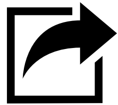
Dorset LEP - Monthly Economic Commentary – March 2024

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) shows an economy that continues to 'flip-flop' between marginal growth and marginal decreases – in combination an economy that continues to struggle to maintain any growth momentum.

Monthly GDP (which is always subject to revisions) is estimated to have grown by 0.2% in January 2024, but when considered on a three-month basis it is estimated to have fallen 0.1% (end of January) when compared to the previous three months. At a broad sector level, the picture of a changing picture (as reflected in the data) can also be seen. In few parts of the economy can a picture of consistent or steady growth be seen. Whilst the service sector grew by 0.2% in January, in the three-month period leading to the end of January it showed no growth. Production output fell by 0.2% on a monthly and three-monthly basis. Construction output grew by 1.1%, but over a three-month period output fell by 0.9%. Output in consumer facing services showed no growth in the three months to January 2024, although it did grow quite strongly in January (0.6%) after a significant fall in December 23 (0.9%)

Chart 1: Monthly UK GDP (2019=100)

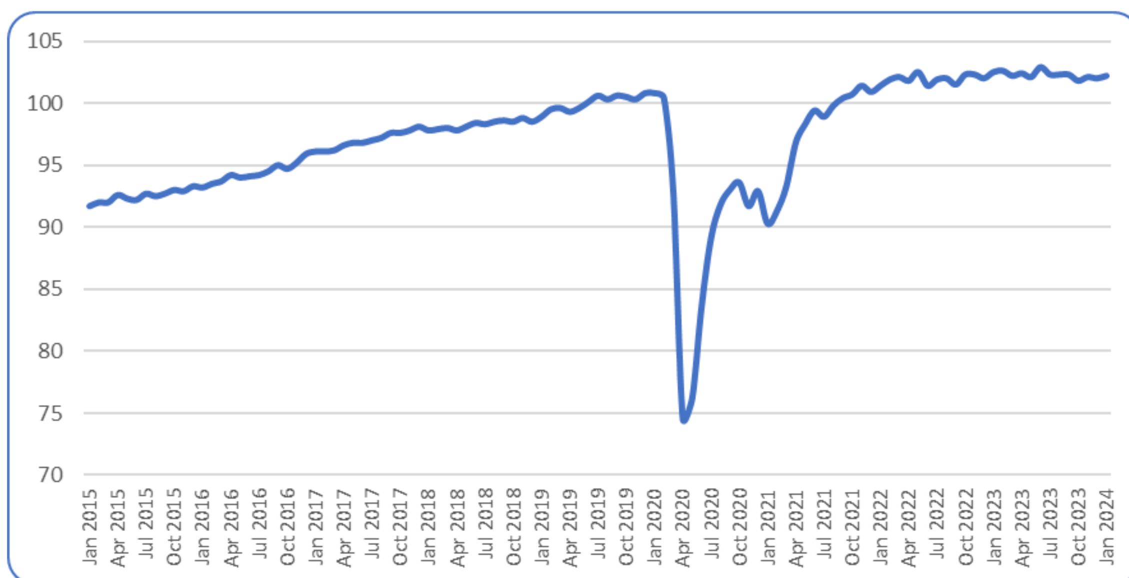


Chart 2: Contributions to monthly GDP growth (percentage points)

