Dorset LEP - Monthly Economic Commentary – May 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 indicated that the UK economy was moving out of recession. Real GDP is estimated to have increased by 0.6% in the three months to March 2024, on a monthly basis it is estimated to have grown 0.4% in March (noting these figures are often subject to revision).

This was largely driven by growth in the service sector – increasing by 0.5% in March 2024. Production output grew by 0.2% following growth of 1.0% in February (marginally revised down from previous estimate). Construction output fell by 0.4% after a fall of 2% in February and fell by 0.9% in the three months to March 24. This suggests that construction remains under some continued pressure. Many commentators have called for a reduction in interest rates to lower borrowing costs – but for now the Bank of England (BoE) have maintained rates. Output in consumer facing services grew by 0.6% in the three months to March 24.

Consumers continue to borrow to maintain spending levels – as shown in the latest statistics released by the BoE. The annual rate of credit card spending growth is near 12% (c9% for all consumer borrowing), 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 £1.6bn in February, up from £1.4bn in February. Countering this, in March households deposited an additional £8.5bn with banks and building societies, the highest net inflow since October 2022.

The 'effective' interest rate – the actual interest paid – on newly drawn mortgages decreased to 4.73% in March. Individuals borrowed, on net, £0.3bn of mortgage debt in March, compared to £1.6bn in February. The annual growth rate for net mortgage lending remained slightly negative at -0.1% in March. Gross lending rose from £18.6 billion in February to £20.1 billion in March, its highest amount since February 2023. Likewise, gross repayments increased from £16.6 billion to £19.5 billion over the same period.

Chart 1: Monthly UK GDP (2019=100)

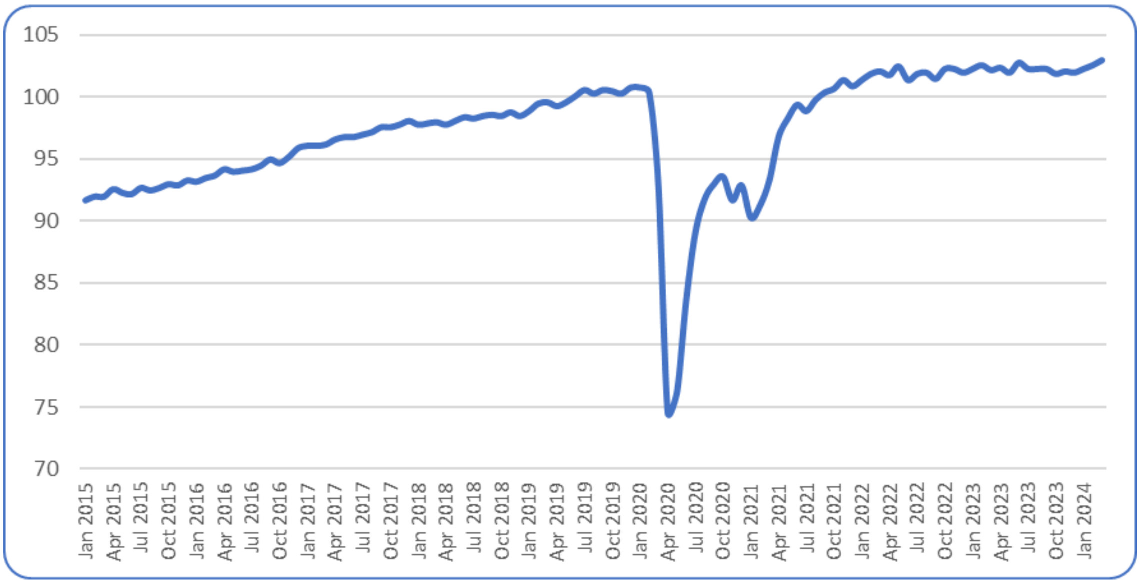


Chart 2: Contributions to monthly GDP growth (percentage points)

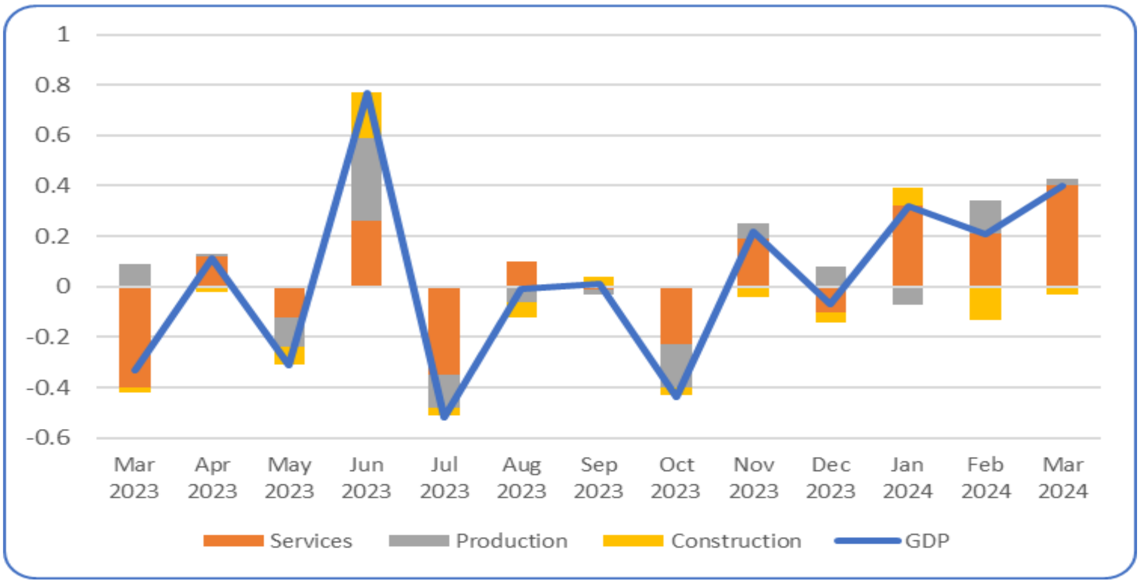
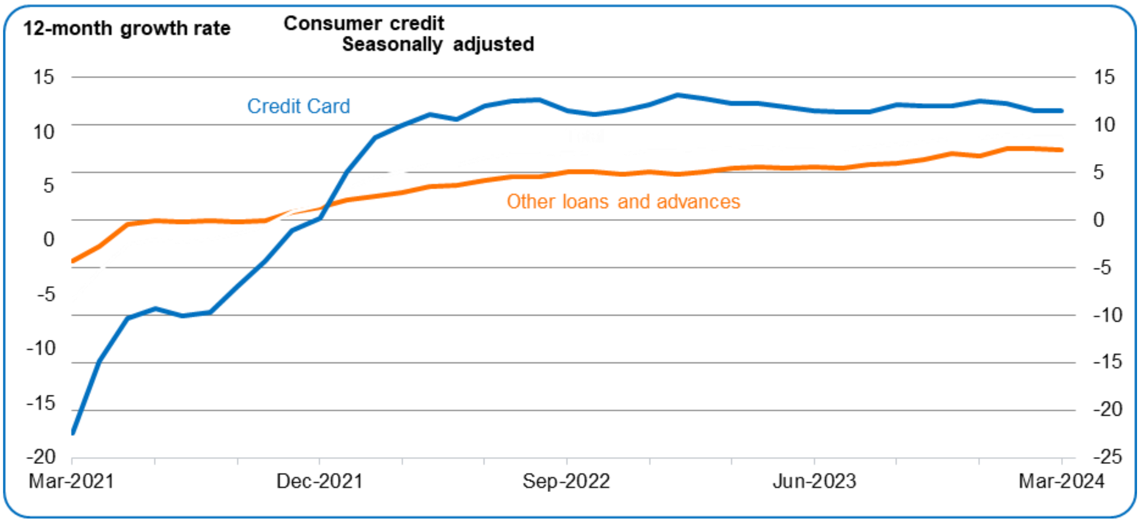


