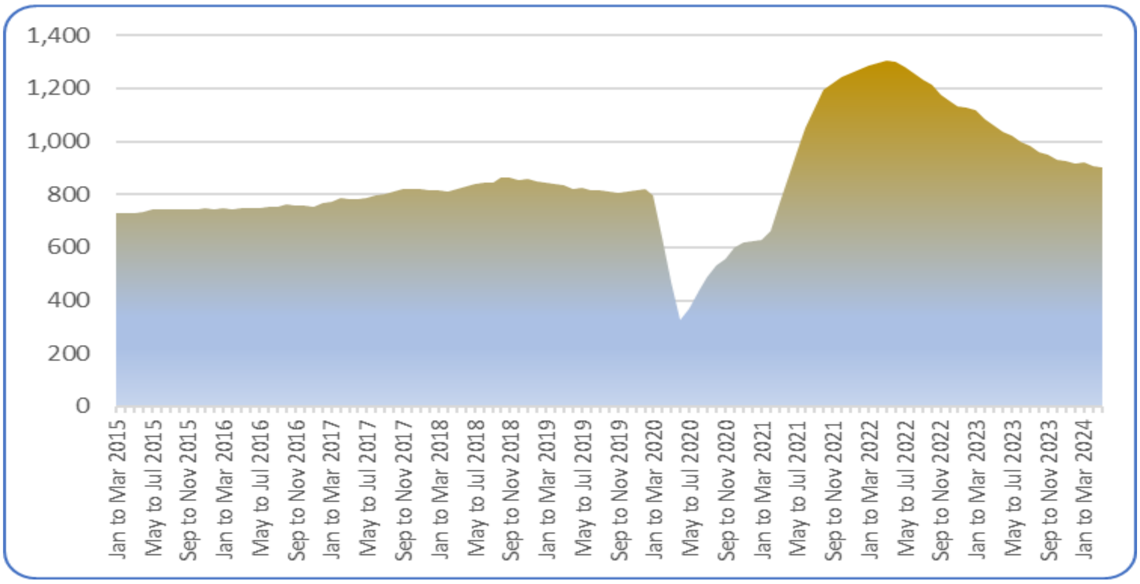
The latest local estimates available via the ONS (taken from Pay as You Earn Real Time Information) indicates that the average monthly pay in Dorset CC area in May was £2,177, and in Bournemouth, Christchurch and Poole (BCP) it was £2,274. This compares against a UK average of £2,379. At a national level this represented an increase of 5.2% compared with 12 months previously.

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



Returning back to payrolled employee levels, Chart 8 (above) appears to suggest that the growth in UK employment levels is returning back to pre-pandemic trend levels, significantly down from its post-pandemic peak in 2021-2022. The number of UK vacancies are now around 904,000 (March to May 24) – significantly down from its peak of c1.1mn post-pandemic (and 156,000 from the same period a year ago), but still a healthy indication that demand exists in the economy. However, due to falling vacancies and rising unemployment (see below) the number of unemployed people per vacancy was 1.7, up from 1.5 the previous quarter.

Chart 9: Number of vacancies in the UK (000s)



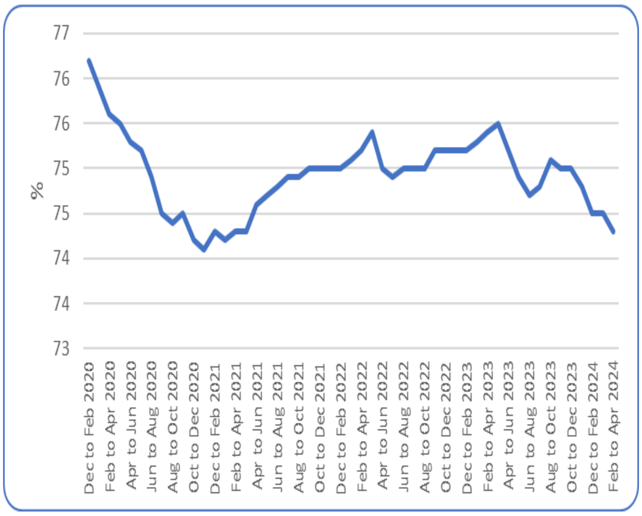
The latest statistics now definitely appear to show a softening of labour market conditions. The UK employment rate decreased by 0.2 percentage points (ppt) to 74.3% on a quarterly basis, and 1.2ppt since the same period in 2023.

