Dorset LEP – Bi-Monthly Economic Commentary – September 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 after some momentum in the Spring for the UK economy, this was lost in the early part of the summer. The latest data indicates that the UK economy 'flatlined' again in June and July. Real GDP growth is estimated to have been zero in both June and July (subject to revision), although it is estimated to have increased by 0.5% in the three months to July 24, compared to the three months to April 24.

Services output grew by 0.6% in the three months to July, with production output decreasing by 0.1% over the same period. Construction output increased by 1.2%, its first three-month growth since Sept 23. For all of the main economy sectors, the data suggests that growth was stronger at the start of the latest quarter, with a weakening through the summer months. The main contributors to the monthly increase were a 1.6% increase in new housing work, and repair and maintenance increased by 0.8%.

Output in consumer facing services grew by 0.1% in the three months to July 24. The main drivers of the growth in consumer facing services were a 1.29% rise in output in retail trade (excluding motor vehicles), a 1.7% growth in food and beverage services and a 4.2% growth in sports activities – offset by a significant decrease of 4.4% in other personal service activities.

Chart 1: Monthly UK GDP (2019=100)

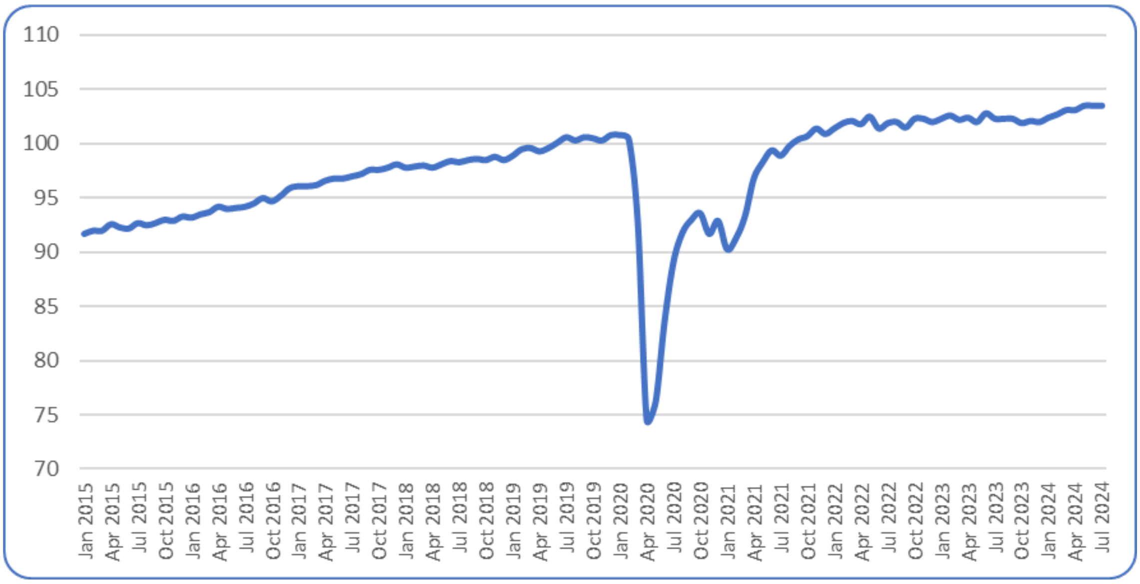


Chart 2: Contributions to monthly GDP growth (percentage points)

