# Dorset LEP - Monthly Economic Commentary – January 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 was more positive than many economic commentators predicted. Whilst real GDP is estimated to have fallen by 0.2% in the three months to November 2023, on a monthly basis it is estimated to have grown 0.3% in November (noting that these figures are often subject to revision).

This was largely driven by growth in the service sector – increasing by 0.4% in November 2023. Production output grew by 0.3% following a fall of 1.3% in October (revised down from previous estimate). Construction output fell by 0.2% after a fall of 0.4% in October – suggesting that the sector is coming under pressure in the context of the tightened fiscal environment i.e. higher interest rates. Output in consumer facing services grew by 0.6% in November 2023 (boosted by Black Friday sales) but remains 5.8% below pre-pandemic levels (February 2020). The growth in November 2023 for consumer-facing services follows four consecutive monthly falls.

The pressure on consumers/households has recently been flagged as a concern by the Bank of England (BoE). The higher interest rates and cost of living pressures meant many households were having to find other ways of sustaining purchases. The annual rate of credit card spending growth is near 12%, with the BoE noting that the growth 'could lead to greater debt vulnerability for households in the near term'. Net borrowing on consumer credit by individuals amounted to £2bn in November, up from £1.4bn in October. Prospective homebuyers have also been adapting to financial pressures by taking out longer-term mortgages. In total, the proportion of mortgages lasting 35 years or more had increased from 4% in the first three months of the year to 12% in the second quarter.

The UK is not alone in facing the precarious threat of – at worst – recession or – at best – a flatlining economy. Recent data has indicated that Germany is on track for its first two-year recession since the early 2000s. Germany's dominant industrial base shrank through 2023.

**Chart 1: Monthly UK GDP (2019=100)**

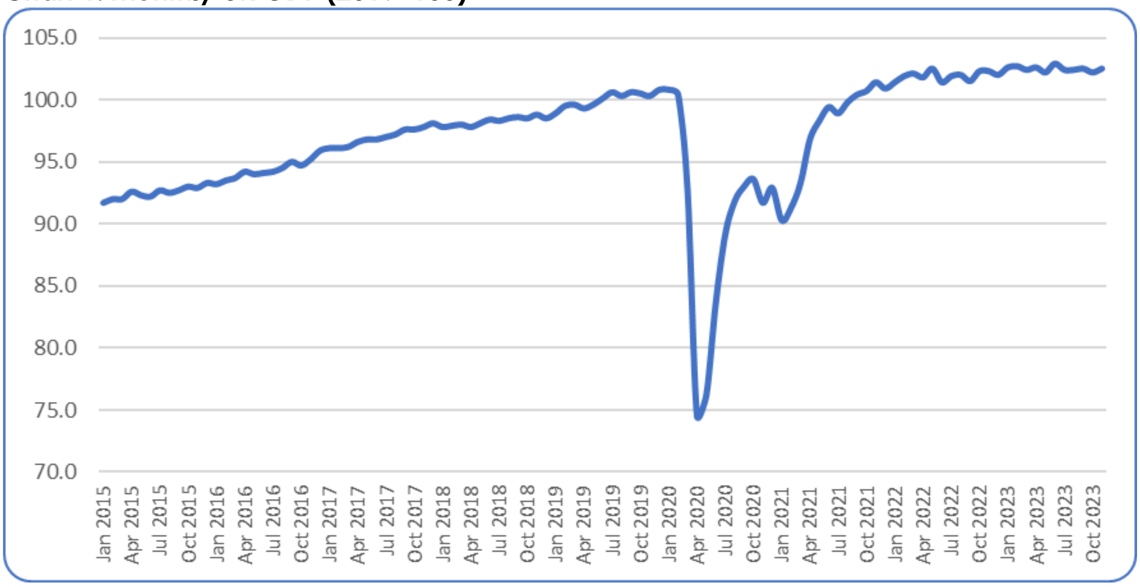


**Chart 2: Contributions to monthly GDP growth (percentage points)**

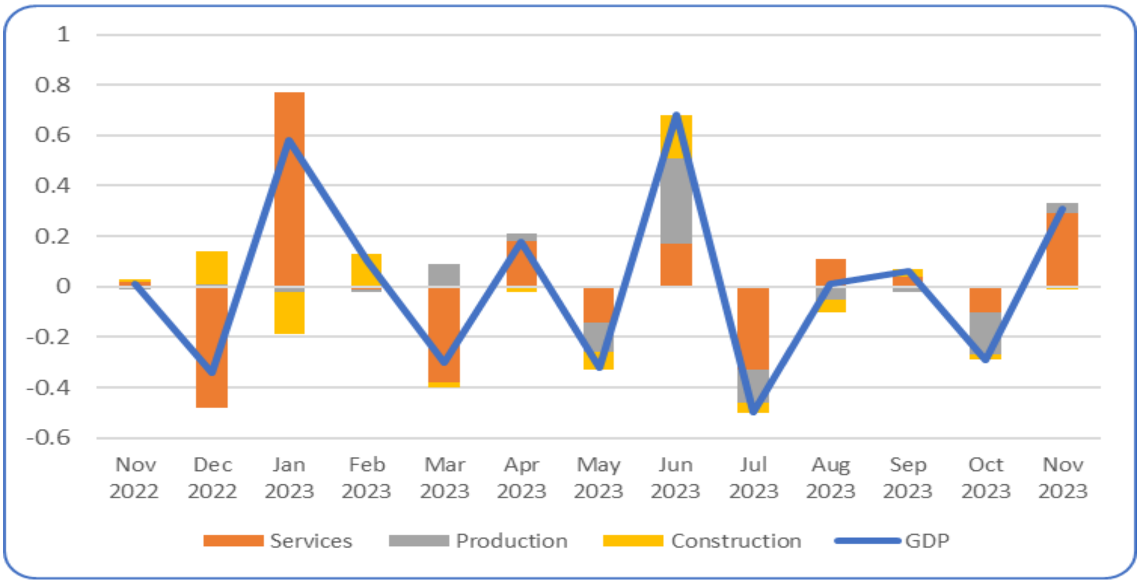
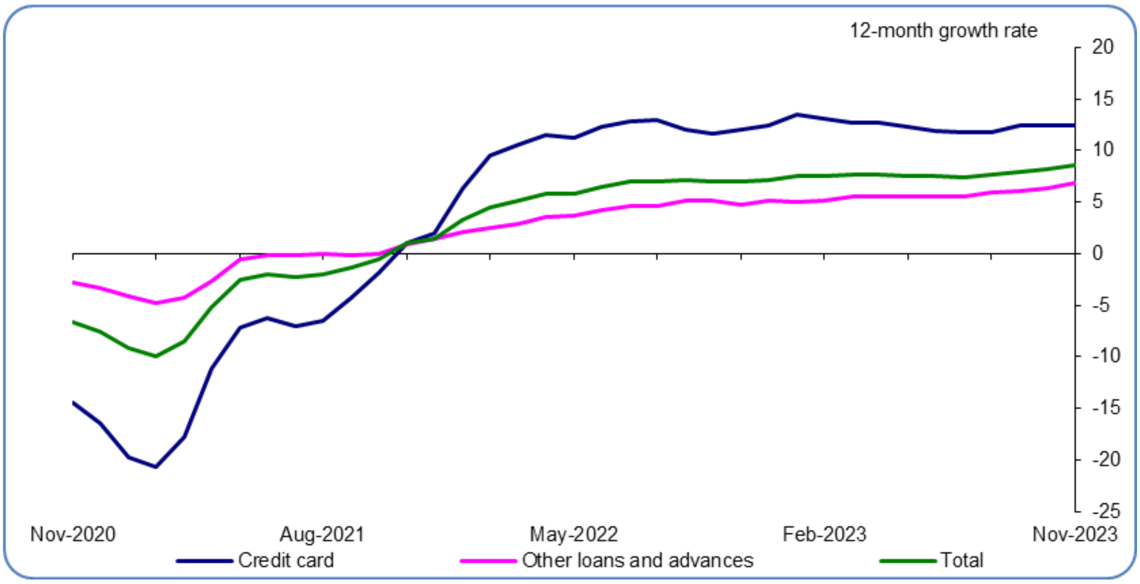