The UK unemployment rate increased marginally by 0.1ppt on the quarter at 4.4%, whilst the economic inactivity rate increased by 0.2ppt on a quarterly basis and 0.9ppt on an annual basis – now at 22.3% of those aged 16-64. Economic inactivity continues to increase.

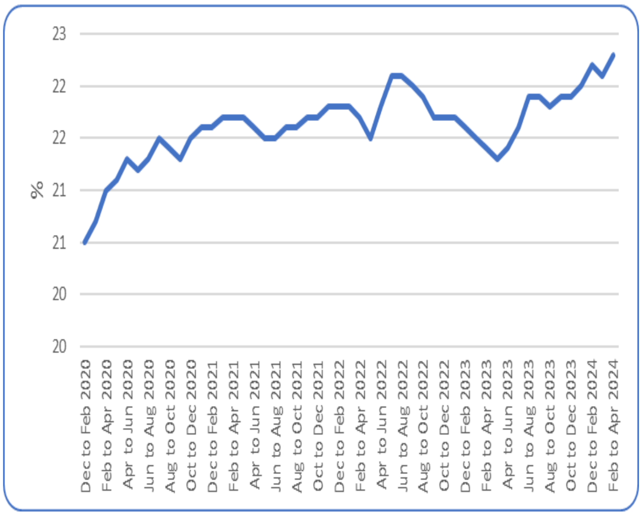
Locally, employment rates remain higher than the national average and generally unemployment and economic inactivity rates lower – although noting that the unemployment rate in BCP is slightly higher than the national average.

Chart 10: Key Labour Market Statistics

Employment rate – UK (aged 16-64)



Economic inactivity rate – UK (aged 16-64)



Unemployment rate – UK (aged 16-64)

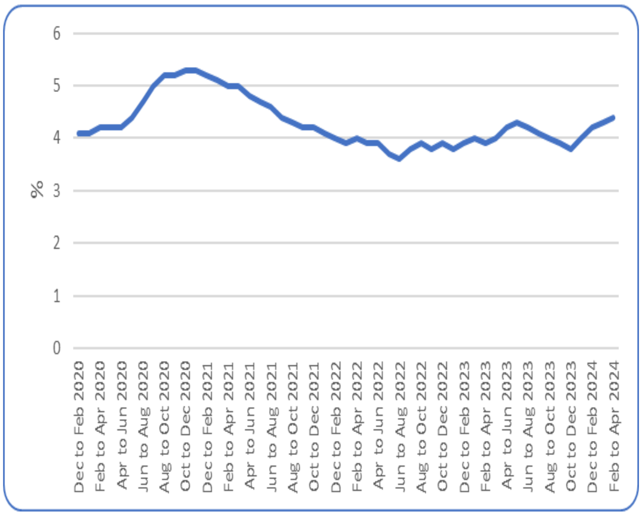


Chart 11: Local Labour Market Statistics (% aged 16-64)^

	Employment Rate (Jan 22 - Dec 22)	Employment Rate (Jan 23 - Dec 23)
UK	75.5	75.7
BCP	77.7	77.6
Dorset CC	76.7	80.3

	Unemployment Rate (Jan 22 - Dec 22)	Unemployment Rate (Jan 23 - Dec 23)
UK	3.6	3.8
BCP	4.3	3.4
Dorset CC	1.7	2.2