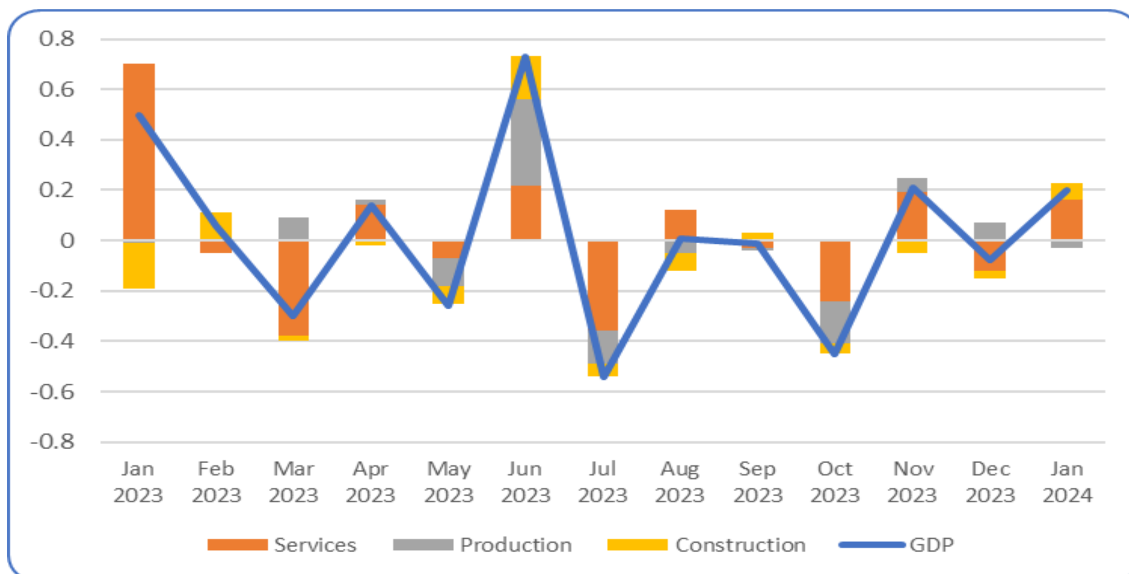
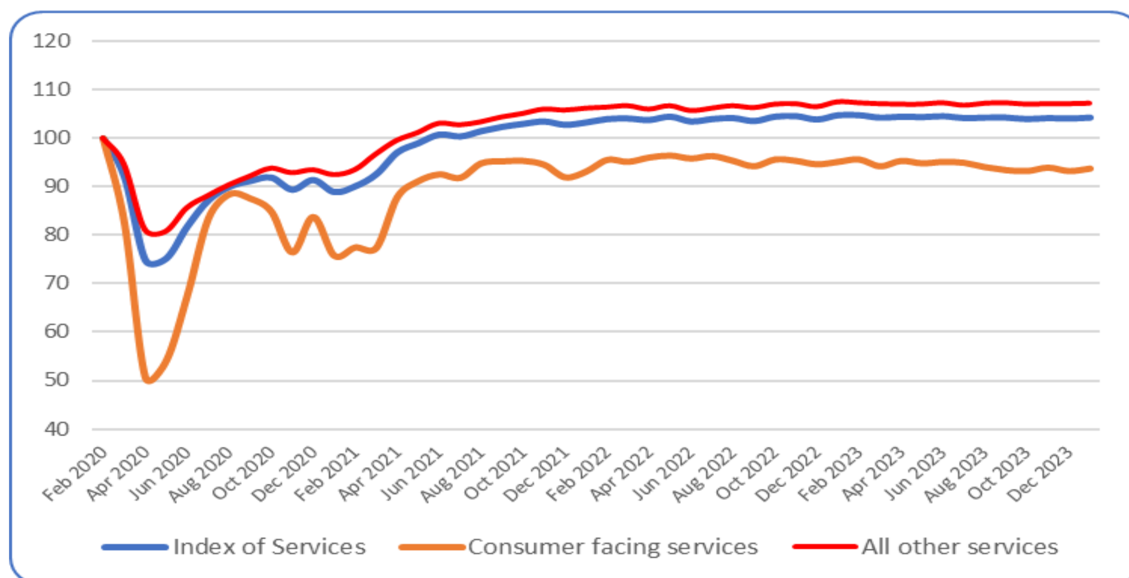


Chart 3: Consumer-facing services in Great Britain (volume) (2020=100)



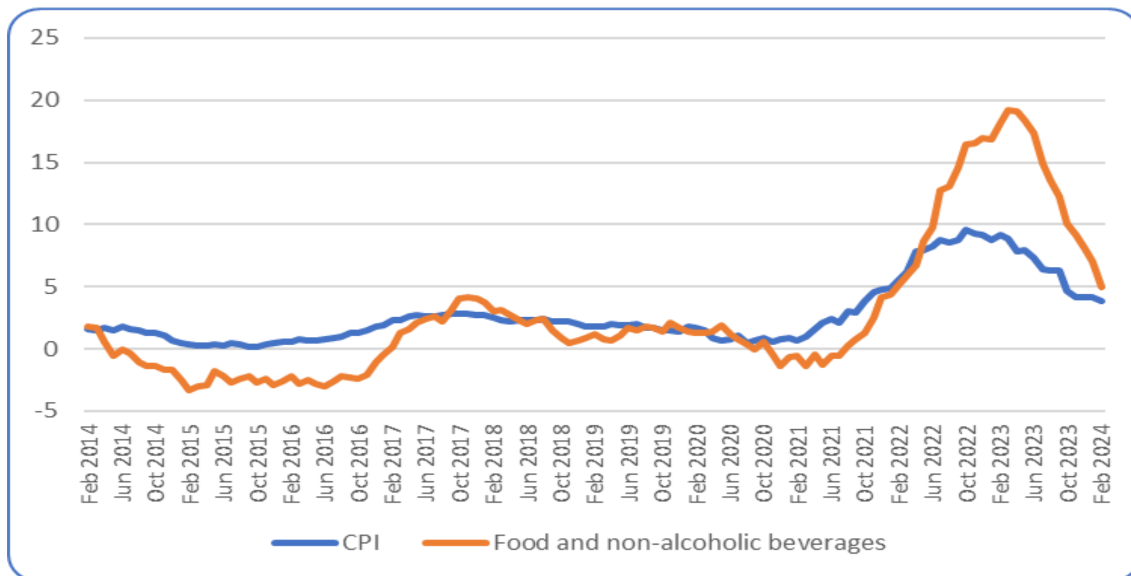
The latest inflation data for February 24 has seen some significant and political interest, with the Prime Minister recently citing it as evidence that the UK economy is about to rebound strongly in light of the falling prices and cost pressures on businesses.

The Consumer Price Index (CPI) rose by 3.4% in the 12 months to February 2024, down from 4.0% in January. The annual inflation rate is now at its lowest since the Autumn of 2021. The largest downward contributions to the monthly change in annual rates came from food, and restaurants and cafes, while the largest upward contributions came from housing and household services, and motor fuels.