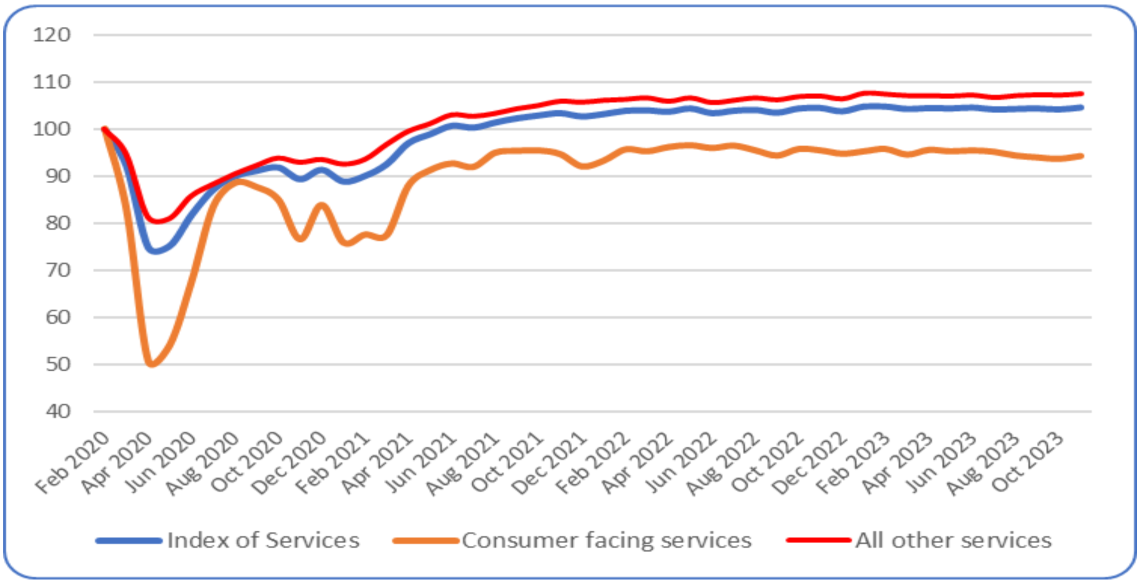

**Chart 3: Growth in UK consumer credit (seasonally adjusted)**




Returning back to consumer-facing services (which largely represents those sectors which dominate household consumption), the largest negative contributions in the latest month came from travel agency and tour operators, which fell by 3.6% in November 23. Over the three-month period (August to November) the largest contribution to the fall in consumer facing services (down by 1.0% in the 3 months) were falls in 2.1% in food and beverages and 8.4% in travel agency and tour operators.

Looking specifically at the production sector, manufacturing output fell by 1.9% in the three months to November – although it did grow on a monthly basis in November. 11 of the 13 manufacturing sub-sectors experienced a decline in output over the 3-month period, although most of these rebounded in November.

**Chart 4: Consumer-facing services in Great Britain (volume) (2020=100)**




The latest inflation data for November 23 continued the picture of easing inflation. The Consumer Price Index (CPI) was 3.9% in the 12 months to November, down from 4.6% in October. On a monthly basis, the CPI fell by 0.2% in November 23. The overall inflation rate is now at the lowest point since autumn 2021.

However, some of the key costs facing households such as food remain high. Food and non-alcoholic beverages annual price inflation remained at 9.2%, although this has continued to ease from the high of 19.2% experienced in March 23 – the highest annual rate seen for 45 years. Nevertheless, annual food inflation remaining near 10% remains a cause for concern for many households. The overall price of food and non-alcoholic beverages rose by around 27% over the two years between November 2021 and November 2023. This compares with a rise of around 9% over the ten years between November 2011 and November 2021.

It will now be interesting to observe whether heightening tensions in the Middle East – particularly the Israeli-Palestinian conflict and tensions around attacks on Red Sea shipping routes will add renewed pressure on prices. After the attacks by the US and UK on targets within Yemen, oil prices have sharply spiked, increasing by 4% in the morning after the attacks (with Brent crude hitting $80 per barrel). Fuel and energy prices feed through to wider prices over the medium-to-longer term. Whilst the UK is currently well stocked and most of the current supply is derived from the North Sea, there could be an impact on household bills in a few months' time if tensions persist or escalate.

