MIDLANDS ENGINE

OBSERVATORY

MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

EDITION 29: JULY 2022

Executive Summary

The July version of the Midlands Engine Economic Impact Monitor follows a period of continued challenges, both short-term and long term, affecting the economy, society and environment of the region and beyond. While this month saw **record temperatures in the UK – recorded in the Midlands Engine** (Coningsby, Lincolnshire) – **inflation has reached a 40-year high (9.4%),** putting huge pressure on the Midlands economy and society.

Rising costs and persistent uncertainty, also reflective of the political and global climate, is causing a **reduction in business confidence and orders** according to some reports, such as from the FSB and CBI. Additional risks, such as the prospect of **regular industrial strike action and continued problems accessing skilled labour**, are also contributing factors. Economy trackers continue to depict volatility and an underlying vulnerability in the Midlands economy, but with continued chinks of light – reflective of major opportunities across the area.

- The **East Midlands Business Activity Index decreased from 51.8 in May 2022 to 49.4 in June 2022, whereas the West Midlands Index increased from 49.7 to 51.1.**
- The **West Midlands New Business Index decreased from 50.5 in May 2022 to 49.2 in June 2022, and the East Midlands Index decreased from 49.4 to 47.1.**
- The **West Midlands Future Business Activity Index increased from 66.1 in May 2022 to 70.3 in June 2022, while the East Midlands Index decreased from 65.0 to 60.0.**
- There were **271,575 claimants aged 16 years and over in the Midlands Engine area in June 2022**, a decrease of 1,890 claimants since the previous month. This equated to a decrease of 0.7% for the Midlands Engine area.

This month's monitor also reports on the Midlands Engine findings of recent data releases across key indicators:

- **GVA per hour worked (productivity) increased by 8.3% between 2019 and 2020**, below the UK average rate.
- Trade in goods data continues to show Midlands exports **recovering slower overall than the UK average, but progress in recent quarters particularly in the West Midlands.**
- The level of **capital investment in the Midlands grew faster than anywhere else in the UK** between 2019 and 2020, but the **region saw the greatest decrease over the Covid period.**

Also from an economic / business perspective, the varying experience and specific issues of different sectors are identified, including a **cautiously resilient picture in manufacturing and construction but issues in retail.** Wider perspectives related to the continued **shift to homeworking and female-led business** characteristics are also presented. On the latter, data on the Gender Index finds that there are **79,862 female-led companies** in the Midlands Engine. This represents **15.8% of all active businesses**, below the UK average but with some key hotspots.

Critically, **impacts on society and the environment must continue to be considered and prioritised**. Firstly, recent analysis of environment data suggests there is much more to be done in "greening" the Midlands economy:

- Despite a decrease of 56,009 kt **CO_2e emissions between 2019 and 2020 (-9.9%), emissions still equate to 5.4 tonnes per capita – above the England average of 4.3.**

Research by the Centre for Cities identifies the inequalities of inflation, stressing that the **cost of living is ultimately felt hardest in the UK's poorest cities.** This is because two key components, **energy and petrol, have a higher weight in household consumption baskets in these places**, while the poorer nature and quality of housing stock, higher reliance on cars and overall more restricted wage growth hits these communities harder.

All of these key economic, social and environmental components contribute to the Midlands' current and future economic outlook, which will continue to be affected by external shocks and structural change (such as "megatrends" considered in Section 5). Also in Section 5 is one example of the culmination of the above, the **updated Midlands economic "baseline" forecasts from Oxford Economics.** Much of the trajectory is similar than the previous version of the model (2021), but there are some notable differences across indicators, and other findings to re-affirm.