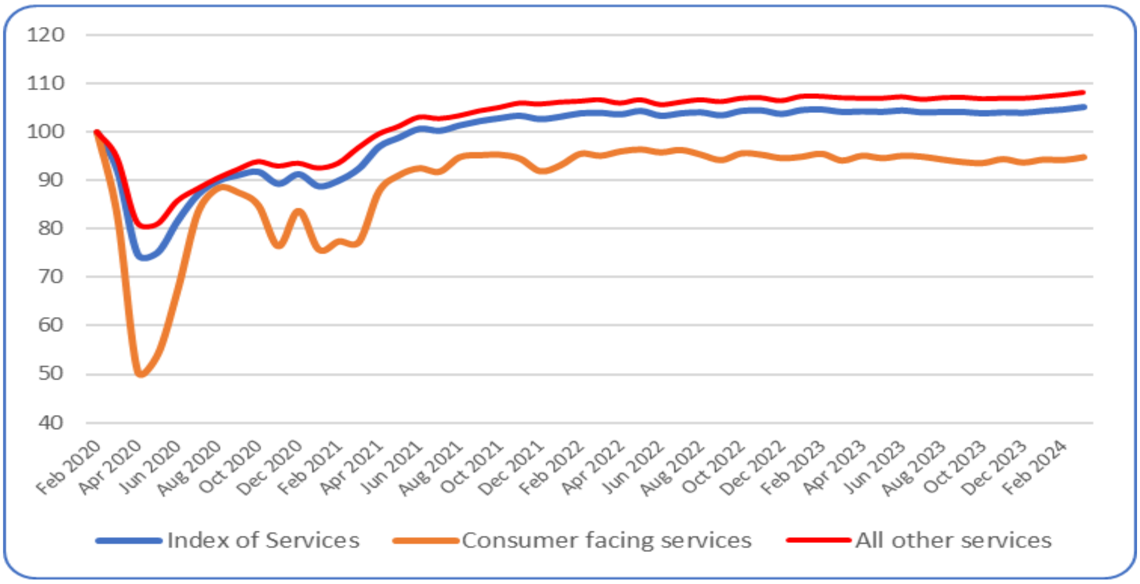
Chart 3: Growth in UK consumer credit (seasonally adjusted)



Returning back to consumer-facing services (which largely represents those sectors which dominate household consumption), the largest positive contributions in the latest month came from output in food and beverages and accommodation, which grew by 2.4% and 3.4% respectively in the three months to March 24. Over the three-month period (December to March) the largest contribution to the increase in consumer facing services (up by 0.6% in the 3 months) was an increase of 2% in retail trade.

Looking specifically at the production sector, manufacturing output increased by 1.4% in the three months to March. Manufacturing looks like it has rebounded from the declines seen in the latter half of 2023. 7 of the 13 manufacturing sub-sectors experienced growth in output over the 3-month period, with 6 partially offsetting these increases. The largest negative contributor in March was a 2.8% fall in the manufacture of transport equipment, although this followed five consecutive monthly growths.

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



The latest inflation data for March 24 largely continued the picture of easing inflation. The Consumer Price Index (CPI) was 3.2% in the 12 months to March 24, down from 3.4% in February. On a monthly basis, the CPI rose by 0.6% in March 24. The easing in the annual rate between February and March 2024 was a result of prices rising by 0.6% on the month, compared with a rise of 0.8% a year earlier.

The largest downward contribution to the monthly change in the CPI annual rate came from food, with prices rising by less than a year ago. Prices for food and non-alcoholic beverages rose by 4.0% in the year to March 2024, down from 5.0% to February. The March figure is the lowest annual rate since November 2021. The rate has eased for the 12th consecutive month from a recent high of 19.2% in March 2023, the highest annual rate seen for over 45 years. The largest upward contribution (partially offsetting the declines seen elsewhere) came from motor fuels, with prices rising this year but falling a year ago.

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 6.3% in the 12 months to March 2024, up from 6.0% in February. This is the highest annual rate since July 1992 in the constructed historical series.