Overall – based on the CPI – UK inflation remains higher than the EU average 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: Consumer Price Inflation and Food Inflation (% annual increase)**

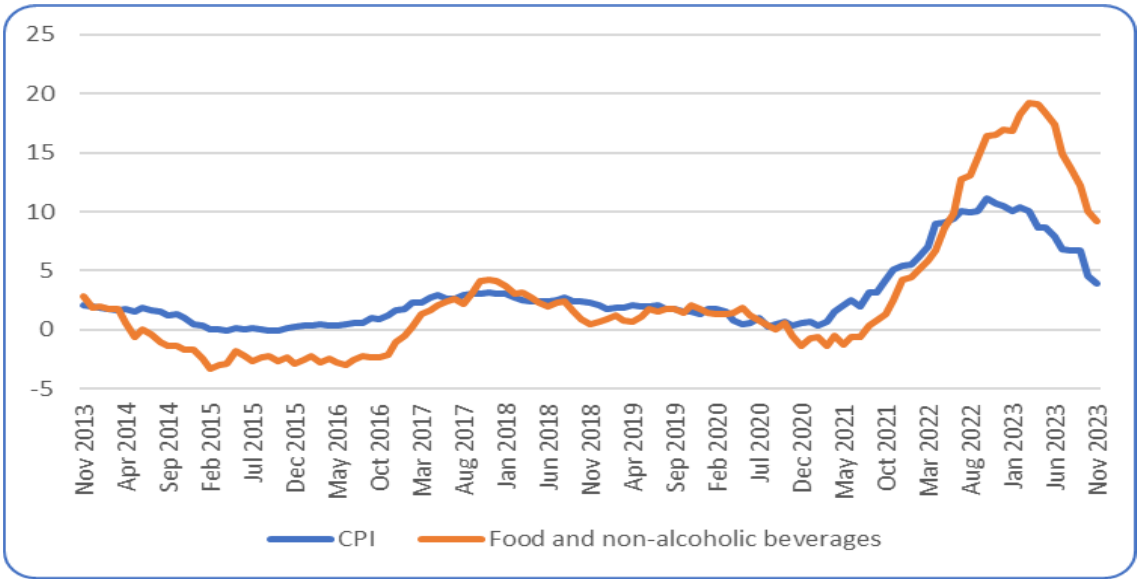
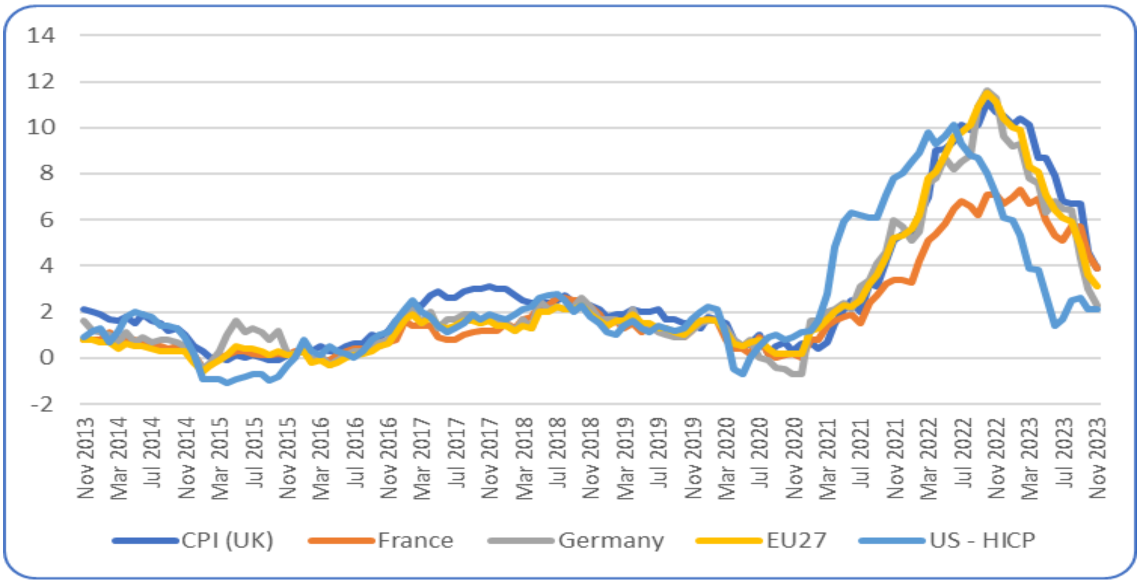



**Chart 6: UK CPI compared to selected G7 and EU annual inflation rates**

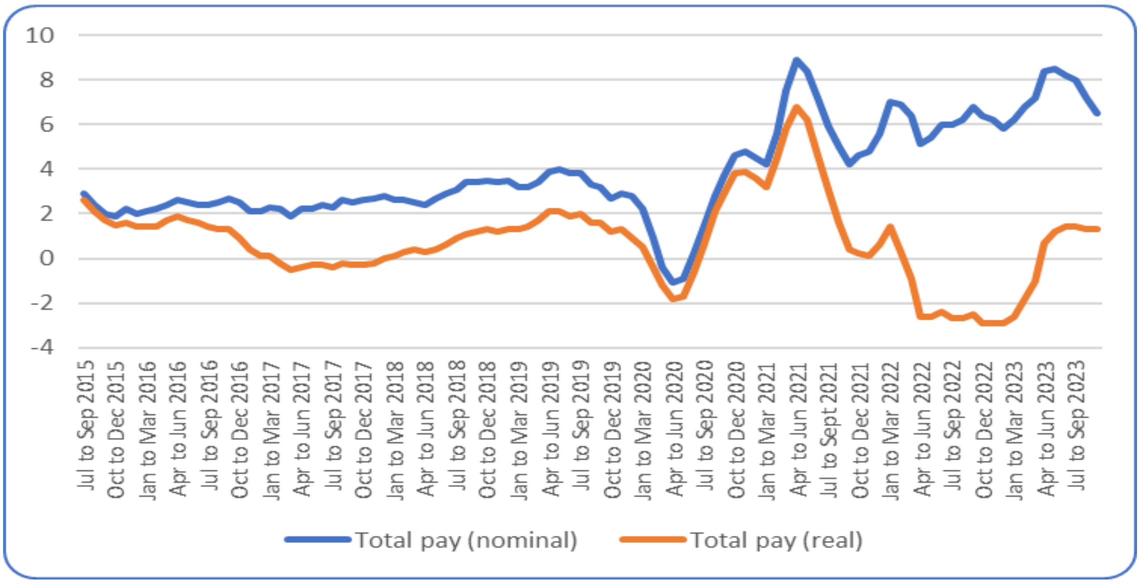



According to the latest statistics released by the ONS, annual growth in regular wages (excluding bonuses) was 6.6% in September to November 23, this growth continues to remain strong but is not as high as in recent periods. Annual average regular earnings growth for the public sector was 6.6% in September to November 2023. This growth remains strong but is not as high as in recent periods. For the private sector this was 6.4% - lower than in previous months.