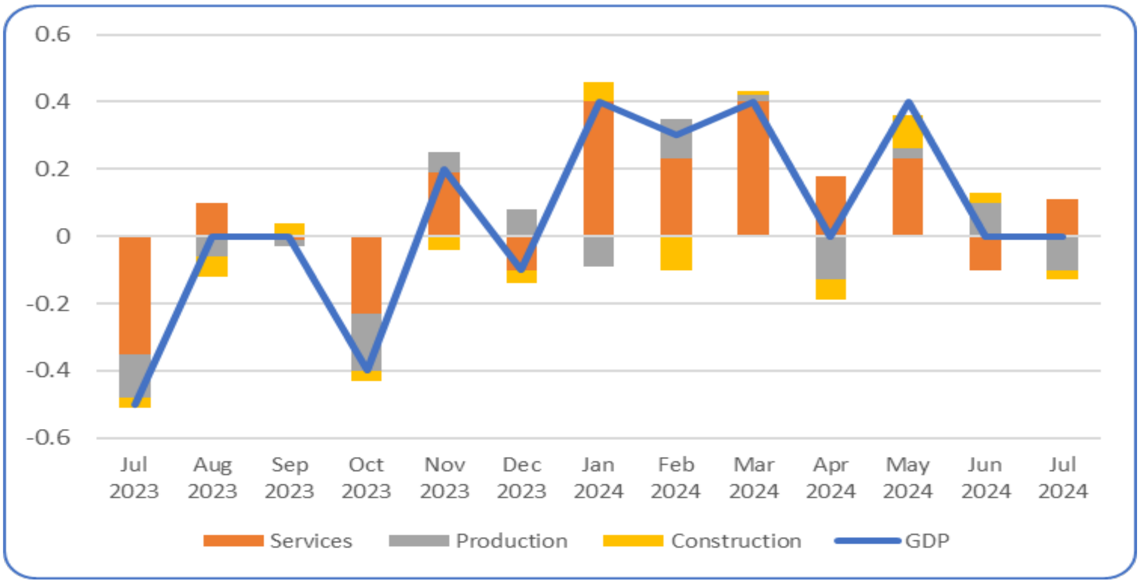
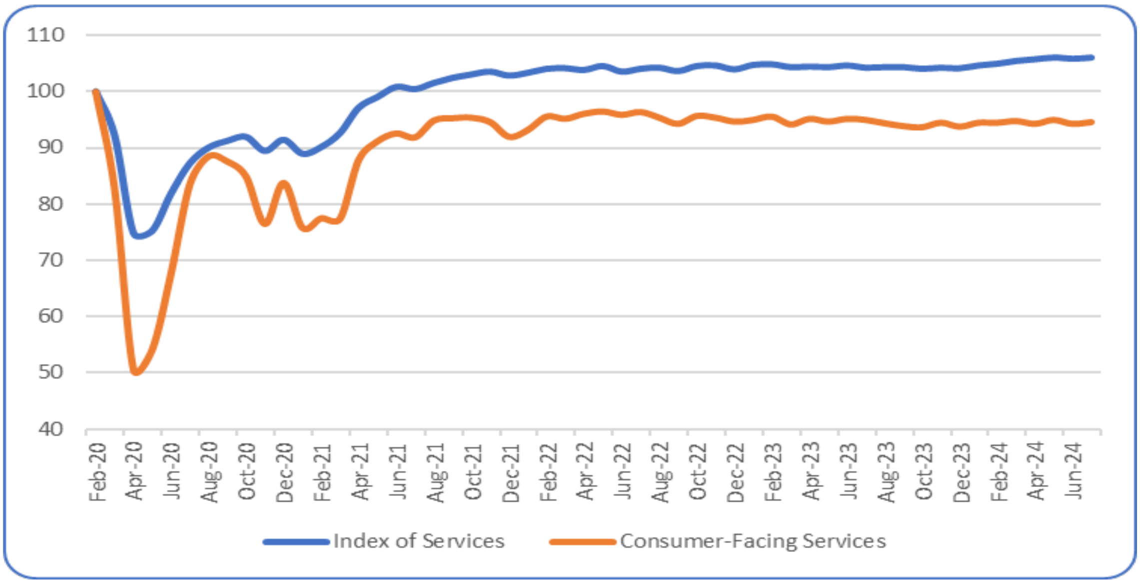


Chart 3: Consumer-facing services in Great Britain (volume) (2020=100)

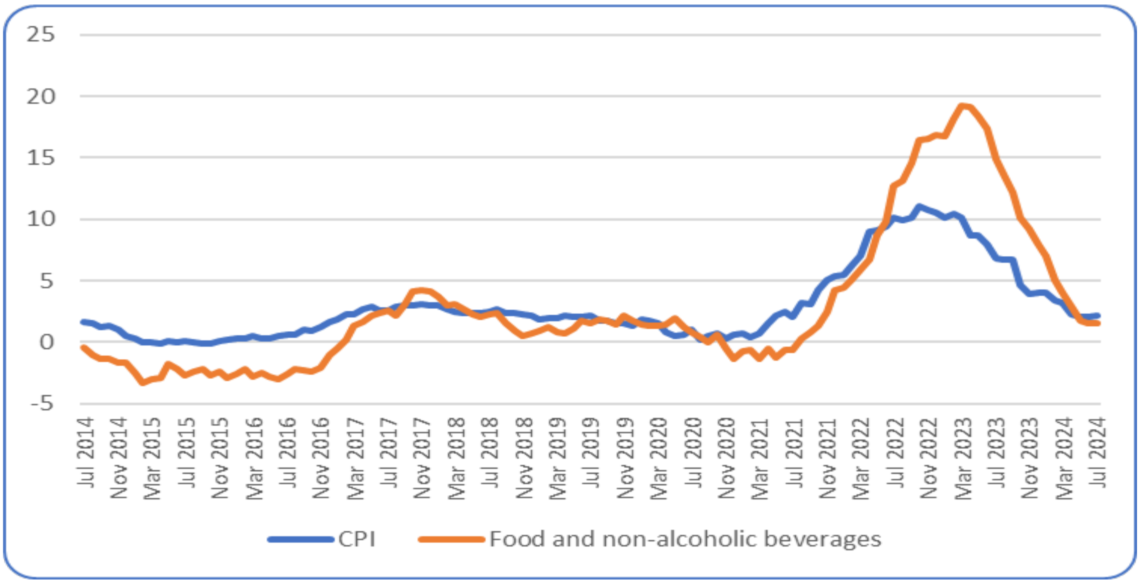


The [latest inflation data for July 24] showed slight uptick in annual inflation, but currently at low levels. The Consumer Price Index (CPI) was 2.2% in the 12 months to July 24, marginally up from 2.0% in June. On a monthly basis, the CPI fell by 0.2% in July 24. The slight increase on an annual basis between July 23 and July 24 was a result of prices decreasing 0.2% in 24 compared to a larger decrease of 0.4% in July 23.