Prices for food and non-alcoholic beverages rose by 5.0% in the year to February 2024, down from 7.0% in January. The February figure is the lowest annual rate since January 2022. The rate has eased for the eleventh consecutive month from a high of 19.2% in March 2023, the highest annual rate seen for over 45 years.

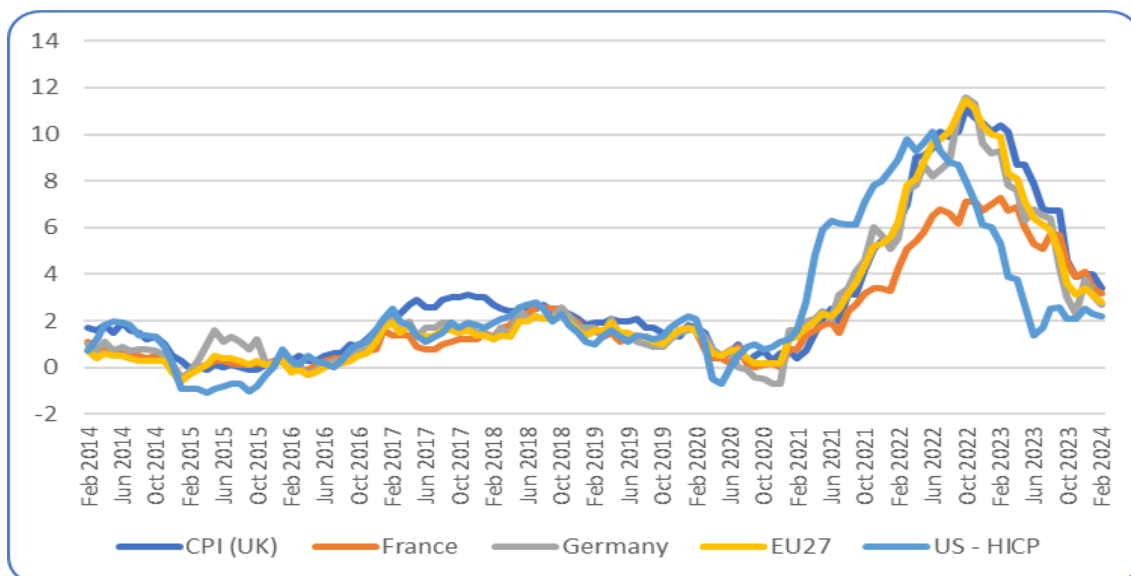
Despite easing cost pressures, the Bank of England still decided to keep interest rates unchanged in its latest March meeting, believing it is still too early.

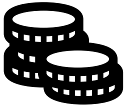
Chart 4: Consumer Price Inflation and Food Inflation (% annual increase)



The fall in UK inflation has broadly followed the trends seen elsewhere in other major economies, although it began to fall in the US earlier than in Europe. This reflects that many of the factors that have kept domestic prices and costs high have been due to global issues, often geopolitical.

Chart 5: Comparison of inflation rates in major economies



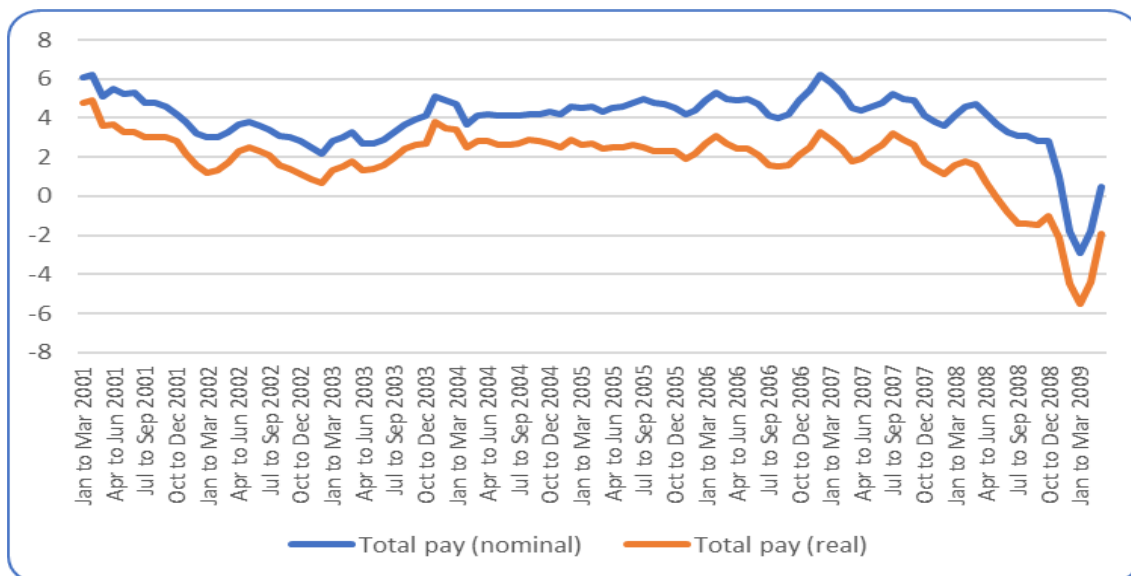


[According to the latest statistics released by the ONS](), annual growth in regular wages (excluding bonuses) was 6.1% in November 23 to January 24, this growth continues to remain strong but is not as high as in recent periods. Annual average regular earnings growth for the public sector was 5.9% in November 23 to January 24. This growth remains strong but is not as high as in recent periods. For the private sector this was 6.1% - lower than in previous months.