In this latest period the retail and hotels and restaurants sector saw the largest annual regular growth rate at 7.2%, followed by the finance and services and manufacturing sector at 7.0%.

In real term (adjusted for inflation), total real pay rose by 1.3% annually, the same as the previous 3-month period. Real pay growth has now been positive for a few months, a consequence of the combination of the falling rate of inflation and strong nominal pay growth.

**Chart 7: 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 1.0% in December 23 compared with 12 months previous – an increase equivalent to 306,000 employees. However, payrolled employment decreased by 24,000 employees (0.1%) in. The number of payrolled employees was up by 4.1% since February 2020, an increase of c1.19m. Again, noting that this data can be subject to revision – with the December data being a 'flash estimate'. Early estimates for December 2023 indicate that there were 30.2 million 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 203,000 employees nationally), as well as education – experiencing an increase of c81,000 employees.  However, there were declines in the number of people employed in a range of sectors such as transportation and storage, construction, retail, manufacturing and accommodation and food services.

The annual growth in the number of payrolled employees across Dorset CC (year to December 23) was estimated to be 0.8%. In BCP, the ONS estimates that payrolled employees increased by 1.1%. Therefore the local authority areas broadly matched national rate of growth in payrolled employees and suggests that the local labour market is relatively robust in terms of labour demand, although there are signs that the growth in payrolled employees in the Dorset CC area has slowed slightly.

**Chart 8: Average monthly earnings**

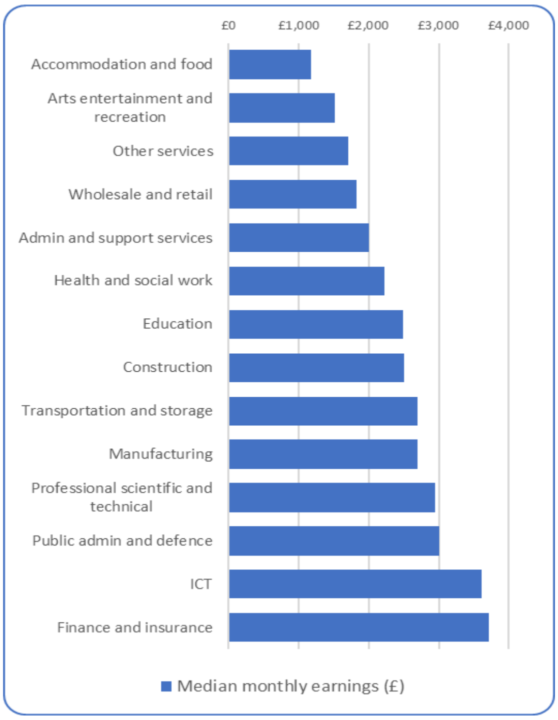
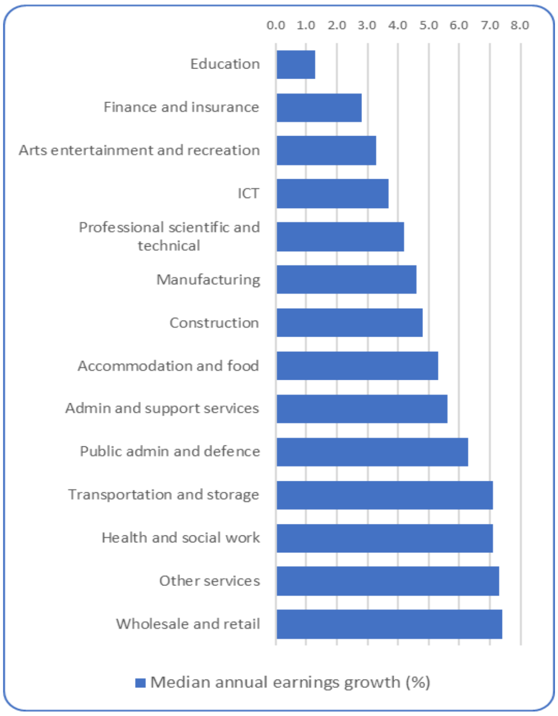



**Chart 9: Average annual pay growth**




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 December 23 was £2,102, and in Bournemouth, Christchurch and Poole (BCP) it was £2,198. This compares against a UK average of £2,331. At a national level this represented an increase of 6.6% compared with 12 months previously.

In terms of industry pay growth, at a national level the industries that have experienced the fastest pay growth have included retail, other services and health and social work (Chart 9). However, these industries tend to be starting from a lower base in terms of average monthly pay (Chart 8).