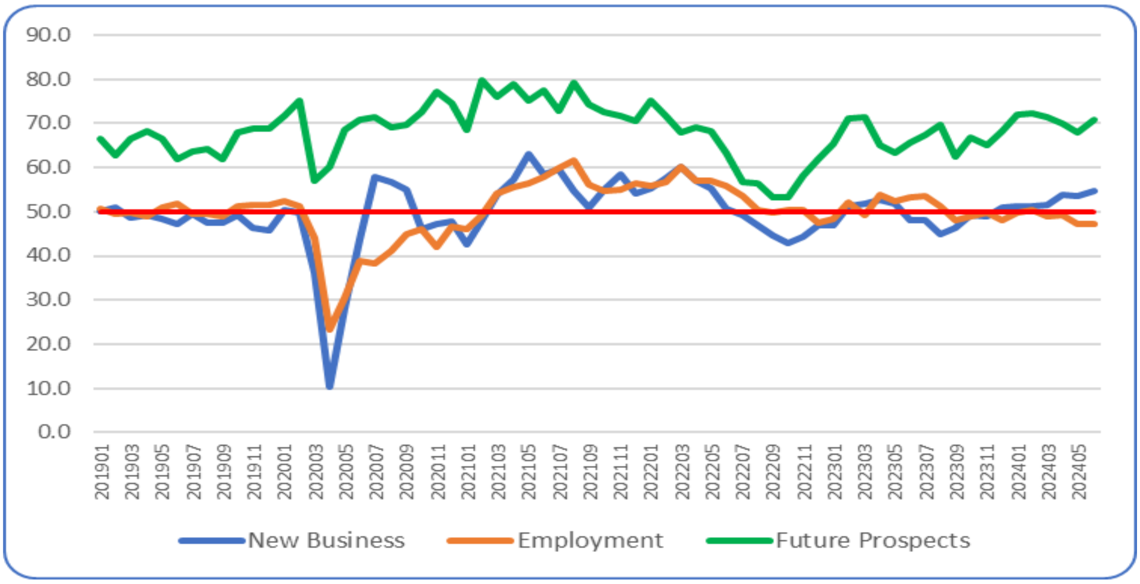
	Economic inactivity rate (Jan 22 - Dec 22)	Economic inactivity rate (Jan 23 - Dec 23)
UK	21.7	21.3
BCP	18.9	19.7
Dorset CC	22.0	17.9

^ Not updated since the latest monthly update

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 June) suggests South West businesses showed a rebound in growth of new business and output during June, but employment continued to fall amid efficiency gains and cost considerations. The upturn in new business activity was the strongest seen across the region for two years. June data showed a recovery in business confidence across the South West. PMI survey panellists were at their most upbeat since March. Expectations that market conditions will improve after the general election and increased advertising, alongside investment and new product releases, boosted sentiment.

Chart 12: NatWest Purchasing Managers Index – South West – June 24 (>50 increasing confidence, <50 decreasing confidence)



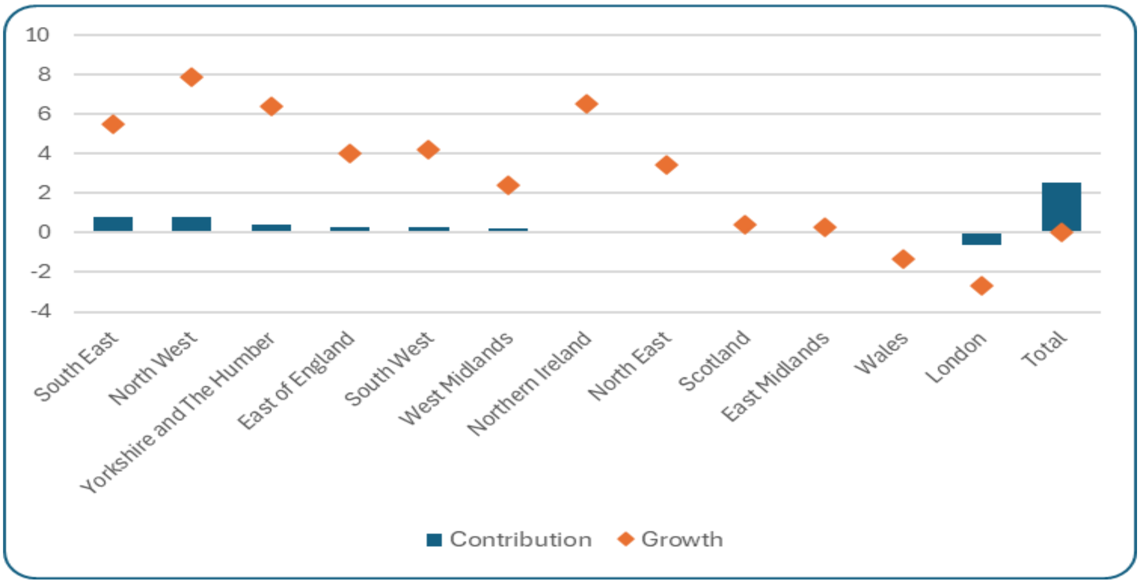
In terms of the housing market, the [latest monthly residential market survey undertaken by the Royal Institute of Chartered Surveyors (RICs)] for June continue to point to a relatively subdued market backdrop at present, with indicators on buyer demand, sales and prices remaining in slightly negative territory. The flow of new instructions coming onto the sales market slowed during June. newly agreed sales gauge posted a net balance of -7% this month, marginally less negative than the reading of -13% seen in the previous iteration of the survey. That said, despite recent months showing a softening in momentum, expectations have now turned a little more optimistic with regards to the near-term outlook for sales activity. A net balance of +20% of respondents now foresee residential sales volumes recovering over the next three months