The wholesaling, retailing, hotels and restaurants sector saw the largest annual regular growth rate at 7.2%; the manufacturing sector and finance and business services sector both followed at 6.8% and 6.6%, respectively.

In real term (adjusted for inflation), total real pay rose by 1.4% 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 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 continued to increase - by 1.2% in February 24 compared with 12 months previous – an increase equivalent to 368,000 employees. The UK labour force continues to add jobs which is an encouraging sign. Payrolled employment increased by 20,000 employees in February when compared to January, although it should be treated as a provisional estimate (for example, the figures for Jan 24 have been revised downwards).

The increase in payrolled employees in the year to February was largest in the health and social work sector (a rise of 210,000 employees), and followed by education. There were falls in a range of sectors such as ICT, accommodation and food services, and manufacturing.

Chart 7: Payrolled employees, seasonally adjusted – UK (millions)

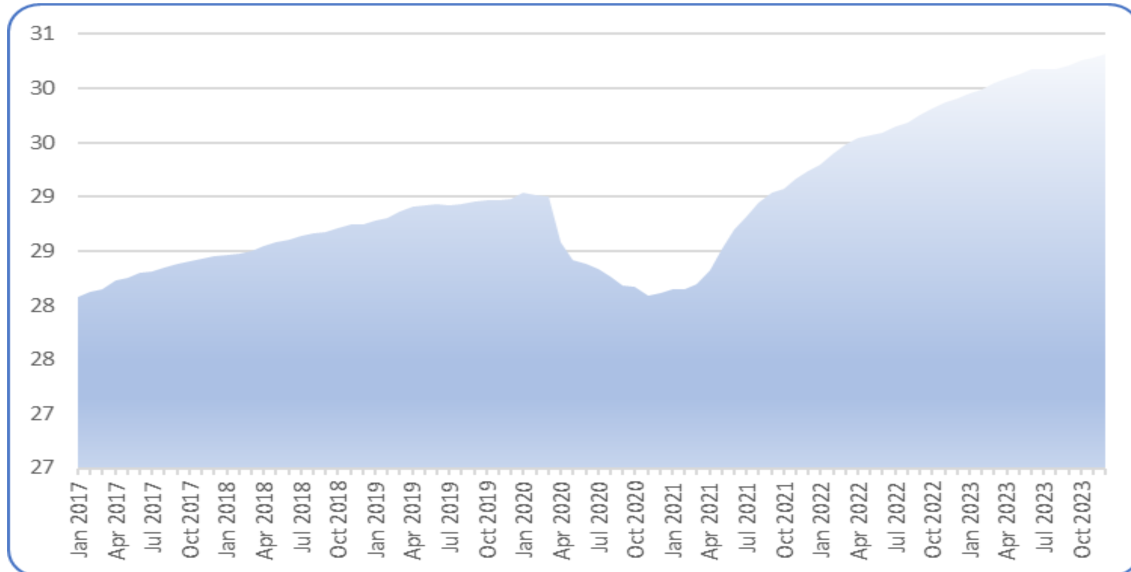
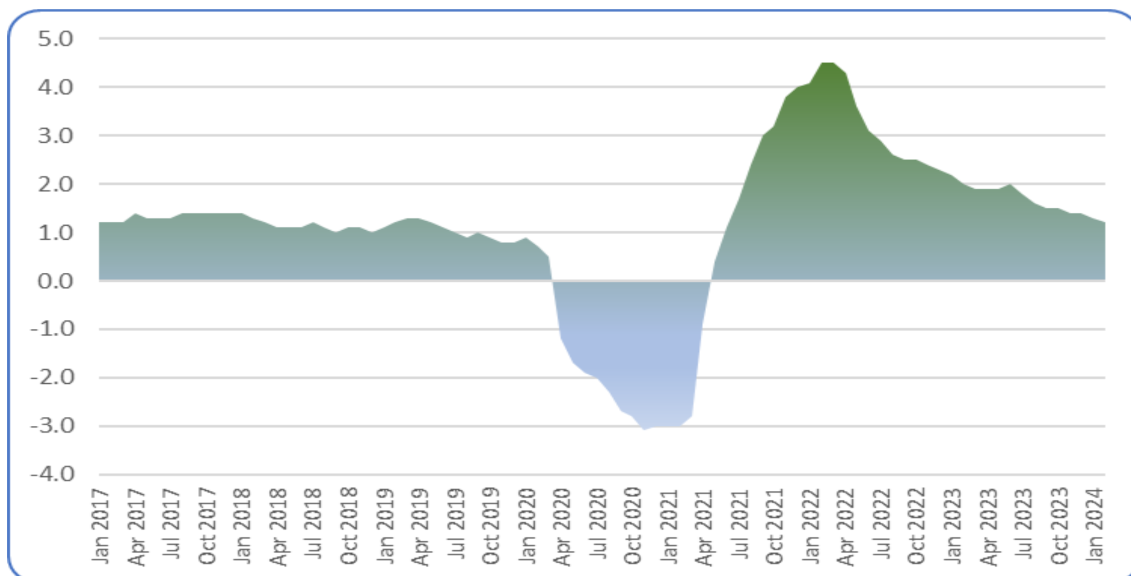