- **An increase in GVA per head of +41.7% from £21,588 to £30,582 is forecast**, an uplift in the forecast from the previous year model (+39.2%), but below the UK growth rate (+45%).
- The baseline model also predicts a **marginal increase in Midlands Engine employment of +2.3%.**
- Furthermore, a **decrease in the overall population is now predicted, from 10.402million to 10.351m (-0.005%)**, a reversal of steady increases in population predicted in the 2021 version of the model (+1.8%).
- **Manufacturing employment is forecast to reduce by over a third (-35.4%) across the Midlands Engine in the next two decades, a fall of over 200,000.**

All of the above will be important considerations for Midlands Engine stakeholders in **continuing to strive for a thriving and inclusive economy, society and environment long into the future.**

1. Economic and Labour Market Impacts

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• **UK inflation has hit a 40-year high**, reaching 9.4% in June. Rising prices for motor fuels and food made the biggest upward contributions to the inflation rate as petrol and diesel prices hit new records. • **The impact of inflation on rising costs / prices continue to be a major business issue**, particularly for utilities, wages and materials. Business groups have warned that the **inflationary spiral is "unsustainable"** for businesses. • The **prospect of regular train strikes, and other industrial action in the offing, is a major concern,** on top of the increased cost of living crisis dampening consumer demand. • Issues have been reflected in tumbling small business confidence, as reported by FSB. The Quarterly **Small Business Index (SBI) for the East Midlands shows a Quarter 2 reading of -43, which is significantly down from 17 in the previous quarter,** and more of a dramatic fall than the national average. Confidence plummeted in the West Midlands too, with respondents citing **operating costs, a high tax burden and struggles to fill vacancies as** seriously threatening the futures of small firms and sole traders across the region. • Furthermore, the **number of profit warnings** issued by listed companies in the Midlands in the first six months of 2022 **increased 23% when compared to the same period in 2021**, with the majority of warnings prompted by rising costs. • There is **continually mixed reporting across the Midlands business environment, though**, with the West Midlands ranked the second **highest region in the UK for business confidence,** according to the latest Accenture / S&P Global UK Business Outlook. • Business groups and businesses have stressed that the **current political uncertainty should not get in the way of solutions and support to help businesses** in a time of great challenges.
Labour Market	• Although unemployment rates continue to fall, **recruiting staff is becoming increasingly difficult and problematic for many businesses**. The combination of changed employee expectations (e.g., reduced hours worked, working from home etc) plus the high demand for labour across sectors and disciplines, **are fuelling demands for very high wages and favourable conditions** – even from those who are unskilled, inexperienced or new entrants to the labour market. • While some larger firms are able to go some way towards meeting these expectations and demands, **smaller firms often lack the financial and developmental capacity to pay high wages for - and then develop - new starters**. • Regional business groups have stressed the need therefore to **find ways of attracting new talent, both at home and from overseas**, in a suite of support from Government that also encourages businesses to invest in their infrastructure and people. • Another key approach is **maximising equality, diversity and inclusion (EDI) practices**, recently explored by the East Midlands Chamber with local businesses. In addition to widening the labour **pool to fill vacancies, successful EDI policies can support businesses to create better workplaces, improved decision-making and increased innovation.**
Access to Support & Finance	• According to the British Business Bank, accredited lenders have offered more than **£308m to smaller businesses in the East Midlands, and £360m to those in the West Midlands**, through the **Recovery Loan Scheme.** Over **3,000 businesses across the Midlands have benefited from this funding**, supporting them in accessing finance to survive, be resilient, and grow.
Trading Conditions	• **Energy bills continue to be a major concern for businesses** across the region as fixed term deals come to an end. Support for energy costs is required, as businesses look to **reduce usage and save spiralling costs,** as well as **meeting carbon neutrality / net zero aspirations**. • **Diversification** – there is a strong appetite for diversification, probably more obvious post pandemic as many businesses have been forced to look at **how else their people and operations can be used to widen service and product portfolios.** • **Land values are increasing** – the lack **of available commercial land and property is frustrating growing businesses that wish to remain in the region** due to increasing prices per square foot.