2. Productivity – latest local data release

[The latest (2022) estimates for regional and sub-regional productivity have been recently released by the ONS]. This is the third release of productivity estimates since the main period of the pandemic. The data reports the labour productivity performance levels of UK regions relative to the UK overall. As always, London had the highest productivity level of any UK region in 2022. Its output per hour was c26% higher than the UK average, maintaining its relative strength, a continuing trend since records began in 1998. Output per hour worked levels for the South East were also above the UK average (c11%). All the other regions showed output per hour worked levels below the UK average.

In contrast, London made the largest negative contribution to UK growth in output per hour by region, compared with 2019. This is because, despite London being the region with the highest levels of productivity (since records began in 1998, compared with the UK average), its productivity growth was lower in 2022 compared with 2019. Owing to its size, this means London has the largest negative contribution to productivity growth of any region.

Chart 13: Contribution to UK growth in output per hour by region – UK 2022, compared with 2019

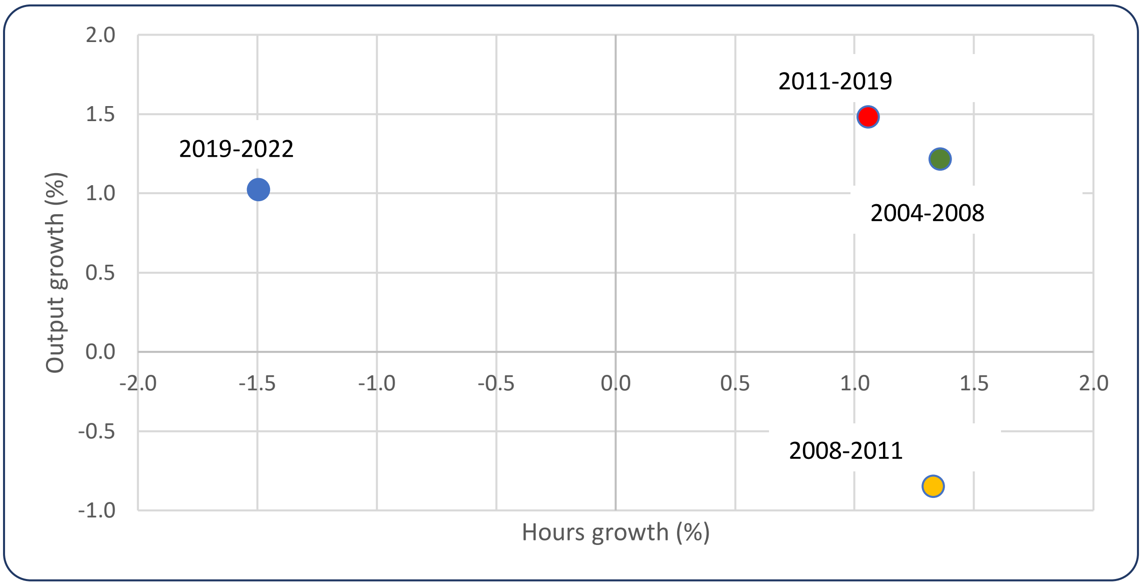


UK output per hour worked has grown at a cumulative average annual rate of 0.8% from 2019 to 2022. Figure 3 shows the North West experiencing growth of 2.6% annually, which is the largest of any region, and London the largest fall of any region, at 0.9%.