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

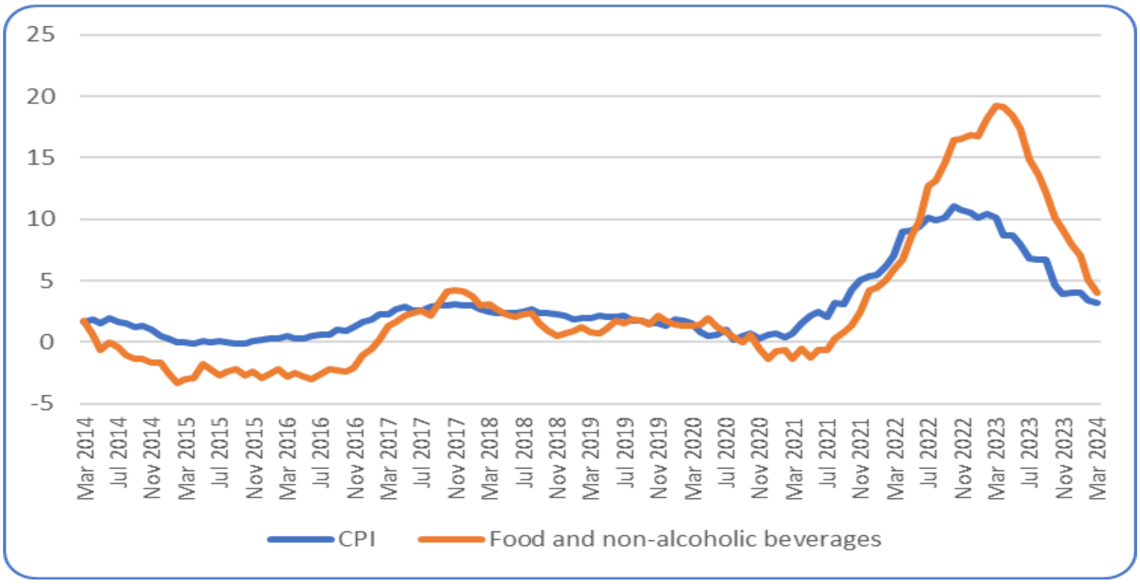
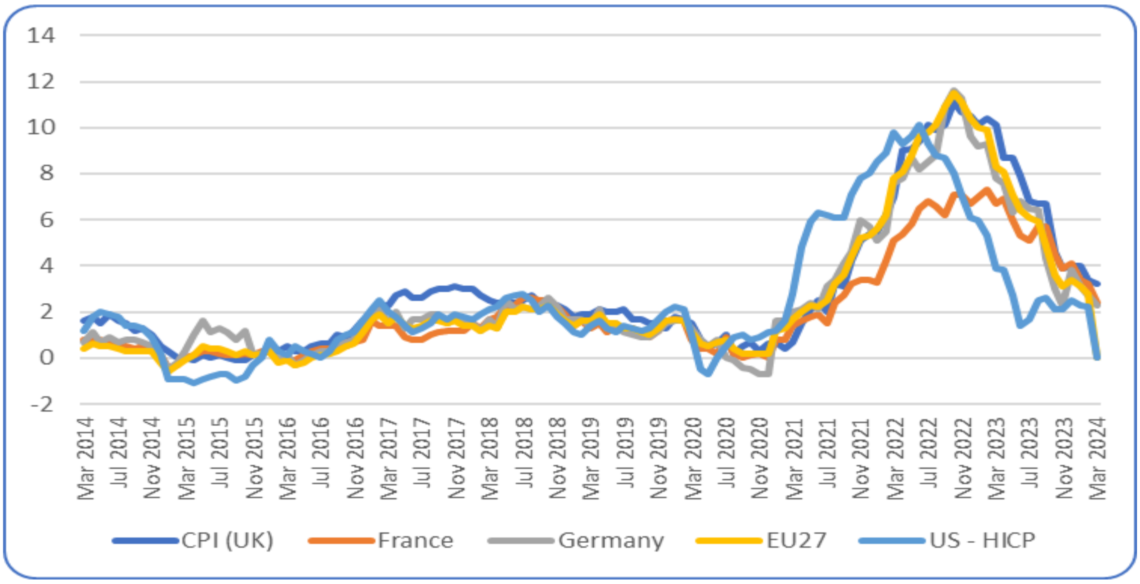


Chart 6: UK CPI compared to selected G7 and EU annual inflation rates

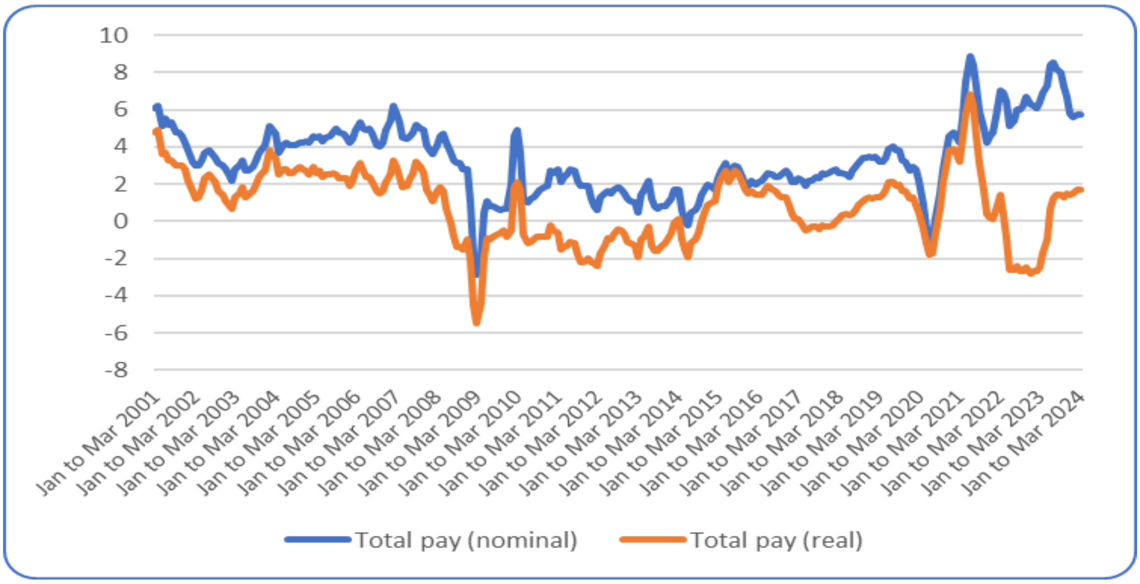


According to the latest statistics released by the ONS, annual growth in regular wages (excluding bonuses) was 6.0% in January to March 24, and this growth continues to remain strong even when other factors in the labour market are beginning to weaken (see later comment). The private and public sectors have been showing similar growth rates. Annual average regular earnings growth for the public sector was 6.2% in January to March 24. For the private sector this was 5.9%.