The largest upward contribution to the monthly change in the annual inflation rate came from housing and household services where prices of gas and electricity fell by less than they did last year. The largest downward contribution came from restaurants and hotels, where prices of hotels fell this year having risen last year.

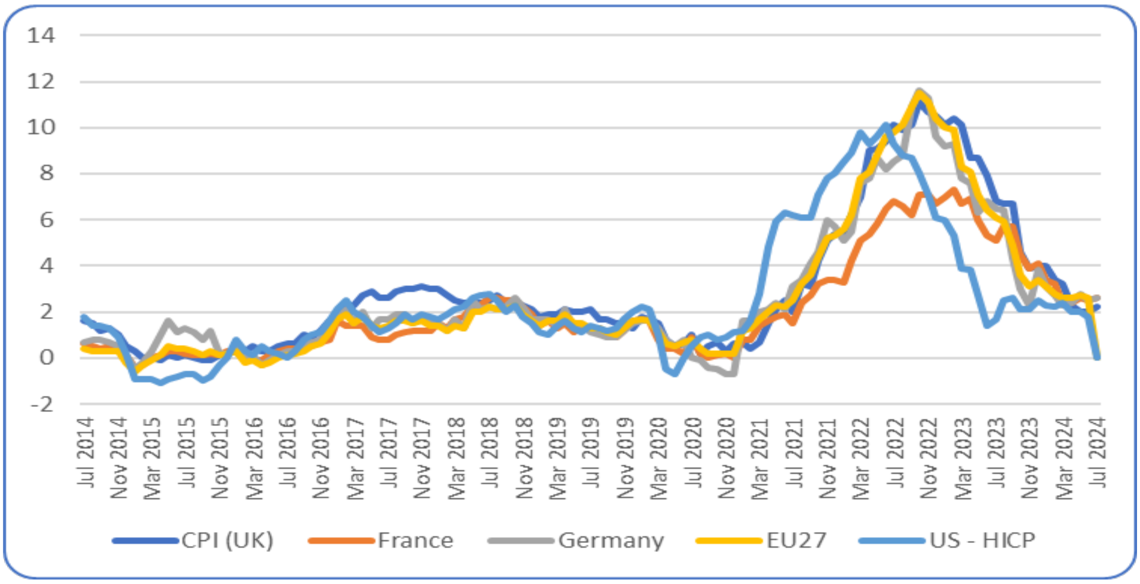
The owner occupiers' housing costs (OOH) component (which includes those costs of housing services associated with owning, maintaining and living in one's own home – distinct from the cost of purchasing a house) rose by 7.0% in the 12 months to July 2024, up from 6.8% in the 12 months to June. This is the highest annual rate since March 1992 in the constructed historical series.

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



Overall – based on the CPI – UK inflation is now lower than countries such as France and Germany and below the average across the EU. It is at a similar level as the US – with both countries having had a tightened monetary policy. Chart 5 does illustrate that most countries have experienced a sustained fall in price inflation since the peak at the end of Nov 22.

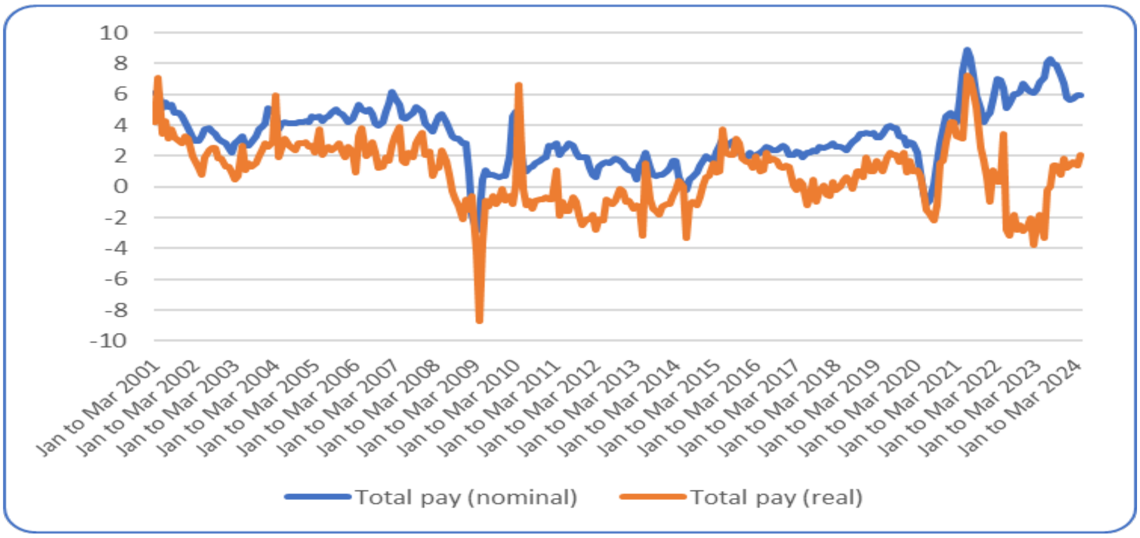
Chart 5: UK CPI compared to selected G7 and EU annual inflation rates



According to the latest statistics released by the ONS, annual growth in regular wages (excluding bonuses) was 5.1% in April to June 24. This represented a slight softening in wage growth. However, annual growth in real terms (adjusted for inflation) was 2.2% for regular pay. Annual average regular earnings growth for the public sector was 5.7% in April to June 24. This total growth rate is affected by the NHS and civil service one-off payments made in June and July 2023. For the private sector this was 4.9%. Wage growth was last lower in the private sector in April 2022.