Chart 8: Annual change (%) in payrolled employees - UK



The annual growth in the number of payrolled employees across Dorset CC (year to February 24) was estimated to be 1.2%. In BCP, the ONS estimates that payrolled employees also increased by 1.1%. Therefore the local authority areas continued to match the national rate of growth in payrolled employees and suggests that the local labour market is relatively robust in terms of labour demand. In broad terms – when measured by the growth of payrolled employees – the local trends have remained very similar to national trends for a period of time.

Chart 9: Average monthly earnings

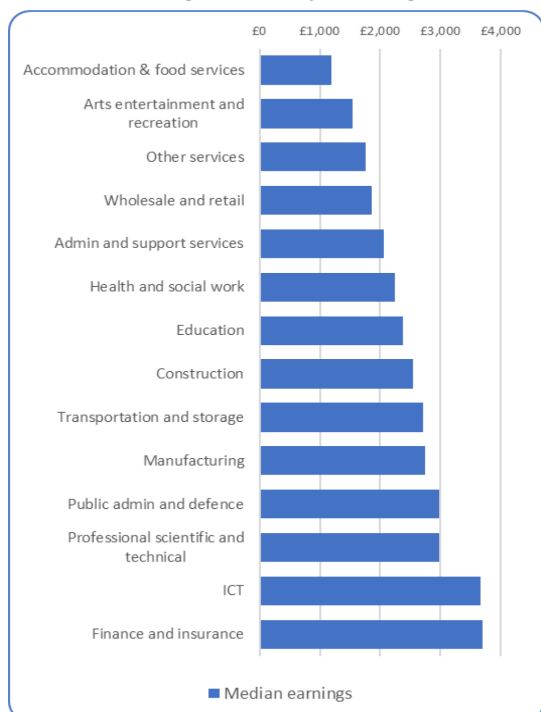
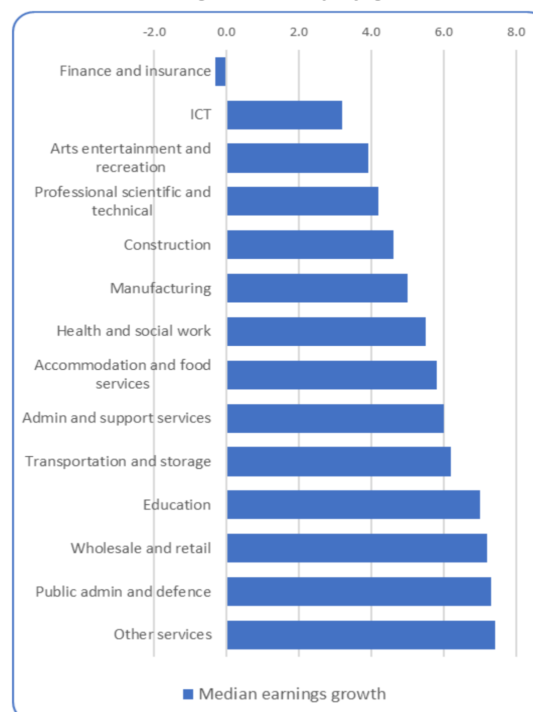


Chart 10: Average annual pay growth



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 February 24 was £2,131, and in Bournemouth, Christchurch and Poole (BCP) it was £2,216. This compares against a UK average of £2,331. At a national level this represented an increase of 5.5% 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 other services and public admin and defence, as well as sectors such as whole and retail (Chart 10). However, some of these industries tend to be starting from a lower base in terms of average monthly pay (Chart 9). At a national level (Chart 9) there is a significant difference in pay across broad industries.

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

Key local labour market indicators (Oct 22-Sep 23)				
	Employment rate (aged 16-64)	Unemployment rate (aged 16-64)	Economic inactivity rate (aged 16-64)	Claimant Count proportion (%)
UK	75.7	3.7	21.3	3.6
BCP	77.9	3.2	19.1	3.2
Dorset Council	79.5	2.5	18.4	2.3