In this latest period both the manufacturing sector and the finance and business services sector saw the largest annual regular pay growth, at 6.8%. The construction sector saw the smallest annual regular pay growth across sectors, at 2.6%.

In real term (adjusted for inflation), total real pay rose by 1.7% annually. 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 0.4% in April 24 compared with 12 months previous – an increase equivalent to 129,000 employees. However, payrolled employment decreased by 85,000 employees (0.3%) in April when compared to March. Again, noting that this data can be subject to revision – with the April data being a 'flash estimate'. For example, UK payrolled employee growth for March 24 compared with February has been revised from a decrease of 67,000 previously reported to a decrease of 5,000. Early estimates for April 24 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 170,000 employees nationally), as well as education – experiencing an increase of c71,000 employees. However, there were declines in the number of people employed in a range of sectors such as accommodation and food services (a decline of c79,000), ICT and admin and support services.

The annual growth in the number of payrolled employees across Dorset CC (year to April 24) was estimated to be just 0.1%. In BCP, the ONS estimates that payrolled employees had remained unchanged. Therefore the local authority areas broadly matched the national picture of flat growth over the past month or so. The data is now beginning to indicate that the labour market is beginning to soften, with the previous growth in payrolled employees now flattening. This will need to continue to be monitored to understand whether this is the beginning of a period where the demand for labour is lower than in most of the post-pandemic period.

Chart 8: Average monthly earnings

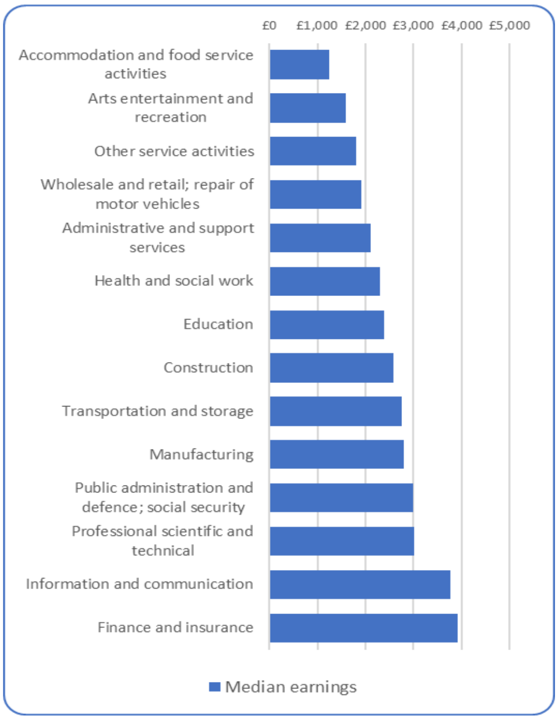
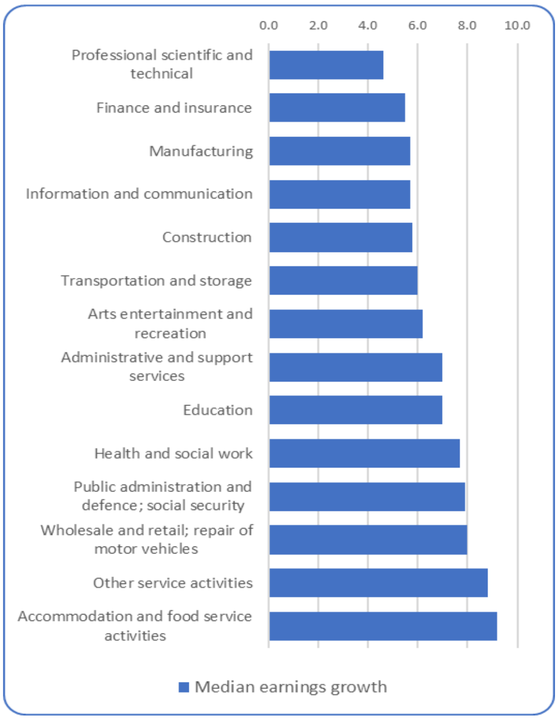


Chart 9: Average annual pay growth



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 April was £2,175, and in Bournemouth, Christchurch and Poole (BCP) it was £2,277. This compares against a UK average of £2,381. At a national level this represented an increase of 6.9% 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 accommodation and food and other services (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)