The manufacturing sector saw the largest annual regular growth rate at 5.9%, while the construction sector saw the smallest annual regular growth rate at 3.9% The construction sector has seen the weakest pay growth for some time now.

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 0.4% in August 24 compared with 12 months previous – an increase equivalent to 122,000 employees. However, this masks some recent declines - payrolled employees actually decreased by 59,000 employees (0.2%) in August 24 when compared to July 24 (although again subject to revision – with the previous month's revision showing that 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 the health and social work sector (an increase of 139,000 employees nationally), as well as education – experiencing an increase of c126,000 employees and public administration (+82,000). As with previous months, there were declines in sectors such as accommodation and food services (a significant decline of c105,000), retail and ICT.

The annual growth in the number of payrolled employees across Dorset CC (year to Aug 24) was estimated to be just 0.1%. 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 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)

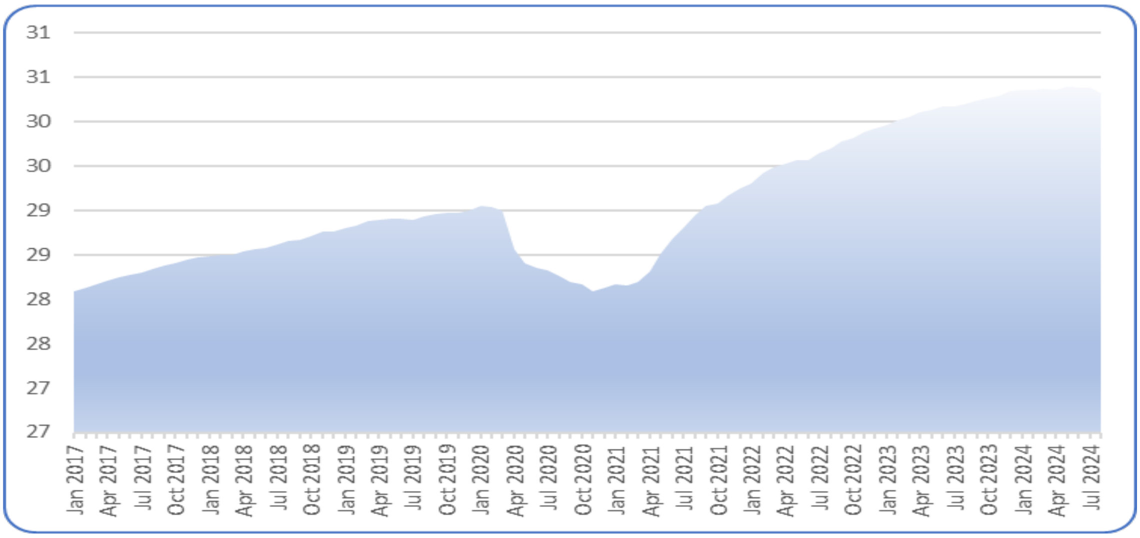


Chart 8: Growth in UK payrolled employees (% annual growth)