**Chart 10: Payrolled employees – UK (million)**

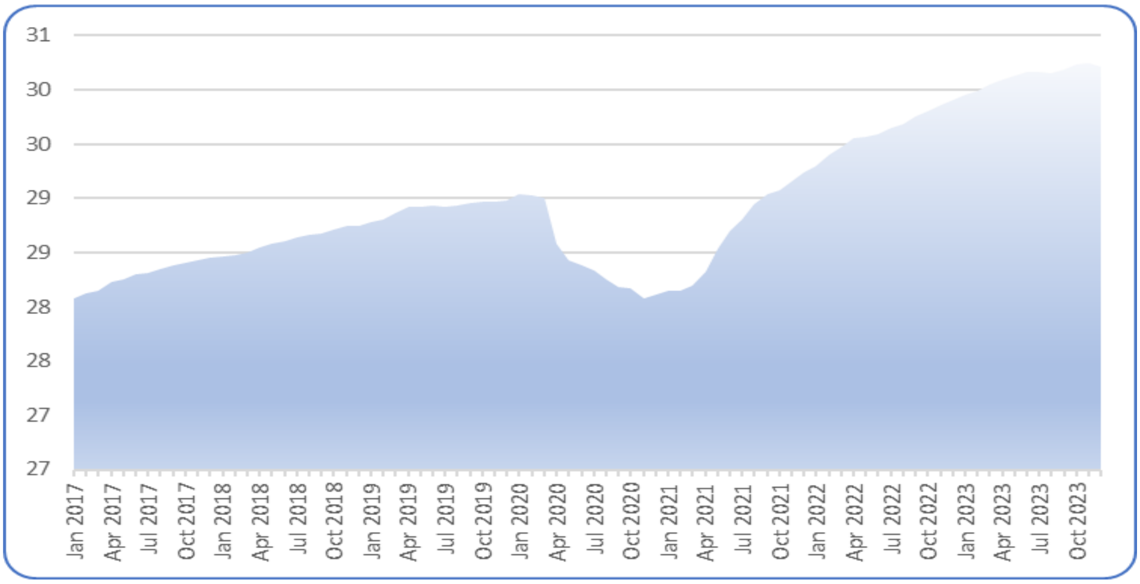
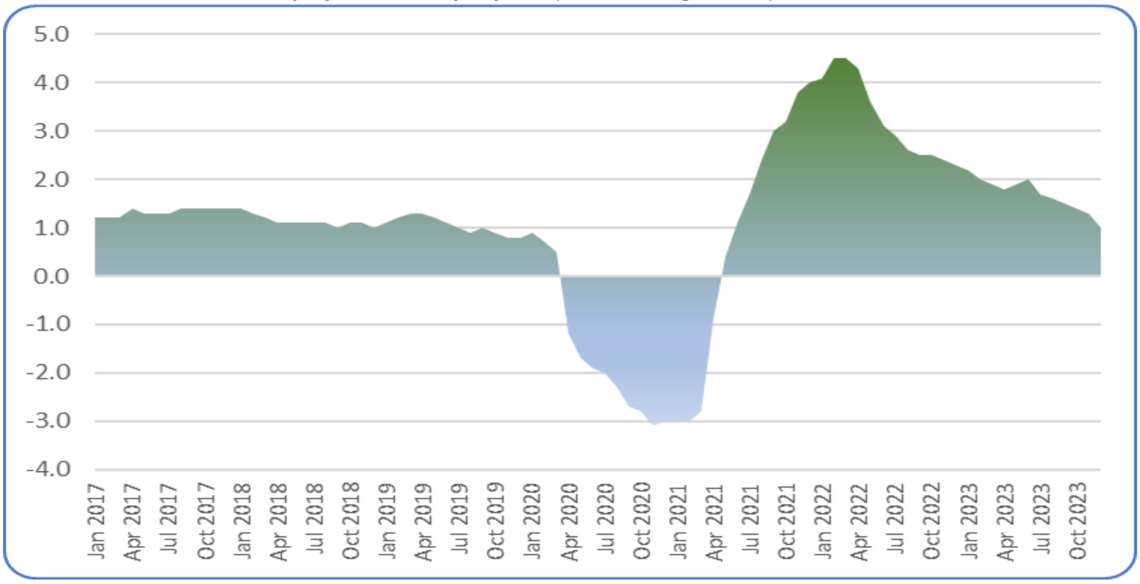


**Chart 11: Growth in UK payrolled employees (% annual growth)**




The latest statistics continues to show softening of the labour market conditions. The UK employment rate increased slightly by 0.1 percentage points (ppt) to 75.8% but has increased over 2023.

The UK unemployment rate was largely unchanged on the quarter at 4.2%, whilst the economic inactivity rate decreased by 0.1ppt was also unchanged at 20.9%.

The estimated number of vacancies fell by 49,000 on the quarter to 934,000. Vacancies fell on the quarter for the 18th consecutive period, with vacancies falling in 12 of the 18 industry sectors monitored.

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 (however, it is important to also acknowledge that the confidence intervals associated with this survey-based data is wider at smaller geographies, and this difference is within those confidence intervals). Economic inactivity appears to have fallen across both BCP and Dorset Council areas. It is important to note that local labour market statistics have not been updated since the last monthly monitor – although they will be in the middle of January 24.