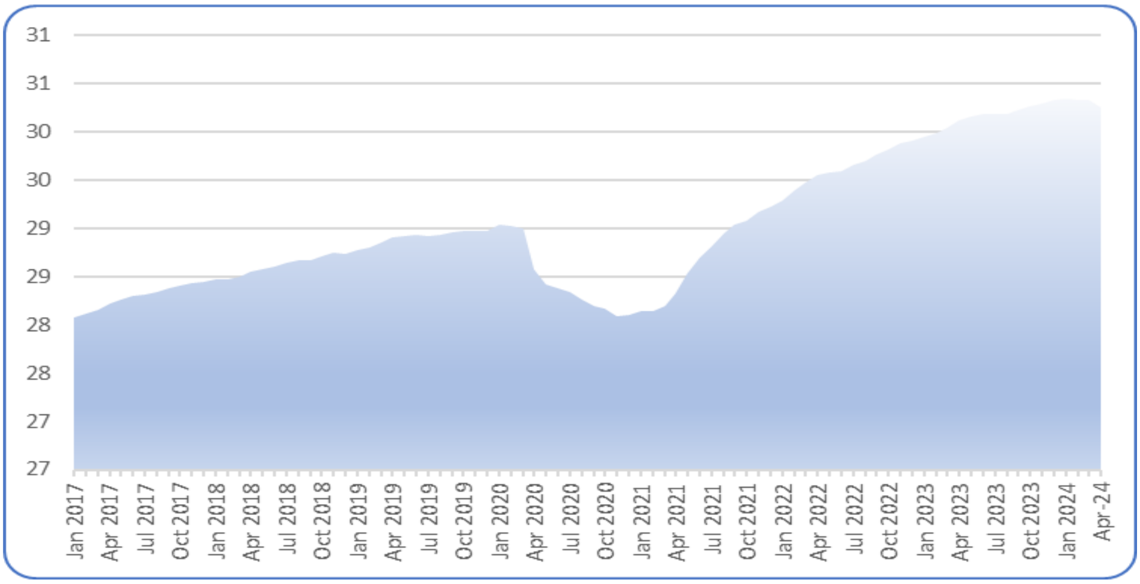
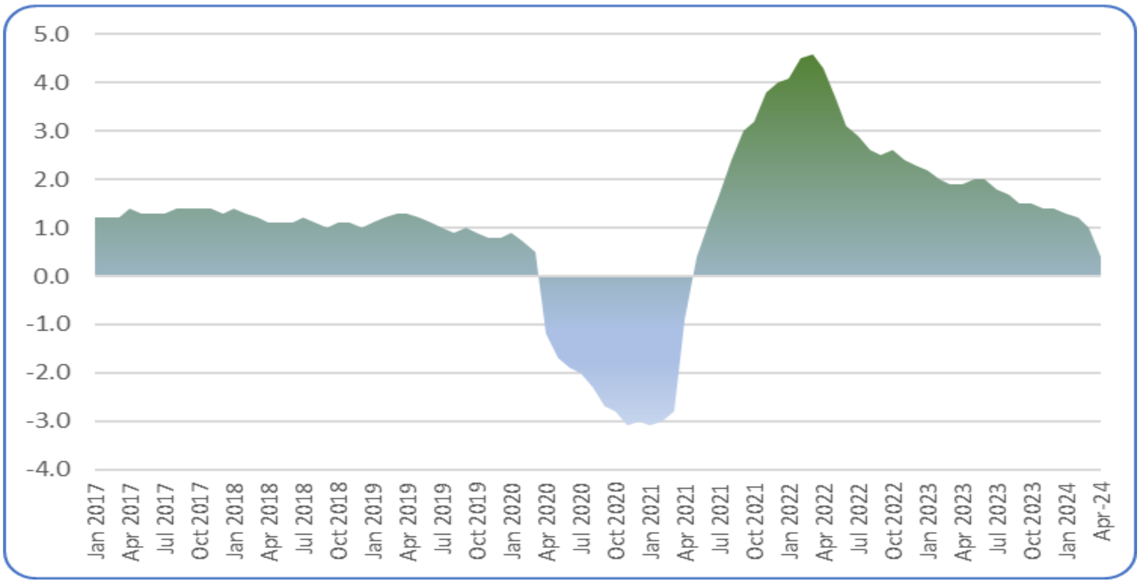


Chart 11: Growth in UK payrolled employees (% annual growth)



The latest statistics now definitely appear to show a softening of labour market conditions. The UK employment rate decreased by 0.6 percentage points (ppt) to 74.5% on a quarterly basis, and 0.8ppt since the same period in 2023.

The UK unemployment rate has increased by 0.5ppt on the quarter at 4.3%, whilst the economic inactivity rate increased by 0.2ppt on a quarterly basis and 0.6ppt on an annual basis – now at 22.1% of those aged 16-64.

The estimated number of vacancies fell by 26,000 on the quarter to 898,000. Vacancies fell on the quarter for the 22nd consecutive period, with vacancies falling in 13 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.

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

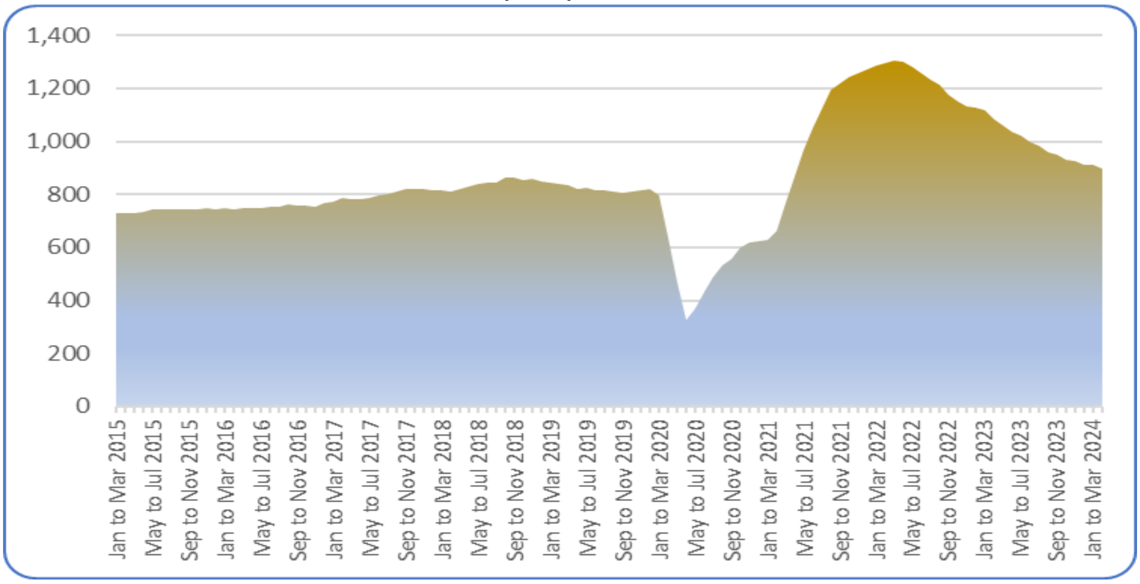


Chart 13: Growth of UK vacancies by broad business size (April 2024)