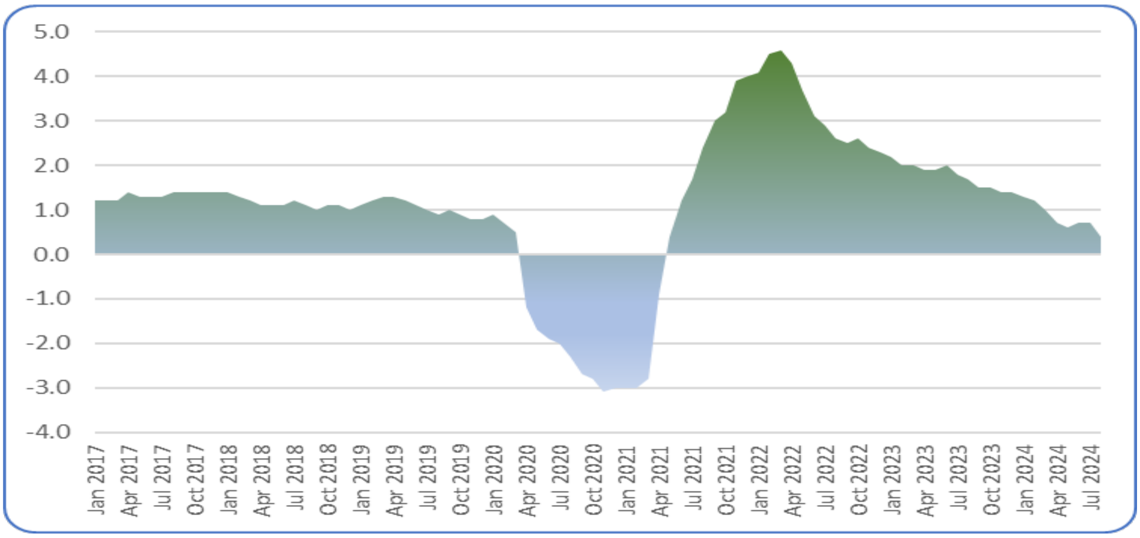


Chart 8 (above) appears to suggest that the growth in UK employment levels has now dipped below the pre-pandemic trend levels of c1% growth per year. The number of UK vacancies are now around 857,000 (June to August 24) – significantly down from its peak of c1.1mn post-pandemic (and 42,000 from the previous quarter (March to May 24)). Vacancy numbers decreased on the quarter for the 26th consecutive quarter, with vacancies decreasing in all 18 industry sectors used in the ONS analysis.

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.

Primarily due to falling vacancies the number of unemployed people per vacancy was 1.6, although this was down from 1.7 in the previous quarter.

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

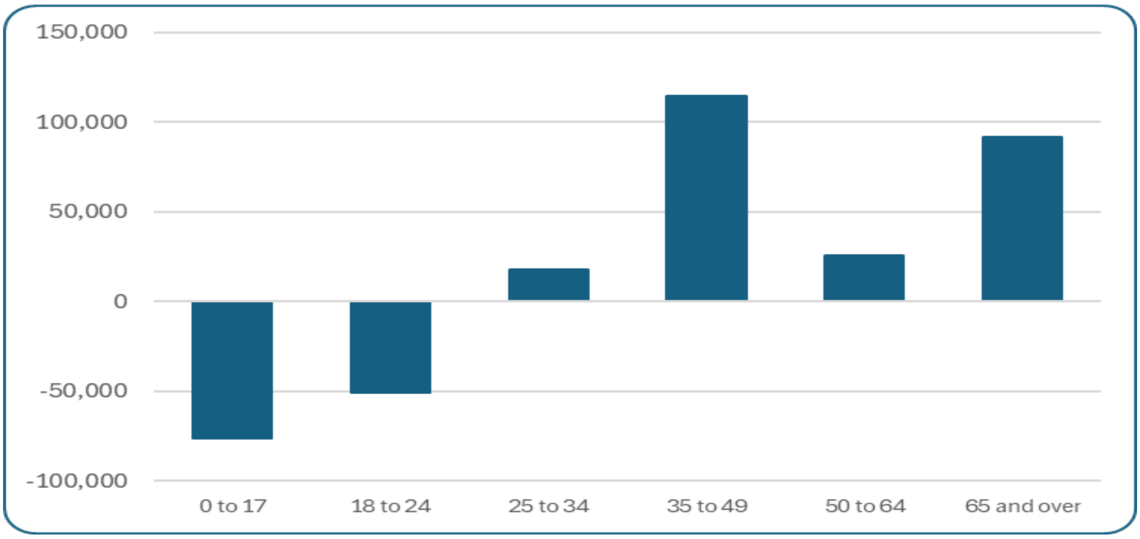
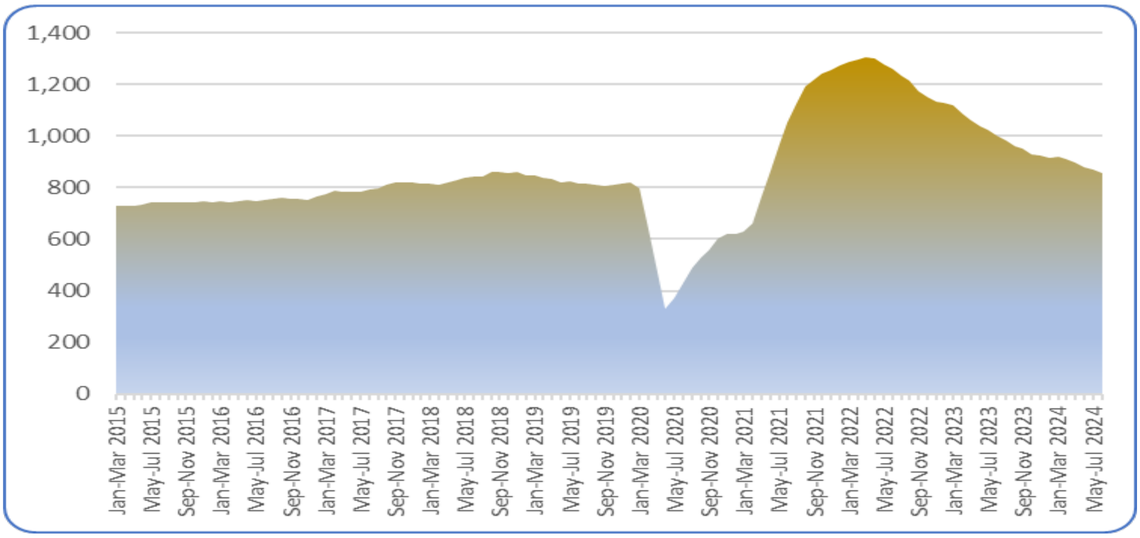


Chart 10: Number of vacancies in the UK (000s)



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 £2,206, and in Bournemouth, Christchurch and Poole (BCP) it was £2,298. This compares against a UK average of £2,420. At a national level this represented an increase of 6.2% compared with 12 months previously.