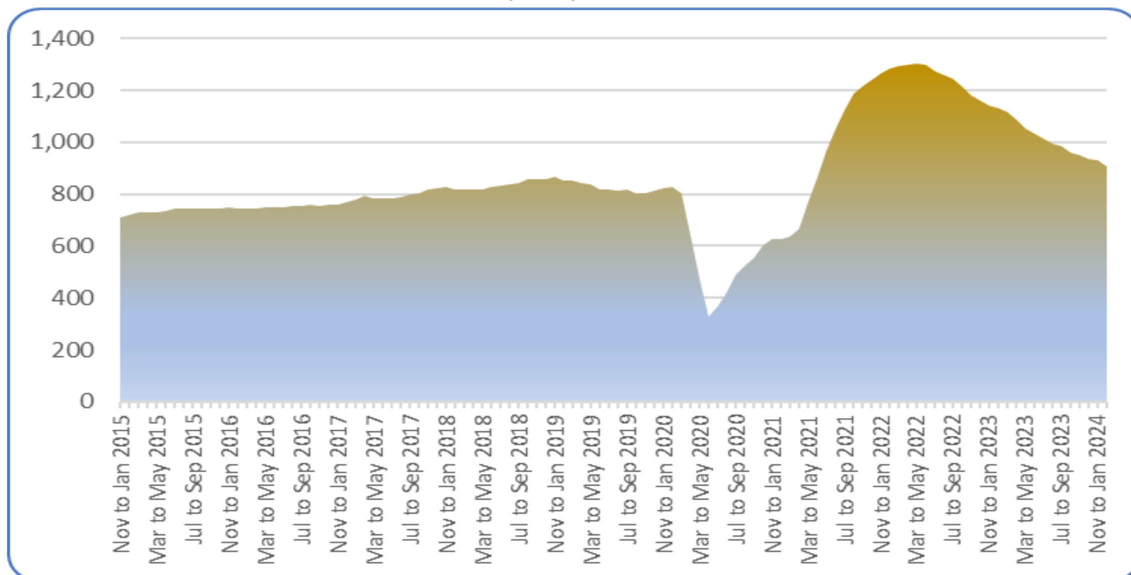
The latest labour market statistics continues to show that the labour market – whilst perhaps softening a little – still remains robust when considered on a range of indicators. The UK employment rate (of working age people) remained the same at 75%, a negligible fall of 0.1 percentage points in the quarter, but 1.2 percentage points lower than the same period in 2023.

The UK unemployment rate was largely unchanged on the quarter at 3.9%, whilst the economic inactivity rate increased by 0.1ppt (in the quarter) at 21.8%, although this was 1.3ppts higher than the same period 12 months ago. After falling for much of 2022, economic inactivity has increased again for several months and through most of 2023. The number of people not actively looking for work has again gained a lot of media and political interest.

The estimated number of vacancies fell by 43,000 on the quarter to 908,000 and are now 107,000 lower than a year previously (and its peak in 2022). Vacancies fell on the quarter for the 20th consecutive period, with vacancies falling in 14 of the 18 industry sectors monitored.

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

Chart 11: Number of vacancies in the UK (000s)

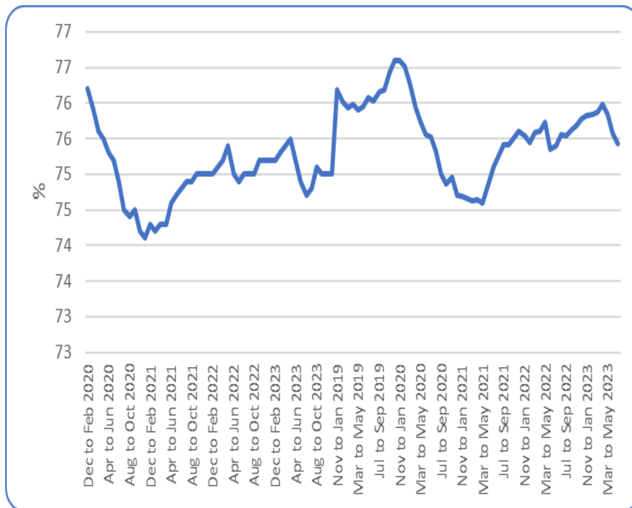


New Households Below Average Income (HBAI) data for 2022-23, recently released by the Department of Work & Pensions (DWP), sheds fresh light on the continuing cost of living crisis, with households across the income distribution experiencing a fall in real household incomes, due to 10%+ inflation that has been in place.

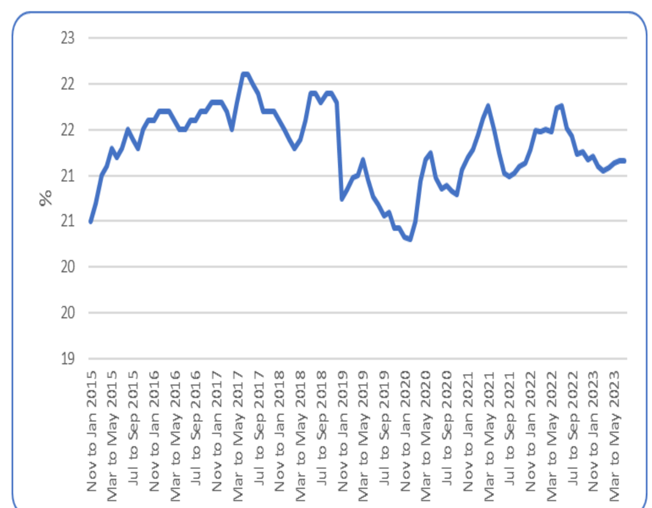
Across the UK, the share of people living in absolute poverty rose from 17% to 18% (up by 600,000 people to 12 million), with the child poverty rate jumping by 2 percentage points to 25% (up by 300,000 to 3.6 million children). Food insecurity rose at the same time, from 7% to 10% of households (a rise from 5 to 7 million people) – including 41% of households on Universal Credit.