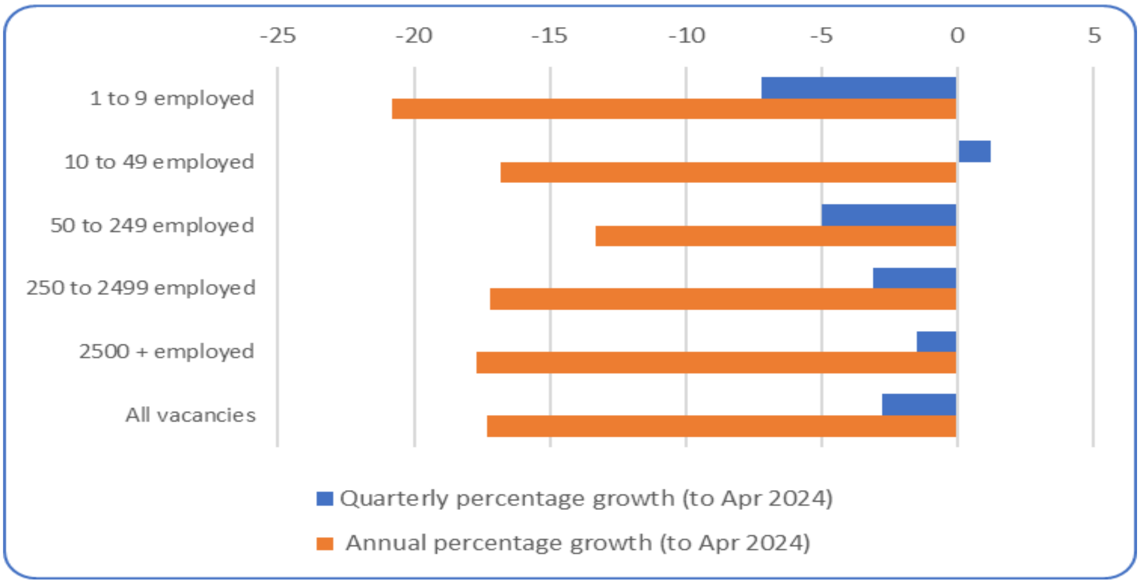
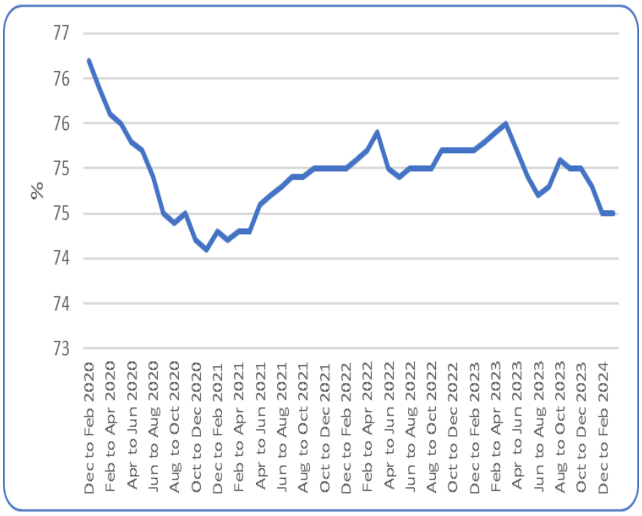
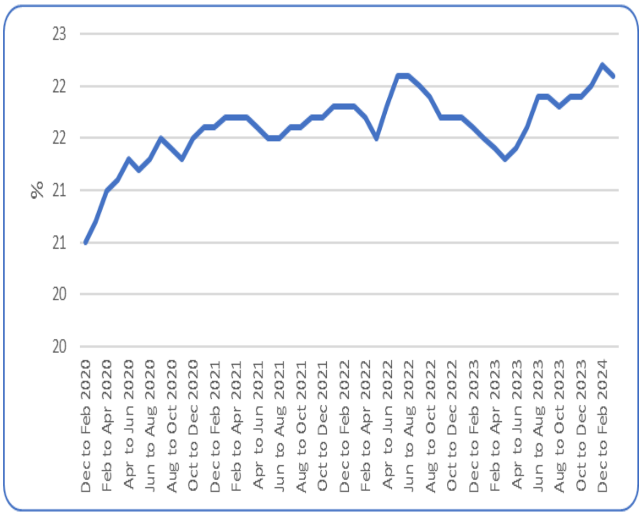


Chart 14: Key Labour Market Statistics

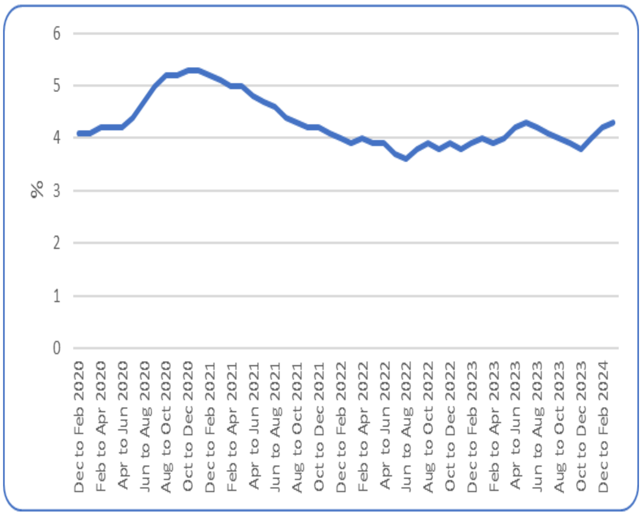
Employment rate – UK (aged 16-64)



Economic inactivity rate – UK (aged 16-64)



Unemployment rate – UK (aged 16-64)