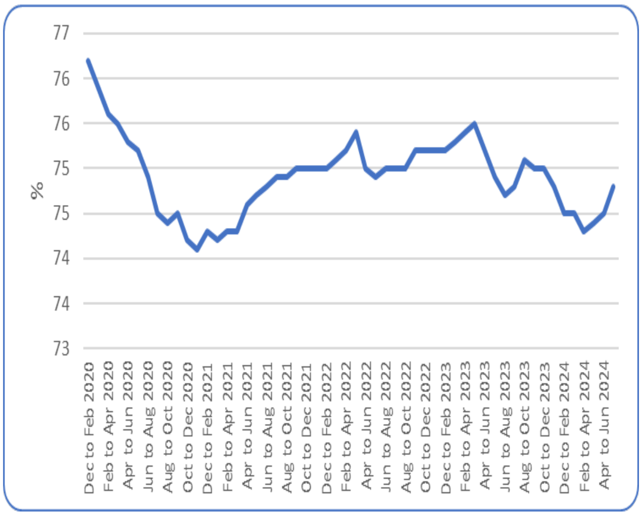
The latest labour market statistics still indicate some softening in labour market conditions, but also signs that the UK labour market remains remarkedly robust. The UK employment rate actually increased by 0.5 percentage points (ppt) to 74.8% on a quarterly basis, but a fall of 1.4ppt since the same period in 2023.

The UK unemployment rate fell marginally by 0.2ppt on the quarter at 4.1%, whilst the economic inactivity rate also fell by 0.3ppt on a quarterly basis, but increased by 1.4ppt on an annual basis – now at 21.9% of those aged 16-64.

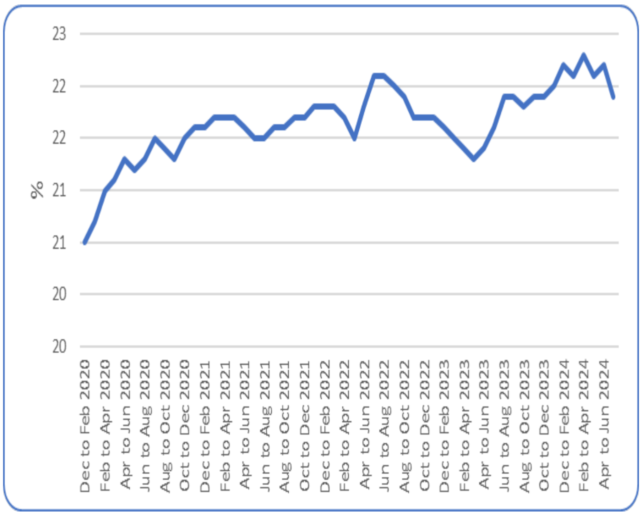
Locally, employment rates remain higher than the national average and generally unemployment and economic inactivity rates lower.

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)

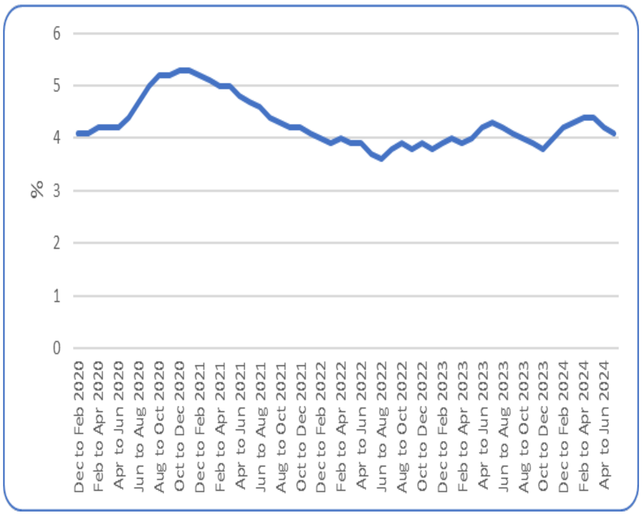


Chart 12: Local Labour Market Statistics (% aged 16-64)

	Employment rate (Apr 22-Mar 23)	Employment rate (Apr 23-Mar 24)
UK	75.4	75.4
BCP	80.0	74.5
Dorset CC	78.2	79.6