At a sub-regional level, in 2019 to 2022, labour productivity (as measured by output per hour worked) increased in 30 out of the 41 UK subregions, with 26 of these also experiencing a rise in total GVA over the period.

In terms of output per hour the latest 2022 figures show that for Dorset it was 87.3% of the UK average, and for BCP it was 95.4%. Therefore, this continues to show that the 'productivity gap' that exists between the local area and the UK average (despite London's weakness in the recent data) has not narrowed – although this is not unique to Dorset.

Chart 14: Average annual growth rates of output per hour worked and hours worked (Dorset and Somerset – ITL2 sub-region) – 2004-2022



The data (which is only available for the combined region of Dorset and Somerset) provides some insight into what has been driving labour productivity (output per hour) growth in the area – a combination of output growth (the numerator in the labour productivity equation) and hours worked (the denominator). The above chart shows that in the period 2008-2011 overall GVA declined in the area, whilst the volume of hours increased – resulting in a decline in labour productivity. In the period 2011-2019, the stronger output growth was largely negated by a growth in the aggregate volume of hours worked – resulting in largely flat labour productivity growth in this period.

Conversely in the latest period, overall output has increased (albeit marginally) but the number of hours declined (primarily due to the impact of the pandemic) – resulting in a (probably temporary) boost to labour productivity across Dorset and Somerset in recent years. To sustain this absolute increase (which is different to the relative performance as commented above) then output will need to grow more strongly in the years to come. The temporary 'perverse' boost of a reduction in hours worked cannot be relied upon.

3. Social Mobility – latest from the Social Mobility Commission

The latest annual update from the South West Social Mobility Commission shed further light on the slow progression around social mobility across the region. Whilst this work focuses on Devon, Cornwall and Somerset as the South West 'peninsula' many of the issues around social mobility in largely rural areas, with poor transport links to major cities etc. are also found in Dorset. Therefore, many of the findings are relevant to highlight here. The original work by the Commission report in 2023 had revealed that the South West had the lowest social mobility of any region in England.

The key findings in the 2024 are:

- From the early years to higher-level education, children from the lowest-income backgrounds in the South West are the furthest behind across several key measures.
- As in previous years, headline outcomes for all children and young people mask the very poor outcomes being achieved by those from poorer backgrounds.

The latest education data shows that in comparison to other English regions, the South West has:

- The lowest proportion of Free School Meals (FSM)- eligible 5-year-olds reaching expected levels of development across Early Years Foundation Stage goals – 46% compared with 50% of children nationally.
- The lowest proportion of disadvantaged 11-year olds reaching expected levels in reading, writing and maths – 38% compared with 44% nationally.
- A lower proportion of disadvantaged pupils achieving a grade 4 or above in English and maths GCSE than the England average – 40% compared with 44% nationally, making it the third-lowest performing region of nine English regions.
- The joint-lowest proportion of disadvantaged young people attaining level 2 qualifications in English and maths by age 19 – 52% compared with 57% nationally.
- The sharpest year-on-year decrease in the proportion of disadvantaged young people obtaining a level 3 qualification by age 19, meaning the region now has the lowest proportion achieving this qualification – 34% compared with 42% nationally.
- The lowest proportion of disadvantaged young people going on to higher level (level 4+) qualifications – 51% compared with 68% nationally.

This year, the Commission also examined data from multi-academy trusts as part of our analysis. It noted that at the highest-performing trust in the country, in London, 60% of disadvantaged pupils achieved both English and maths GCSE at grade 5 or above. This compares to 34% at the highest-performing trust in the South West. Whilst the report rightfully points out that context will play a significant role in these differences, the analysis suggests that there are lessons from trusts performing well on these measures.

As part of the wider work of the Commission several activities are being developed, tested and implemented across the region to try to address the issue and reverse the tide. This includes a free-to-school tutoring scheme which has reached 350 pupils through a partnership with Next Step South West.