Chart 12: Key Labour Market Statistics

Employment rate – UK (aged 16-64)



Economic inactivity rate – UK (aged 16-64)



Unemployment rate – UK (aged 16-64)

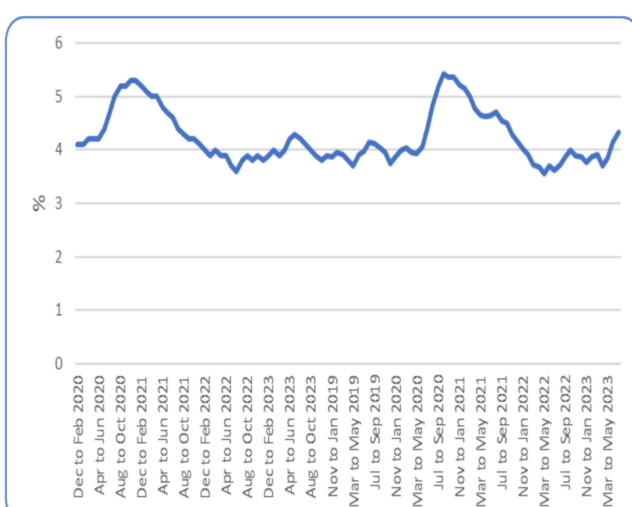
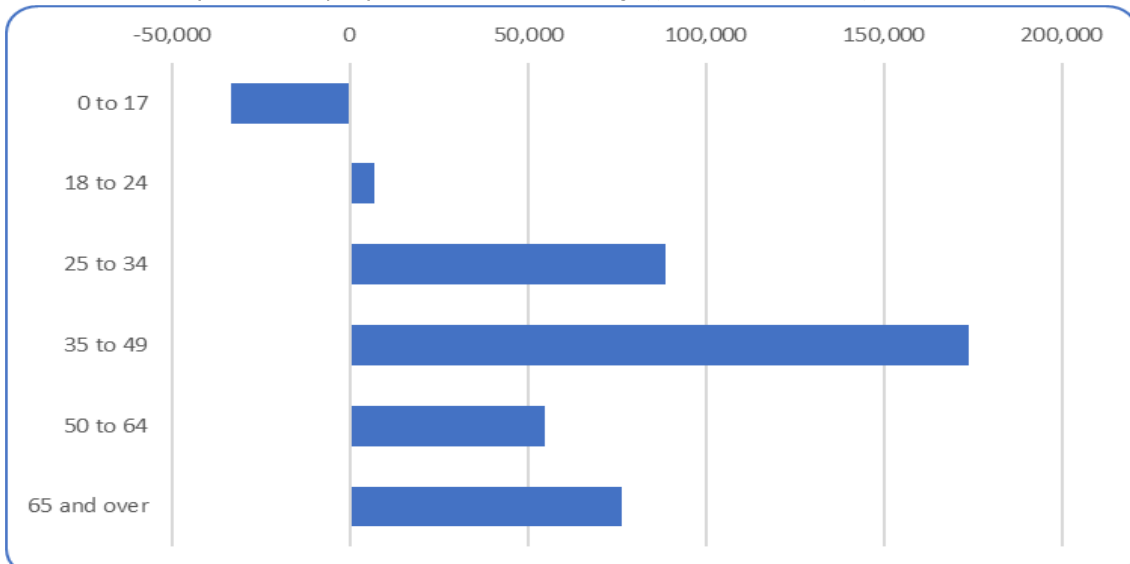
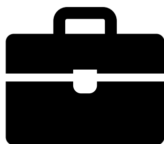


Chart 13: UK Payrolled employees – absolute change (Feb 23 to Feb 24)



2. 2024 Spring Budget



The Chancellor delivered his Spring Budget in March, the final one before an expected General Election later in 2024. Therefore, it was seen as politically charged. The key points (from an economics perspective) are summarised in brief below:

- A 2p cut to the main rates of employee and self-employed National Insurance Contribution (NIC). This is on top of the 2p cut that took effect in January 24. The Chancellor outlined that this would benefit everybody who earnt more than £12,570 per year in cash terms. However, commentators such as the Institute of Fiscal Studies (IFS) highlighted that the benefit of these NIC cuts are outweighed by the continued freeze of tax thresholds for many, but this would differ across the earnings distribution. The IFS estimated that around one-third of all employees will benefit in 'net terms', primarily those earning between £32,000-£55,000 per year. Taxpaying employees earning less or more than that will lose out in net terms.

- An increase in the point at which families start losing child benefit – from £50,000 per year (for the highest-income parent in a household) to £60,000. This is combined with halving the rate at which child benefit is tapered beyond this threshold point.

- Alongside the budget, the Office of Budgetary Responsibility (OBR) slightly reprofiled its forecast for economic growth, with a downward revision in 2023 and 2024 counterbalanced by growth later in its forecast period.