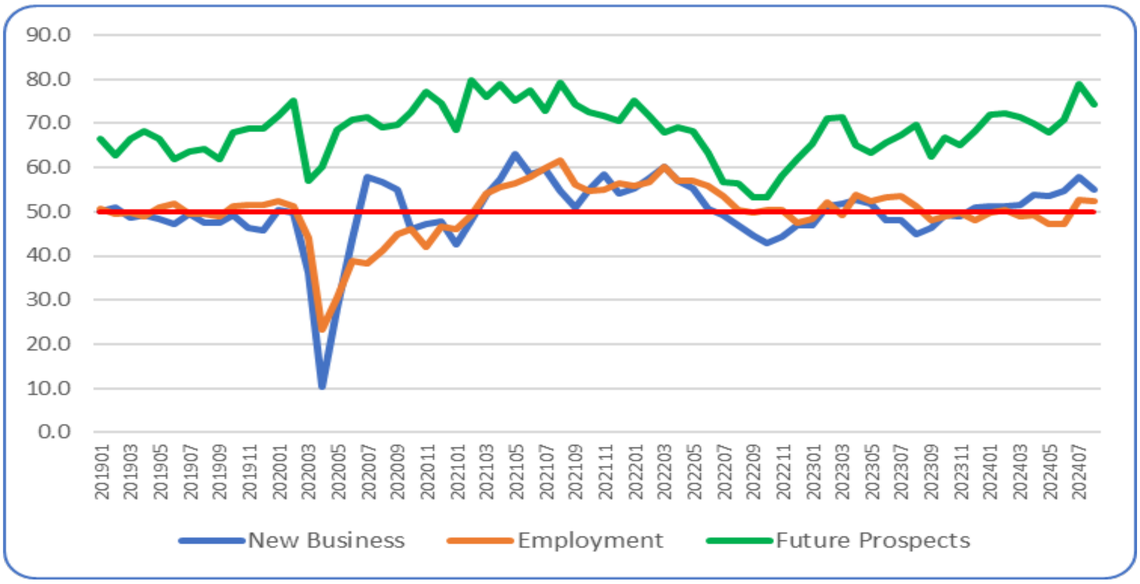
	Unemployment rate (Apr 22-Mar 23)	Unemployment rate (Apr 23-Mar 24)
UK	3.7	3.9
BCP	3.4	3.3
Dorset CC	1.5	2.8

	Economic inactivity rate (Apr 22-Mar 23)	Economic inactivity rate rate (Apr 23-Mar 24)
UK	21.7	21.5
BCP	17.2	22.9
Dorset CC	20.5	18.2

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 August) suggests South West businesses are broadly positive about prospects. Output growth across the region accelerated and was the second strongest of the 12 UK regions. Strong customer demand prompted firms to scale up business activity volumes and hire additional staff. Although new order growth eased in August, it was marked and the second-strongest since May 22. Feedback accompanying the survey showed that sales were supported by marketing initiatives, AI roll-out and the signing of pending projects.

Chart 13: 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 August suggest an improvement in market activity over the last couple of months, supported by recent (modest) softening in mortgage interest rates – itself driven by competition in the lender market. A net balance of +15% of survey participants noted an increase in new buyer enquiries during August (up from a figure of +4% the previous month). This marks the most positive reading for the demand series since October 2021, although it should be emphasised that this pick-up is coming from a low base.

Contributors anticipate the recent uptick in demand to translate into a more meaningful increase in sales volumes over the coming three months, evidenced by the near-term sales expectations measure recording a net balance of +37%. Further ahead, a net balance of +45% of respondents envisage sales activity strengthening over the next twelve months, extending the recent sequence of firmly positive readings for this indicator.

With regards to house prices, the survey's headline measure returned a net balance figure of +1% this time around, up noticeably from a reading of -18% last month. Importantly, this denotes the first occasion since October 2022 that this series has moved out of negative territory. However, it is important to note that this national sentiment is heavily driven by expectations of increases in house prices in Northern Ireland and Scotland. Sentiment around house price increases in the South West is more muted.

2. Good Growth for Cities Index

The consultancy firm PWC has published its updated Good Growth for Cities Index. This is a composite index which measures the performance and characteristics of cities and regions in the UK. The annual Index covers a list of broad measures of economic wellbeing – factors the public identify as most important to their work and finances and are therefore essential for judging economic success. Therefore, the priorities of the public are reflected in weightings of the indicators used in the Index. The change in the weightings within the index does affect the relative performance of cities. The analysis covers the period 2020-2022.

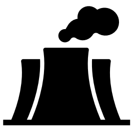
The city rank outlines the relative performance of cities on each public priority on the Good Growth Index. In terms of headline findings, the cities that have performed well in the index include Plymouth, Bristol, Southampton, Swindon and Reading – all within quite close proximity to the Dorset LEP area. Bournemouth (which we assume encapsulates BCP) was ranked 17th out of 51 urban areas in the index – although its relative performance had declined from the 2023 index. Plymouth performs well with high scores across income distribution, work-life balance and jobs. Bristol similarly performs well on jobs and work-life balance, and skills.

Based on PWC's analysis Bournemouth (BCP) was ranked on the broad indicators as below.

Overall	
Jobs	
Income	
Health	
Work-life balance	
New businesses	
Housing	
Transport	
Skills	
Income distribution	
Environment	
Safety	
High Street & Shops	

Below average		Average		Above average	

3. Social Long term fiscal outlook



[The Office of Budgetary Responsibility recently published its latest Fiscal Risks and Sustainability report](). This report is its assessment of the long-term pressures on public finance and models the potential impact on UK public finances from climate change, and other factors such as demographics and ageing (which will require significantly greater spending on health). It makes interesting – if gloomy reading.