**Chart 12: Number of vacancies in the UK (000s)**

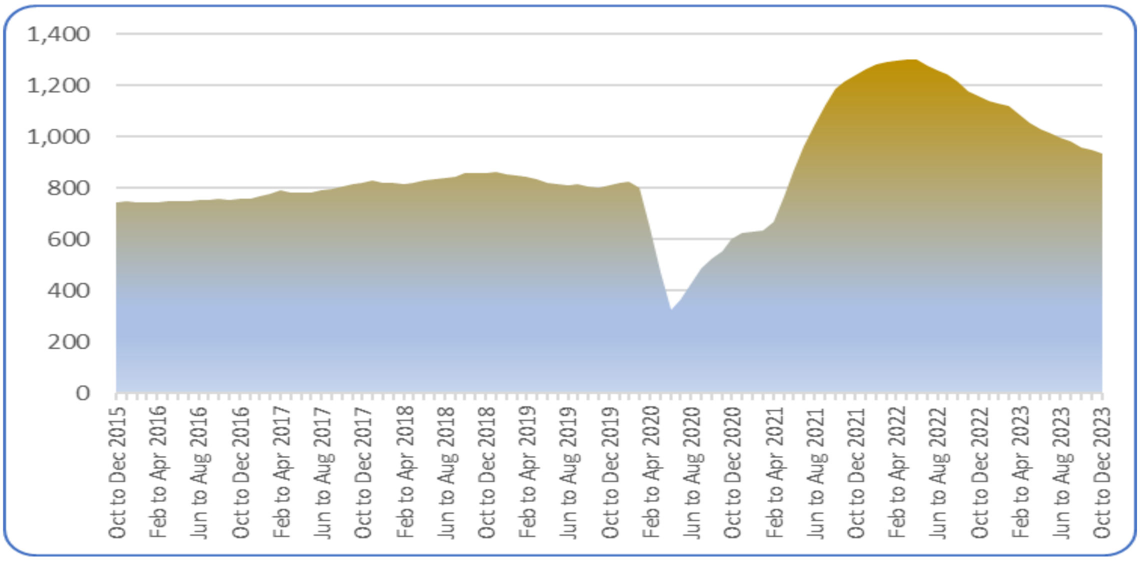



**Chart 13: Number of UK vacancies by broad business size (December 2023)**

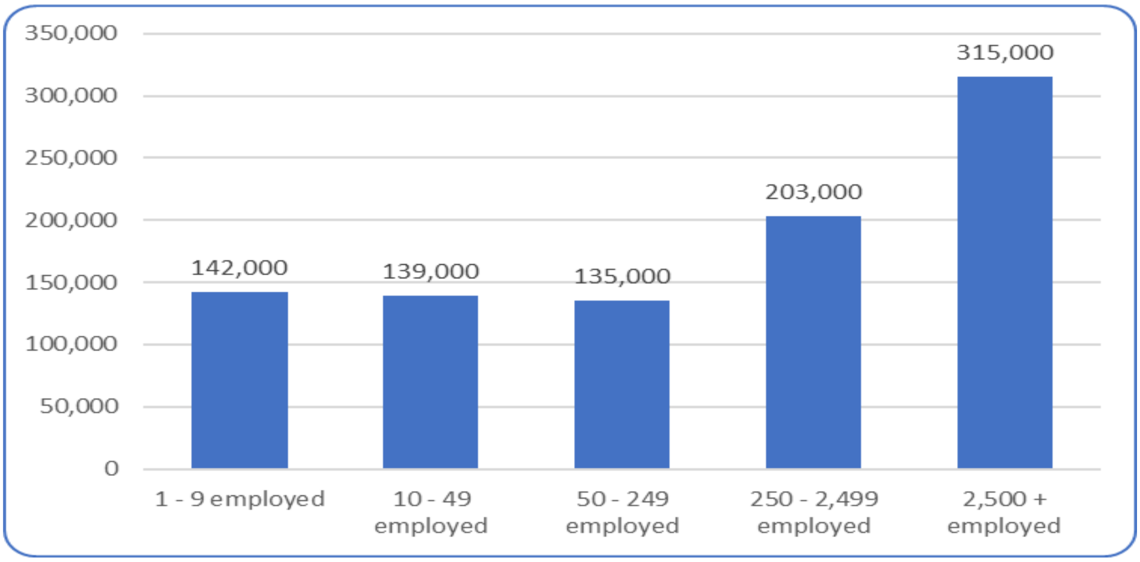
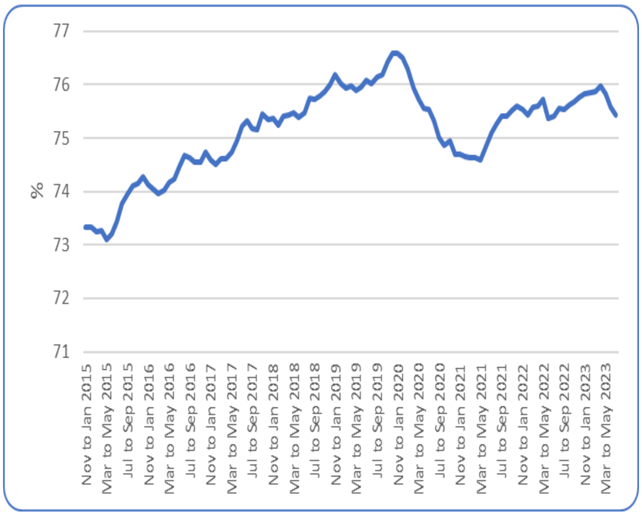
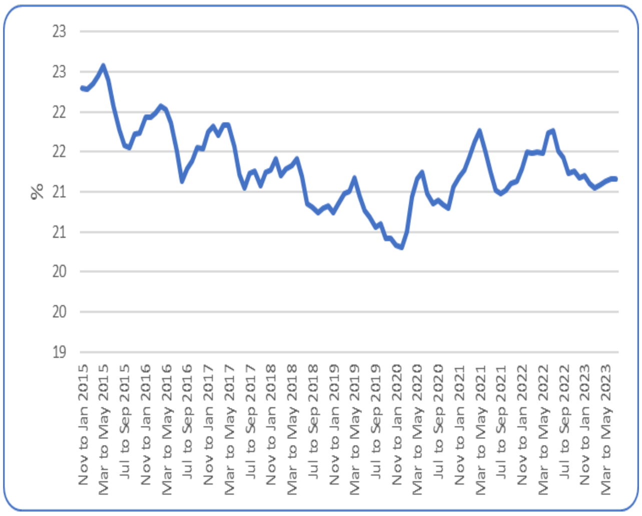