4. Innovation evidence

The latest Innovation State of the Nation 2023 report produced by the Enterprise Research Centre (released in 2024) sheds light on how innovation active the UK business currently are. The report is based on survey findings from c2,000 companies, with data being collected in 2023. It reiterates the value of innovation activity within businesses, with evidence suggesting that innovation is strongly associated with both higher sales and employment growth.

Some key findings of the report are:

- Collaboration, particularly with supply chain partners and other businesses, also drive much innovation, involving around 40% of innovating companies. Collaboration with universities and other non-corporate partners is much less common - involving only around 7-15% of innovators. The evidence emphasises the consequent value of collaboration, with different types of partners providing access to very different types of knowledge and expertise. For example, university links might be helpful where firms aim at new to market innovation, while supply chain collaboration with customers or suppliers may be more relevant where firms are aiming at more incremental product or service improvements.

- Where innovation is being undertaken the predominant source of funding was internal, used by around two-thirds of all innovators. Grant (c8%) and government loan (c7%) finance were also significant for some firms with 12% per cent of firms also using R&D tax credits. In terms of firm size band, larger firms are clearly using a greater variety of innovation funding sources than smaller firms, although surprisingly perhaps the proportion of firms in each size band using tax reliefs is broadly similar. Equity funding was notably more common among frontier (7.4%) than non-frontier firms (3.1%). The notion of frontier firms has been popularised by analysis which compares firms at the technological or productivity frontier to other – often smaller – non-frontier firms.

- The probability of innovating increases consistently with firm size and is notably higher in the service sectors than in construction, transport and primary sectors.

- It is then possible to breakdown the group of innovating firms into those doing product or service innovation only and those reporting both product and service innovation. Overall, approximately 17% of firms reported product innovation only, c14% service innovation only and c30% both.

- Across the UK, c39% of firms indicated that recruitment issues had restricted their innovation activities over the previous year.

The Innovation State of the Nation has provided the underlying evidence for further research, including a focus on innovation in micro-businesses. Given that micro businesses (employing fewer than 10 employees) tend to dominate the UK (and Dorset) business profile, it is also worth highlighting the key findings:

- There are suggested differences in reasons for not innovating between micro-businesses and larger SMEs. For micro-businesses, the most common reasons for not undertaking innovation relate to adequate profitability (49%), uncertain demand (44%), and lack of finance (32%). Meanwhile, the most common reasons for SMEs not undertaking innovation are uncertain demand (40%), adequate profitability (38%), and regulation (32%).

- Despite facing more barriers, micro-businesses were less likely than SMEs to seek external advice in the year before the survey. 37% of SMEs sought external advice, compared to 30% of micro-businesses.

- UK micro-businesses and SMEs report similar needs for future innovation support. The most commonly preferred types of future innovation support cited by micro-businesses and SMEs are assistance in finding innovation partners and intellectual property (IP) support.

- Just 2% of micro-businesses reported collaborating with business support providers, compared to 9% of SMEs. Similarly, just 4% of micro's reported collaborating with universities for innovation, less than half of that of SMEs (9%).

- Around 37% of SMEs sought external advice, compared to 30% of micro-businesses. Interestingly, SMEs and micro-businesses seek different types of assistance. The most strongly preferred types of future innovation support cited by micro-businesses and SMEs are assistance finding innovation partners and intellectual property (IP) support.

5. Latest population estimates

The latest population statistics released by the ONS – relating to mid 2023 – estimated that the population of England and Wales continued to grow. In fact, much media commentary has picked up on the estimate the population grew at its fastest rate for 75 years (which in 1948 actually reflected the large return of armed forces personnel post WWII). The estimates population of England and Wales grew by 610,000 to 60.9mn. This represented 1% population growth in just 12 months.

This was largely fuelled by an estimated 1.084mn people immigrating in, and whilst this was partially offset by emigration of c462,000 this led to net international migration to England and Wales of 622,000. In fact, natural change (the difference between births and deaths) was only 400 in the year to mid-2023 - the lowest figure since 1978.

At a local level, the population of Dorset CC was estimated to be 384,809 in mid-2023 (an increase of 1,436 – or 0.4%, lower growth than experienced nationally), whilst the population of BCP was estimated to be 404,050 (an increase of 1,491 – or slightly less than 0.4%).