Global and National Outlook

Global

Wildfires

In July, wildfires swept across Europe, triggered by the **hottest heatwave the region has ever seen**. France has had to evacuate more than 30,000 people. Gironde, a popular tourist region in the south-west near Bordeaux, has been hit particularly badly, with firefighters from across France battling to control blazes that have destroyed nearly 17,000 hectares (42,000 acres) of land, according to the BBC. Spain and Portugal have attributed more than 1,000 deaths to increased heat.

Alongside, the **immense human and animal loss**, these fires will significantly impact Europe's economies. Already **thousands of hectares of agricultural land have been destroyed, with countries loosing significant proportions of their agricultural crops**. This will **heighten pressures on an already diminished food supply**, as it will compound the loss of crops as a result of Russia's invasion of Ukraine. Additionally, the impact of the fires may be long-term, due to **significant soil degradation and erosion, which could impact agricultural harvest for a pro-longed number of years**.

Furthermore, the heatwave is placing **substantial pressure on already struggling health systems**. The heatwave is leading to increased hospitalisation and deaths across Europe, which is already trying to deal with rising Covid cases and falling staffing numbers.

The loss of domestic homes will be devastating for many families, especially in a cost-of-living crisis heading towards a recession. This places **increased pressures on public spending**, at a time when governments across Europe have already seen record spending levels as a result of the pandemic. The economic impact will likely cost millions if not billions to economies in Europe.

Inflation

Inflation has been rising globally. Sri Lanka last week ousted their Prime Minister over poor economic management which has fuelled inflation in the country. Currently, inflation in the country is at 54.6% and people have been struggling with daily power cuts and shortages of basics such as fuel, food and medicine. The country's dire economic conditions led to the public marching on the capital city and into the Prime Minister's private residency, leading the politician to flee the country. **The country is now looking to help from various global institutes, however without a stable government, many will be unwilling to provide financial help**, especially given we are facing a global financial crisis.

National

Wildfires

In July, Coningsby in Lincolnshire reported temperatures of 40.3C, **the highest recorded temperature in the UK.** Scotland has also recorded its hottest day, reaching 34.8C. **9 out of the 10 hottest days ever to have been recorded in the UK are since 1990.** The hottest days also includes Monday 19th July 2022 when the fourth hottest temperature of 38.1C was recorded. Wales recorded its hottest day with 37.1C. These excessive temperatures have led to wildfires across the UK.

The Telegraph reported, that across the country, "major incidents" were declared by 10 fire services, some stations ran out of engines and others stopped responding to automatic alarms. **As of Tuesday 19th July, there had been 420 fires in England and Wales since the start of the year, comparative to 247 the year before and 200 the year before that.**

Inflation

The cost of living has continued to worsen as UK inflation hit 9.4% in the 12 months to June, up from 9.1% in May. Average petrol prices stood at 184p per litre in June, the highest since records began in 1990 and up from 129.7p a year earlier. **The monthly rise was also the largest on record, at 18.1p**. The average price of diesel in June was 192.4p per litre, again a record high.

The Bank of England has said that if inflationary pressures persist then it is likely that **the Bank will raise interest rates by half a point** at the next monetary policy committee.

A report from Centre for Cities, has found that there is a **geography to the cost-of-living crisis, with a prominent north south divide.** Many of the cities and large towns that were facing higher inflation rates in May 2022 were located in the **North, Midlands and Wales**, while those in the South (particularly in the Greater South East) are relatively more sheltered from rising costs. The report found that a **combination of low incomes, poor energy stock and high share of vehicle-related spending was leading to comparatively high inflation in the Midlands and North.** With the report finding that the current support package provided by the government, is not based on energy needs and fails to consider the fact that energy demand is influenced by the energy efficiency of housing stock. This means that unless additional targeted support is provided, for many places, particularly those in the North and Midlands, energy bills are likely to jump even higher when the price cap is lifted in October.