**Chart 14: Key Labour Market Statistics**

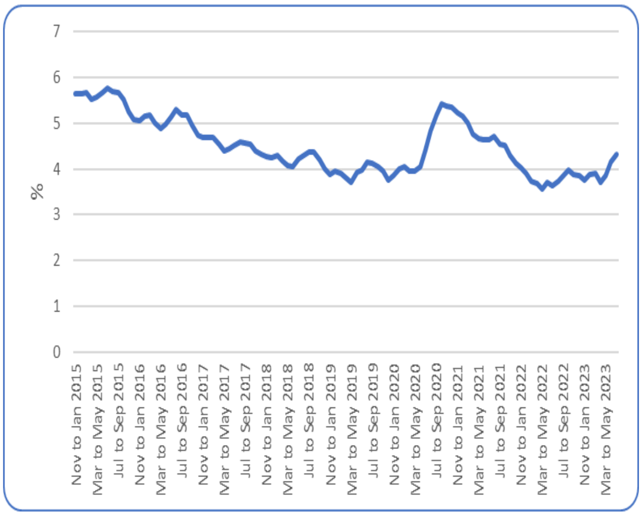
**Employment rate – UK (aged 16-64)**




**Economic inactivity rate – UK (aged 16-64)**

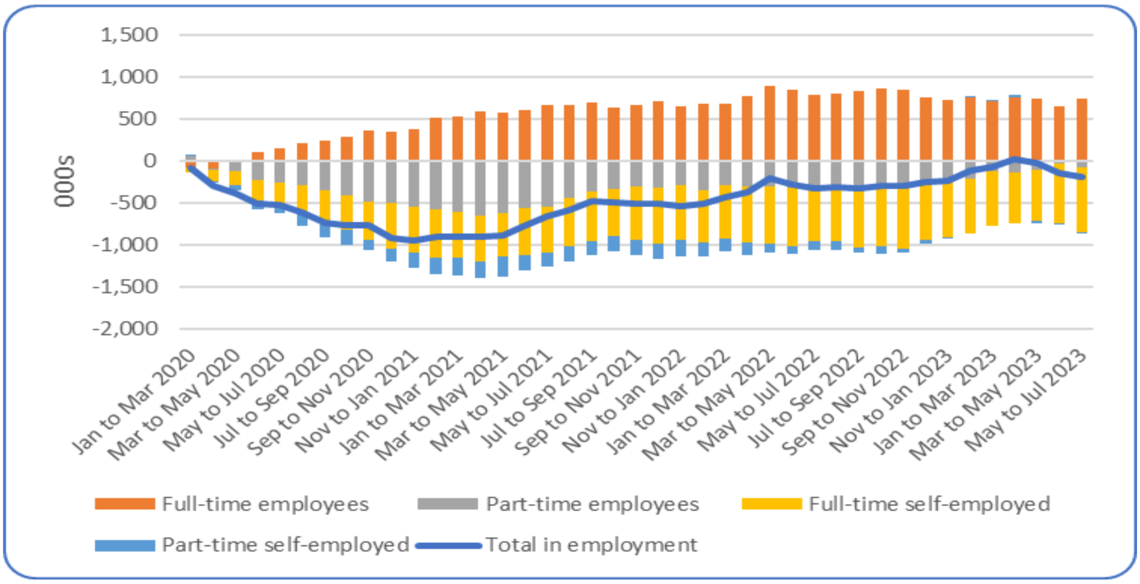


**Unemployment rate – UK (aged 16-64)**




The total number of jobs includes both employee jobs and self-employment jobs, with the latter causing the quarterly decrease in total jobs. While employee jobs increased by 43,000 on the quarter to July 2023, self-employment jobs fell by 70,000. The level of employee jobs remains around 38.5m, with self-employment levels being around 4.2m. Whilst employee jobs are around 670,000 above their pre-pandemic levels (Jan-Mar 20), this has been offset by the reduction in those self-employed - 732,000 lower in May-July 23 when compared to immediately before the pandemic.

**Chart 15: UK employees and self-employed (16+) - cumulative change 2020 to 2023 (000s)**




In May to July 2023, the number of people reporting redundancy in the three months prior to interview increased by 0.3 per thousand employees compared with the previous quarter, to 3.6 per thousand employees.

**Chart 16: Number of UK redundancies (rate per 1,000 employees)**

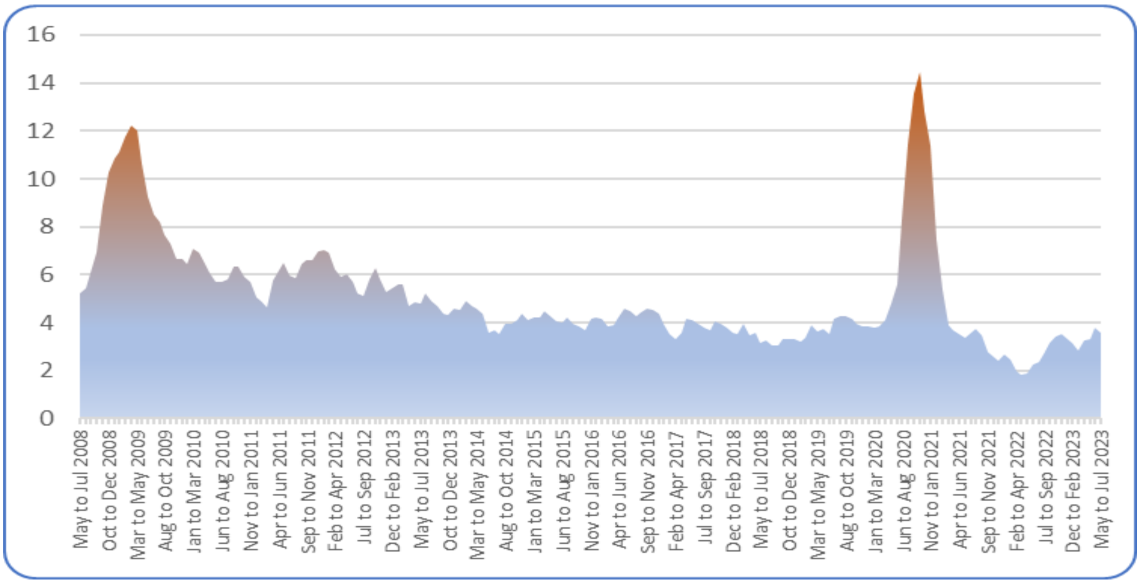



**Chart 17: Local Labour Market Statistics (% aged 16-64)**

| | Employment Rate (Oct 21-Sept 22) | Employment Rate (Oct 22-Sept 23) |
|---|---|---|
| UK | 75.4 | 75.7 |
| BCP | 76.5 | 77.9 |
| Dorset CC | 75.4 | 79.5 |

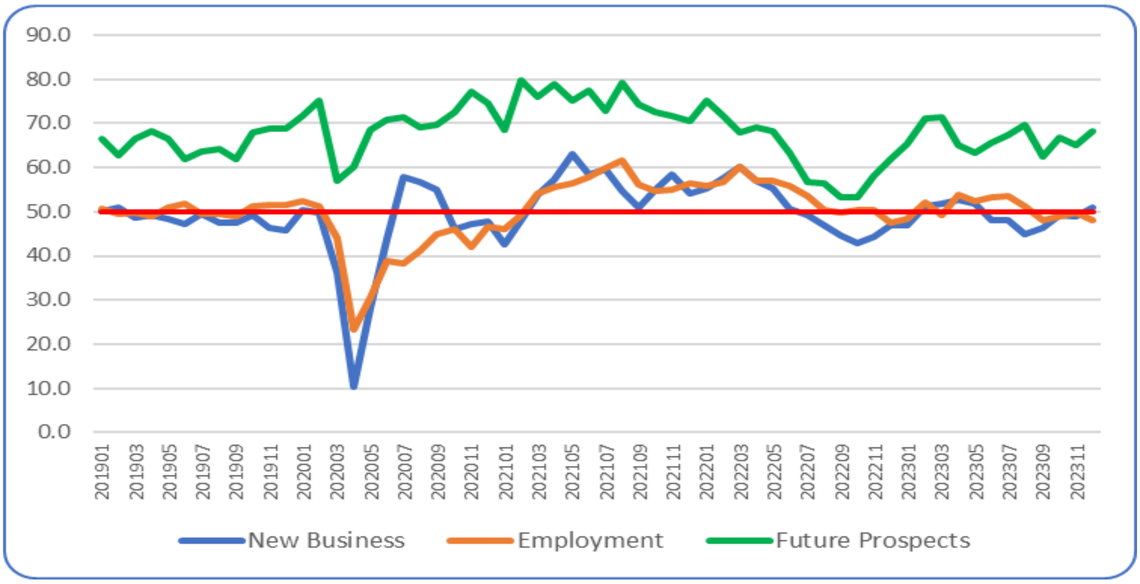
| | Unemployment Rate (Oct 21-Sept 22) | Unemployment Rate (Oct 22-Sept 23) |
|---|---|---|
| UK | 3.7 | 3.8 |
| BCP | 4.2 | 3.7 |
| Dorset CC | 2.0 | 2.5 |

| | Economic inactivity rate (Oct 21-Sept 22) | Economic inactivity rate (Oct 22-Sept 23) |
|---|---|---|
| UK | 21.6 | 21.3 |
| BCP | 20.1 | 19.1 |
| Dorset CC | 23.1 | 18.4 |