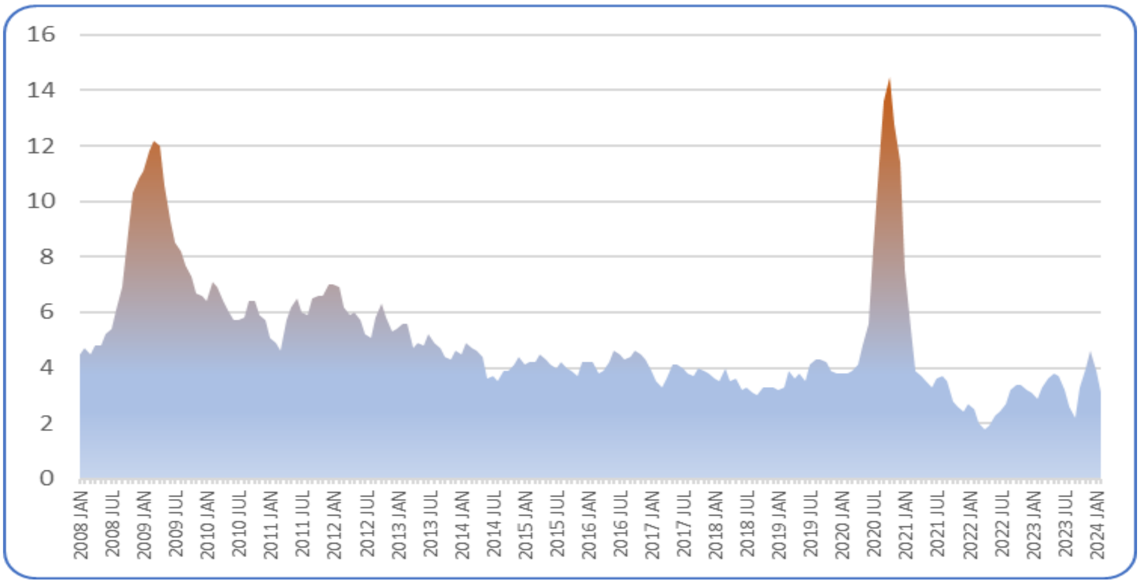
Increases in economic inactivity in the first year of the pandemic were largely among those aged 16-24. Following the pandemic, increases were largely among those aged 50-64.

Increases in economic inactivity over the latest quarter were largely among those aged 50-64 and those aged 16-24. Those aged 16-24 years also drove the annual increase. The increase in economic inactivity in the latest quarter was largely because of those inactive because they were temporarily sick, long-term sick, or retired. The annual increase was largely because of students and those who were long-term sick.

Latest estimates show that the majority of those who were inactive across the UK because of long-term sickness were aged 50- 64, although long-term sickness has been increasing across all age groups.

Flows estimates show that in the latest quarter across the UK there was a net movement from employment into both unemployment and economic inactivity. There was also a net movement from economic inactivity into unemployment.

Chart 15: Number of UK redundancies (rate per 1,000 employees)



In Feb 24, the number of people made redundant was 3.1 per thousand employees. This has remained largely consistent over the past couple of years.

Chart 16: 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

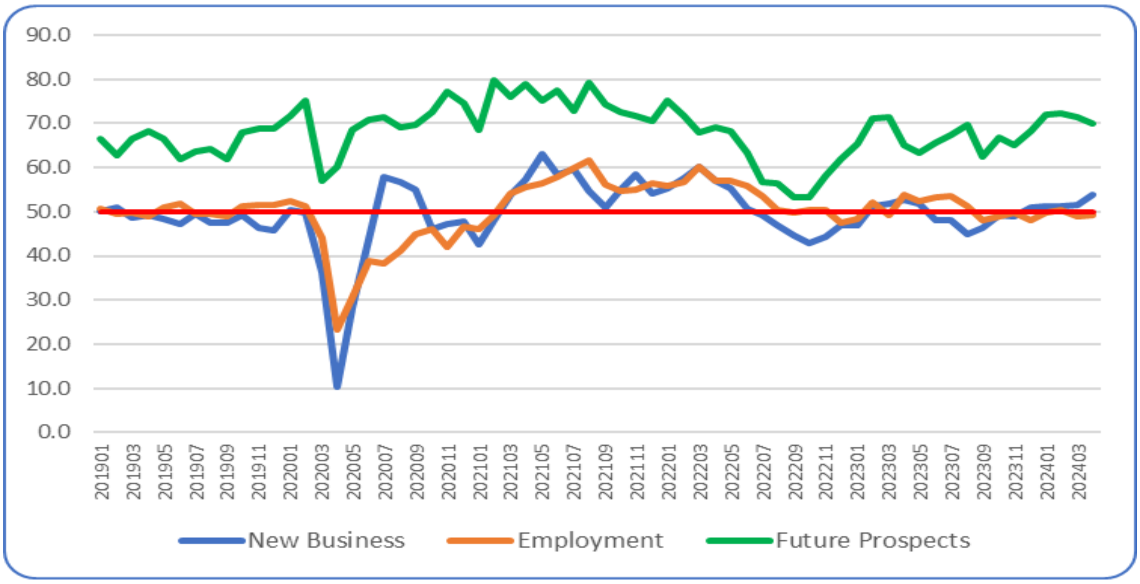
	Economic inactivity rate (Jan 22 - Dec 22)	Economic inactivity rate (Jan 23 - Dec 23)
UK	21.7	21.3
BCP	18.9	19.7
Dorset CC	22.0	17.9

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 April) suggests South West businesses remain broadly neutral in sentiment in terms of employment and the level of new business, but still hold a positive view in terms of future prospects. Strengthening demand conditions and improved client confidence spurred new business growth across the South West. Hence, there was a further uptick in output during April, with firms signalling upbeat forecasts for the medium-term. Cost pressures picked up to a 14-month high, in large part due to changes in the national living wage, but competitive pressures curbed charge inflation.

April data indicated back-to-back contractions in employment across the South West private sector. That said the pace of reduction was only slight. Where job shedding was reported, survey participants indicated cost-cutting measures, layoffs and the non-replacement of retirees.

Chart 17: NatWest Purchasing Managers Index – South West – April 24 (>50 increasing confidence, <50 decreasing confidence)



Returning back to the housing market, the latest monthly residential market survey undertaken by the Royal Institute of Chartered Surveyors (RICs) for April pointed towards buyer demand being rather flat, **with the** market seemingly impacted by the slight upward move in mortgage rates over the past couple of months, although there are some signs in the early part of May that some borrowers are now cutting interest rates on some fixed rate products. Overall, the mortgage market remains quite difficult to read. Nevertheless, forward-looking sentiment continues to point to a stronger picture for sales market activity coming through over the next twelve months.

With financial markets recently paring back expectations around the potential scale of monetary policy loosening this year, near-term sales expectations appear to have been adversely affected. Nevertheless, respondents still foresee a stronger trend in sales activity coming through at the twelve-month horizon, even if expectations have turned a little more moderate.

Looking at supply available on the market, a net balance of contributors (largely estate agents) noted an increase in the flow of new instructions during April. Significantly, this represents the strongest indicator for the new listings gauge since late 2020.