In terms of the impact of climate change, the additional government spending is associated with the potential mitigation, adaptation and the economic and fiscal consequences of the physical damage caused by climate change. Obviously the potential fiscal implications depend on the climate change outcome, but the OBR's scenario-based approach (which it recognises has very large uncertainties) estimates that:

- Total fiscal costs over the next 50 years could be equivalent to an additional 25% of GDP-to-government debt in the below 2 degree scenario
- An additional 35% of GDP-to-government debt in the below 3 degree scenario

In terms of the projected changes to (healthy) life expectancy, it sets out some useful historical context:

- Real health spending per person has risen three times faster than per capital GDP over the past two decades
- Since the start of the century, total UK health spending as a share of GDP has risen from below 6% to above 11% – taking the UK from the lowest to the sixth highest among 19 advanced economies
- The OBR estimates (as one of its scenarios) that this could increase to just under 15% by the mid-2070s

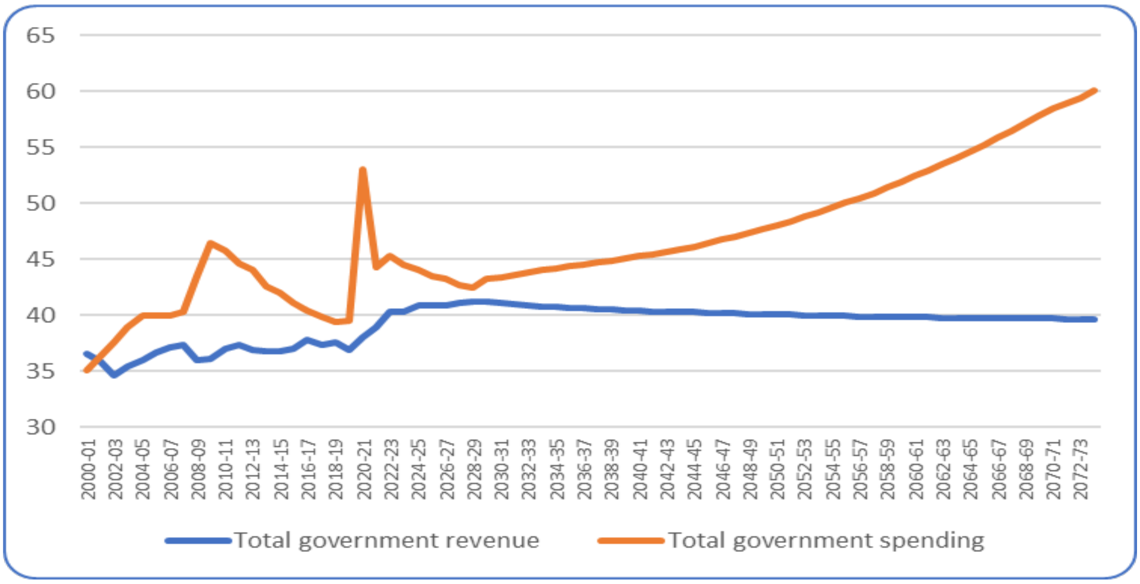
Decreasing quality of health indicators, and ageing (with a smaller proportion of the population being of working age and many requiring social care) could also serve to reduce government revenues, as it results in a smaller tax base.

The combined effects of the above climate and health projections is that:

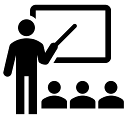
- government spending rises to over 60% of GDP
- government revenue falls to just under 40% of GDP
- this results in a need for a significant increase in government borrowing, consequently rising from just under 100% of GDP today to over 270% in the mid-2070s in the OBR's baseline projection

On almost any scenario, the UK government is likely to have to raise taxes or cut spending if it is to keep the public finances on a sustainable path in the long term (known as fiscal policy tightening). Keeping UK debt at around its current level of just under 100% of GDP would require an additional fiscal policy tightening of around 1% to 1½% of GDP per decade i.e. tough political spending and tax decisions.

Chart 14: Projected total government revenue and spending (% of UK GDP)



4. An increase of NEETs



The latest data released by the ONS around those young people Not in Education, Employment or Training (NEETs) estimates that there has been a big jump in NEETS across the UK, with the total currently estimated to be 872,000 (April to June), up from 798,000 in the same period in 2023. Key points in this estimated data:

- The percentage of all young people who were NEET was estimated at 12.2%, up 0.9ppt on the year
- An estimated 13.5% of young men (up 1.7 percentage points on the year) and 10.8% of young women (largely unchanged on the year) were NEET
- The increase in the number of young people who were NEET was driven by young men, who saw an increase of 69,000 on the year to 493,000
- The number of young people who were NEET and unemployed was estimated to be 332,000, a decrease of 1,000 on the year
- However, there were an estimated 540,000 young people in the UK who were NEET and economically inactive, an increase on the year of 75,000. The total increase of 75,000 on the year was driven by young men, who saw an increase of 93,000 on the year to June 2023, while young women aged 16 to 24 years who were NEET and economically inactive decreased by 18,000 on the year.

Chart 15: Percentage of all 16-to-24 year olds who are NEET – UK