Business Activity

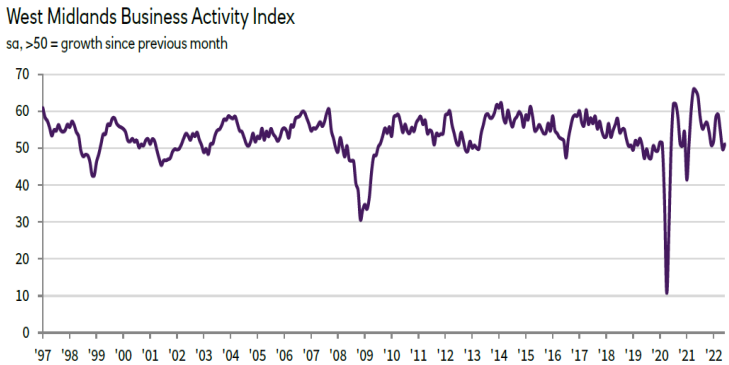
Business Activity Index

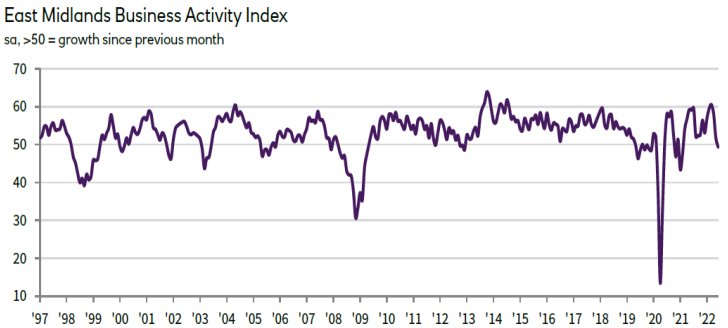
The **West Midlands Business Activity Index increased from 49.7 in May 2022 to 51.1 in June 2022**, indicating a renewed rise in output. Business activity continued to be impacted from price pressures, higher energy costs and subdued demand for a wide range of products.

The **East Midlands Business Activity Index decreased from 51.8 in May 2022 to 49.4 in June 2022,** the first decrease in business activity in sixteen months. The main cause of lower business activity was linked to a lack of new orders. East Midlands was one of the three regions to decrease in output (East of England and Northern Ireland).

The overall UK Business Activity Index increased from 53.1 in May 2022 to 53.7 in June 2022.

The West Midlands and East Midlands Business Activity Index trends:





Source: NatWest PMI, July 2022

Of the 12 UK regions, the West Midlands and the East Midlands was fifth and third lowest respectively for the Business Activity Index in June 2022.

Demand

The **West Midlands New Business Index decreased from 50.5 in May 2022 to 49.2 in June 2022**. The decline in new business can be linked to rising interest rates, acute price pressures and future uncertainty. **The East Midlands New Business Index decreased from 49.4 in May 2022 to 47.1 in June 2022.** The decrease in new business was linked to a lack of confidence among customers and rapid price increases.

Exports

The **West Midlands Export Climate Index decreased from 52.8 in May 2022 to 52.3 in June 2022.** The **East Midlands Export Climate Index decreased from 55.1 in May 2022 to 53.4 in June 2022.**

Business Capacity

The **West Midlands Employment Index decreased from 55.3 in May 2022 to 54.4 in June 2022.** However, firms in the West Midlands reported to ongoing hiring reflected staff adjustments following the end of pandemic restrictions, expectations of better demand conditions, capacity expansions and the opening of new units. The **East Midlands Employment Index increased from 55.1 in May 2022 to 56.0 in June 2022.** Firms in continued to increase staffing levels and was the fastest increase since March 2022. The increase was linked to firms trying to rebuild workforces and fill vacant positions following the pandemic.

The **West Midlands Outstanding Business Index increased from 51.3 in May 2022 to 53.1 in June 2022**. The **East Midlands Outstanding Business Index decreased from 51.8 in May 2022 to 50.8 in June 2022.**

Prices

The **West Midlands Input Prices Index decreased from 85.6 in May 2022 to 83.3 in June 2022.** The **East Midlands Input Prices Index decreased from 84.7 in May 2022 to 83.7 in June 2022.**

The West Midlands Prices Charged Index decreased from 70.7 in May 2022 to 69.9 in June 2022. The East Midlands Prices Charged Index decreased from 70.3 in May 2022 to 68.5 in June 2022.