For the headline house price indicator, the April net balance was largely unchanged from March. Once again, this is signalling a largely stable trend in house prices.

In the lettings market, the latest feedback suggests tenant demand growth continues to lose momentum. Alongside this, landlord instructions remain in short supply- pointing to a weak picture. This adds to a picture of intense competition in the rental market in many areas. Going forward, rents are still seen rising by a net balance of respondents, albeit marking a three-year low for the near-term rental growth expectations. Recent analysis by Savills shows that two-bedroom rental homes are listed on Zoopla for an average of 25 days, some 10 days less than pre-pandemic levels. High demand and a lack of available properties are forcing potential tenants to make an almost immediate decision on whether to apply for a tenancy.

2. Economic inactivity – a 'U shaped legacy'

The [Resolution Foundation have recently taken a closer look at economic inactivity](). It presents the argument that one big issue that will face the next government - the rises in economic inactivity and health-related benefit claims. Whilst real pay growth, unemployment and vacancies have all returned roughly to 2019 rates, there is one aspect of the labour market that remains far from normal: the UK employment rate is still lower than pre-pandemic, with economic inactivity rising again and the continued rise shows little sign of slowing as the pandemic recedes. The UK is the only G7 country with a lower employment rate than before the pandemic. As a result, the UK has fallen from having the second-highest employment rate in the G7 in 2019 Q4 to having the fourth-highest employment rate in 2023 Q2. And it is high economic inactivity – not high unemployment – that explains the UK's lower employment rate. The number of working-age people in employment and unemployment is near-identical to that on eve of the pandemic (with employment rising, and unemployment falling, by just 30,000)

This rise in economic inactivity has been U-shaped by age: those aged 16-24 and 50-64 account for c90% of the rise in economic inactivity among working-age adults since the end of 2019. It is the rise in economic inactivity due to long-term sickness that stands out. The number of working-age adults who are economically inactive due to long-term sickness has been growing for over four years and stood at 2.7mn in November-January 2024, having peaked at a record-high 2.8 million a couple of months earlier.

By December 2023, almost a third of people in receipt of Universal Credit (UC) had a health condition or disability that affected their ability to work, and again the pattern is U-shaped by age. More than half of claimants in their late fifties and sixties have a health condition or disability reflected in their UC award. But UC claimants in their early twenties are more likely than those in their thirties or early forties to have a health condition or disability that restricts their ability to work, and it is among young adults that health-related UC awards have increased most significantly in recent years.

While there was concern about a significant increase of early retirement – with the number of older adults leaving employment into economic inactivity due to retirement picking up in 2021 – this does not seem to have turned into a significant lasting development. The number of working-age adults who are economically inactive due to retirement has remained relatively stable over the past year and a half.

Turning to young people, it is important to remember that not all forms of economic inactivity should be viewed as concerning. There has been a sizeable increase in the number of young people aged 18-24 who are economically inactive and in full-time education - reaching 1.2m in November-January 2024. This means that 87% of the total rise in economic inactivity among young people aged 18-24 over the past 12 months has been among young people in full-time education.

For the first time, the DWP has published data on the medical conditions recorded during Work Capability Assessments for UC (the assessment used to determine whether someone is deemed to have a health condition or disability that affects their ability to work). The prevalence of mental health problems is striking: of all Work Capability Assessment decisions between Jan 22 and Nov 23, 69% recorded mental and behavioural disorders. The proportion of UC claimants who are on UC health has risen among claimants of all ages over the past four years. But once again, it is a U-shaped pattern. It is the youngest and oldest claimants who are most likely to be on UC health, and who have seen the biggest increases between 2019 and 2023. By December 2023, young UC claimants in their early twenties were more likely to be in receipt of UC health than UC claimants in their thirties and early forties.

3. Degree apprenticeships – emerging evidence

The Quality Assurance Agency for Higher Education (QAA) has recently published a report looking at the positive benefits that degree apprenticeships are providing – based on developing evidence from a sample of around 1,000 degree apprentices and 150 employers. Some key highlights from this sample were:

Positive outcomes:

- Performance Enhancement: Nearly all employers state that degree apprenticeships positively influence their organisation's performance.
- Strategic Alignment: An overwhelming majority believe that degree apprenticeships contribute to achieving their strategic goals, indicating alignment with the overall organisational direction.
- Future Growth: An overwhelming proportion of employers state that degree apprenticeships play a pivotal role in fostering the future growth of their organisations.
- Talent Attraction: A substantial majority view degree apprenticeships as an effective means to attract new talent, stating that these programmes tap into a pool of motivated candidates eager to learn and contribute.
- Employee Engagement: Nearly all employers observe that degree apprenticeships lead to more engaged employees.
- Staff Retention: A significant majority credit degree apprenticeships with improving staff retention.
- 82% of apprentices report that it is facilitating their career progression.
- Over two-thirds of apprentices believe that their course has been helpful in giving them the knowledge, skills, and behaviours they need to excel at their work.

Areas to improve:

- While a majority of employers report that their organisational priorities are considered by their training providers when planning teaching and learning, larger employers seem to have more influence on training providers, possibly at the expense of smaller employers.
- Only 5% of apprentices received support for degree apprenticeship applications from schools and colleges; more needs to be done to create awareness of the degree apprenticeship route and provide support to young people to access them.
- Off-the-job needs are not always fully met: 30% of apprentices perceive insufficient off-the-job time and 30% feel employers lack understanding of these requirements.
- More needs to be done to integrate degree apprentices within the university environment – Only 19% of apprentices feel highly integrated within the student body of their training provider with over 22% not feeling integrated at all.
- More needs to be done to enhance the perception of degree apprenticeships; nearly half, 47%, of apprentices do not think that degree apprenticeships are held in the same esteem as non-apprenticeship courses and 22% do not agree that their courses are valued within their workplace.

Amongst the recommendations included in the report was for UK Government to recognise the critical role of the apprenticeship levy in supporting the successful implementation of Degree Apprenticeships. Approximately 97% of employer partners emphasise the importance of funding Degree Apprenticeship courses through the apprenticeship levy.