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 December) suggests South West businesses remain broadly neutral in sentiment in terms of employment and the level of new business (with sentiment turning marginally more negative in terms of the former but more positive in terms of the latter), but still hold a positive view in terms of future prospects. Business activity for South West businesses revived amid an increase in new orders, indicating a positive end to 2023. However, inflationary pressures remain a prominent feature of the survey, and although we have seen the rate of cost inflation ease notably from post-pandemic highs, it remains sharp overall. This is leading to further steep increases in selling prices and a continued squeeze on margins. Amid strong cost pressures, the indications are that businesses remain cautious around employment, and generally opted not to replace voluntary leavers.

**Chart 18: NatWest Purchasing Managers Index – South West – December 23 (>50 increasing confidence, <50 decreasing confidence)**




Moving to the housing market, the latest monthly residential market survey undertaken by the Royal Institute of Chartered Surveyors (RICs) for November pointed towards a slightly improved outlook for housing market activity, with sentiment supported by a modest easing in mortgage rates. That said, near-term sales expectations are only marginally positive at this stage, while most other indicators tracked remain in negative territory (albeit to a lesser extent than previously).

Since the RICs survey was undertaken, the average interest rate offered for new mortgages has fallen further as expectations around further future interest rate increases have eased and competition between lenders has intensified.

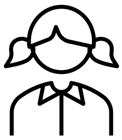
At the headline level, the net balance for new buyer enquiries came in at -14% in November. Although still consistent with a relatively soft trend in buyer demand at present, the latest reading does represent the least negative figure for this metric since April 2022. For agreed sales, the latest national net balance of -11% compares with a reading of -23% beforehand and also suggests the downward trend in sales volumes is abating (even if activity levels remain subdued when viewed in a longer-term context).

The near-term sales expectations series posted its first positive reading since early 2022, registering a net balance of +6% in November. Nevertheless, with this figure being only marginally positive, the expected recovery in sales volumes over the coming three months is relatively modest. Over the longer-term twelve-month time horizon, a net balance of +24% of respondents foresaw an improvement in sales activity, marking the most upbeat return for this forward-looking measure since January 2022. With respect to supply, the flow of new instructions coming onto the market has remained broadly stable over the past couple of months.

In terms of house prices, the survey's headline gauge posted a net balance of -43% in November. While this continues to signal a downward trend in national house prices, the latest reading is up significantly improved from October and has now turned slightly less negative in each of the last three months. As such, this suggests the pace of house price declines has moderated to a certain extent.

In the lettings market, although tenant demand continues to rise according to a net balance of +20%, this does mark the most modest reading since January 2021. At the same time, landlord instructions remain in decline, with this metric posting a net balance of -18% in November. Consequently, rents are still projected to rise by close to 4% over the next year.

## 2. Intergenerational audit



The [latest fifth intergenerational audit for the UK undertaken by the Resolution Foundation] reaffirmed some interesting findings with regards to how living standards have changed for younger generations – some of which are summarised below:

- Millennials have made progress on employment in the labour market, but pay progression remains close to zero. In fact, younger millennials, born in the late 1980s, earned on average 8% less at age 30 than members of generation X, born 10 years prior, at the same age.

- The UK is not alone in experiencing a slowdown in generational wealth progress. Millennials in the US have also, on average, lower family wealth compared to their generation X and baby boomer counterparts.

- Graduate pay, in particular, has underperformed since the financial crisis. The typical weekly pay of graduates aged 30-34 has fallen by 16% between 2007 and 2023, while the typical weekly of non-graduates is down by 6%.

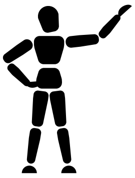
- Policy changes made by successive governments have acted as a drag on incomes in the UK. The personal tax and benefit changes implemented since 2010 have left non-pensioners more than £2,200 a year worse off on average, while pensioners are less than £200 a year worse off.

- Home ownership rates among younger cohorts have fallen sharply in the UK. Between 1986 and 2021, home ownership rates for households headed by 30-34-year-olds had fallen by over 20 percentage points in the UK, compared to just 3 percentage points in the US.

- Home ownership rates among those in their early thirties have started to improve in recent years in both the UK and the US. Looking ahead, millennials are expected to become a generation of home owners (where 50% own their own home), but this looks set to take them more than five years longer than it did in their parents' generation.

- The decline in the availability of generous defined benefit (DB) pension schemes means that future cohorts will retire with less pension wealth than the generations that came before them. Millennials born in the early 1980s could reach age 60 with around £45,000 less pension wealth than the youngest baby boomers (born between 1961-65).

## 3. AI and impact on labour market



The latest in a long line of publications and research on the growing and potential impact of AI on the global labour market has been [released by the International Monetary Fund (IMF).] The publication notes that there seems top be some consistent patterns concerning AI exposure. Women and college-educated individuals are more exposed but also better poised to reap AI benefits, and older workers are potentially less able to adapt to the new technology. Labour income inequality may increase if the complementarity between AI and high-income workers is strong. However, if productivity gains are sufficiently large, income levels could surge for most workers. In this evolving landscape, advanced economies and more developed emerging market economies need to focus on upgrading regulatory frameworks and supporting labour reallocation i.e. helping people shift roles/jobs while safeguarding those adversely affected.

The IMF estimates that almost 40% of global employment is exposed to AI (up to 60% in advanced economies), with advanced economies at greater risk but also better poised to exploit AI benefits than emerging market and developing economies.

AI will affect income and wealth inequality. Unlike previous waves of automation, which had the strongest effect on middle-skilled workers, AI displacement risks extend to higher-wage earners.