Outlook

The **West Midlands Future Business Activity Index increased from 66.1 in May 2022 to 70.3 in June 2022.** Optimism was linked to predictions of a pick-up in demand, improved tourism, new product releases, expanded capacities and quotations pending approval. The **East Midlands Future Activity Index decreased from 65.0 in May 2022 to 60.0 in June 2022.** . Optimism decreased due to concerns around a slowdown in the wider economy and the impact of cost-of-living increases on demand.

Out of the twelve UK regions, the West Midlands and the East Midlands were second highest and fifth lowest respectively for the Future Business Activity Index in June 2022.

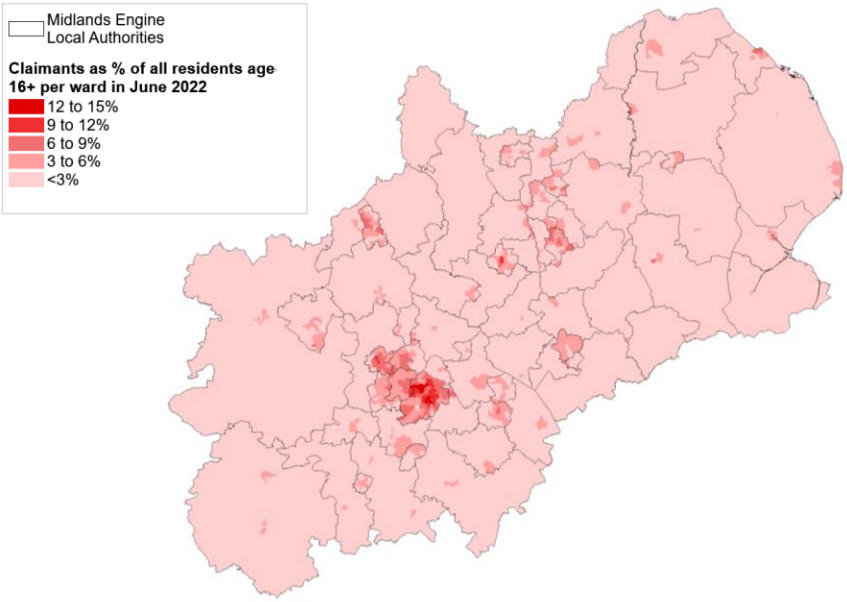
Source: NatWest PMI, July 2022. Located on the Midlands Engine Hub is an Interactive Regional Business Activity Dashboard

Labour Market Impacts: Claimants

There were **271,575 claimants aged 16 years and over in the Midlands Engine area in June 2022**, a decrease of 1,890 claimants since the previous month. This equated to a decrease of 0.7% for the Midlands Engine area (UK -1.2%). **There are 50,035 (+22.6%, UK +23.2%) more claimants when compared to March 2020**. North Lincolnshire (-25), North East Lincolnshire (-315) and East Lindsey (-820) had lower levels than March 2020.

The number of claimants as a percentage of residents aged 16 years was 3.2% in the Midlands Engine (UK 2.9%) in June 2022 – remaining slightly above the pre-pandemic levels of 2.7% (UK 2.4%) in March 2020.

Claimants as Percentage of Residents Aged 16 Years and Over in June 2022:



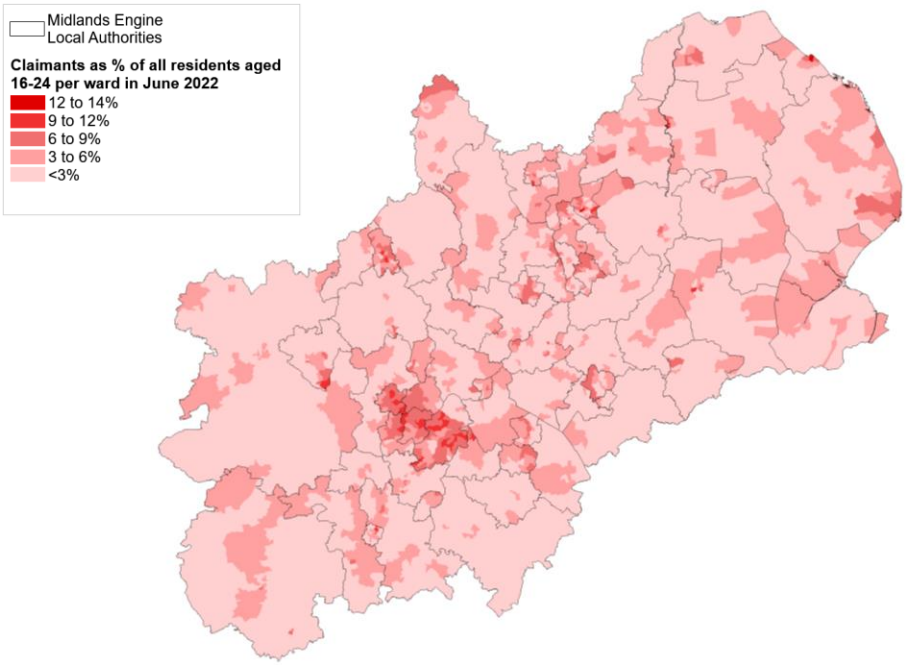
Out of the 1,511 wards within the Midlands Engine, **422 were at or above the UK proportion of 2.9%** for the number of claimants as a percentage of the population aged 16 years and over in June 2022.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, Handsworth was the highest with 14.6%. This is followed by Birchfield at 14.4% and then Lozells at 14.2%.

There were 45,480 claimants aged 16-24 years old in the Midlands Engine area in June 2022 – a decrease of 270 claimants since May 2022. This equated to a decrease of 0.6% with the UK decreasing by 0.7%. Since March 2020, **the number of claimants aged 16-24 years old has increased by 1,285** (+2.9%, UK +2.0%). Notably, 32 local authorities were lower than March 2020 levels and a further 3 were at the same level.

The number of claimants as a percentage of residents aged between 16 and 24 years old was 3.9% in the Midlands Engine and 3.5% for the UK in June 2022.

Claimants as Percentage of Residents Aged 16 Years and Over in June 2022:



Out of the 1,511 wards within the Midlands Engine, **594 were at or above the UK proportion of 3.5%** for the number of claimants as a percentage of the population aged between 16-24 years old in June 2022.

The ward with the highest the number of claimants as a percentage of the population was Portland (Mansfield) at 13.1%. This is by followed East Marsh (North East Lincolnshire) at 12.8%, then Oak Tree (Mansfield) and Handsworth both at 11.4%. In contrast, within the Midlands Engine there **were 136 wards with no youth claimants** in June 2022.

Source: ONS/ Department for Work and Pensions, July 2022.
Located on the Midlands Engine Hub is an Interactive Claimant Count Dashboard