- The OBR now forecasts that there will be lower spending on debt interest due to lower than expected interest rates and inflation (when compared to its November forecasts).

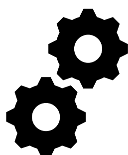
- The Chancellor left his provisional post-election spending plans effectively unchanged, despite reports that he would cut them back to 'fund' tax cuts. Some of the few notable spending announcements related to the NHS. First was an additional £2.5bn of day-to-day spending for 2024–25. Second was an additional £3.4bn of capital funding for the NHS in England, to fund investments in technology and productivity-enhancing service improvements. But all of this investment spending is to come after the election, from 2025–26 onwards. He has promised this extra spending, but it will be for the next government to deliver (and fund) this in the next Spending Review.

- The 'windfall tax' on the profits on energy companies which was scheduled to be introduced in 2028 was extended until March 2029. This was accompanied by an announcement of an additional £120mn for a government fund that invests in green energy projects.

- Tax breaks for owners of holiday let properties to be scrapped. The stamp duty tax break when purchasing multiple properties in England to end in June 24.

- Threshold at which small businesses must register to pay VAT raised from £85,000 to £90,000 from April. The Covid-era government loan scheme for small businesses extended until March 26.

3. Productivity Research – solving the 'productivity conundrum'



The Productivity Institute is funded by the Economic and Social Research Council and is a multi-organisation, multi-discipline institute focused on the puzzle that is the UK's continued sluggish productivity growth. It produces a range of research and insight into the UK's 'productivity conundrum'. Productivity growth – that is the increase in output per hour worked – in the UK has been virtually non-existent since the financial crash in 2008. The productivity growth rate lags significantly behind countries like Germany and France, and even further behind the US.

The Institute releases regular insights and commentary – including through social media channels. It often summarises the key issues that have been identified from empirical research, some of which are highlighted below. It is a multi-faceted complex issue. If it were easy to fix, then it would have been done a long time ago. However, the Productivity Institute have identified three key challenges for the UK (all of which apply to Dorset and are highlighted here for local policy makers:

- **Chronic and broad-based underinvestment in the UK economy -** The UK has experienced a slowdown in investment growth in recent decades that is broad-based, including both public and private capital. The weak investment is across industries, but is especially notable in manufacturing, finance and insurance, and business services. Capital investment is also unequally distributed across the UK regions. There is significant variation both between high and low productivity regions of the UK, and also large variation within regions.

  Underinvestment is also visible in training and the development of skills. Despite gains in terms of the share of higher educated people in the workforce, the lack of investment has trapped many UK firms in a low-skill, low-wage, low-productivity mode of operation. This has created a vicious cycle where, once the demand for high-level skills evaporates, so do the incentives to supply such skills through education and training. This helps to explain the declining trend of firms providing training, as they lack incentives to take steps such as developing advanced skills modules via further education colleges and other providers.

  The growth of capital deepening in intangible capital, including assets like research and development (R&D) and software, as well as marketing, branding etc. has held up better than that for tangible assets such as equipment, buildings etc. However, this has not yet been translated into a recovery in productivity across the whole economy.

- **Inadequate diffusion of productivity-enhancing practices between firms and places** – The Institute notes that The UK is very active at the frontier of science and knowledge creation. It is regarded as one of the most innovative nations, ranking fourth in the 2023 edition of the Global Innovation Index. Yet its presence in its main areas of specialisation – notably artificial intelligence, quantum technology and synthetic biology – is rather narrow and involves relatively few companies.

Nevertheless, the productivity growth contribution from UK firms in the top decile (top 10%) of the distribution of firms' (level of) productivity is very strong, according to firm-level data from the ONS. It has not shown any sign of dropping off and is now contributing the bulk of current overall productivity growth.

In contrast, the firms with lower levels of productivity have accounted for the lion's share of the productivity slowdown seen across the UK since the financial crisis. These firms, which have the potential to be productive, have not benefited from the diffusion of technology and innovation from the most productive companies. Diffusion of innovative practices and knowledge from the 'best' to the 'rest' is highly important in terms of increasing overall productivity growth levels in a given area (and this applies as much to a local area as to the whole of the UK).

- **Institutional fragmentation and lack of joined-up policies** – The UK is characterised by a dichotomy in policies and institutions that affect productivity. On the one hand, many pro-productivity policies are highly centralised, including education, innovation, transport, planning and regional development. On the other hand, the institutional landscape of productivity-supporting institutions is highly fragmented in terms of function and location, ranging from local and combined authorities to the governments of the devolved nations. It also includes city deals, town funds, LEPs and local skills improvement plans.

  In other countries, 'mid-level' governments typically have substantial devolved responsibilities for policies with a big impact on productivity. This is particularly the case with infrastructure and planning. Examples of turnaround cities that have faced similar challenges from post-war deindustrialisation suggest that the journey has been made more difficult in the UK because of a lack of devolved government, coordinated policy-making and sustained funding.

  This means that in the UK it is difficult for any national government policy to be translated into effective local policy. At the same time, local governments are under-resourced and lack the authority to develop and implement a place-specific and integrated investment strategy.