Midlands Engine Productivity

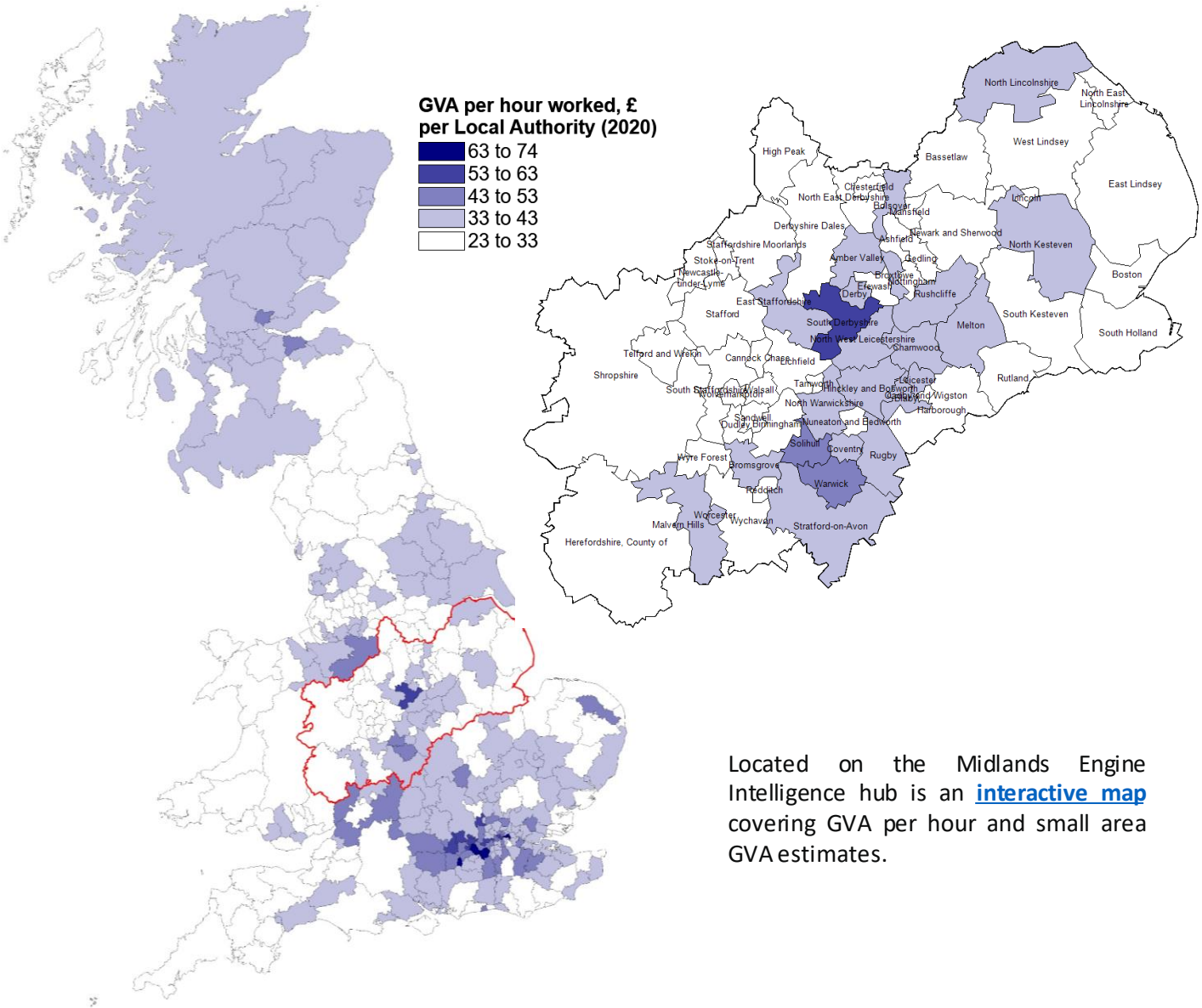
The **Midlands Engine unsmoothed GVA per hour worked increased from £32.05 in 2019 to £34.71 in 2020** (+8.3%, +£2.66). The UK unsmoothed GVA per hour worked increased from £36.49 in 2019 to £39.94 in 2020 (+9.5%, +£3.45). There was a **shortfall of £5.23 when comparing the Midlands Engine area to the UK.**

Within the Midlands Engine, 2 local authorities decreased in smoothed GVA per hour since 2019; Rugby (-£0.04 to £35.43) and Staffordshire Moorlands (-£0.36 to £27.29). At the other end of the scale, South Derbyshire increased by £2.45 (to £58.74), Rushcliffe by £2.18 (to £42.92) and Broxtowe by £1.76 (to £37.15).

In 2020, smoothed GVA per hour work varied for the Midlands Engine 9 LEPs from £28.61 (+2.4%, +£0.67 since 2019) in the Marches LEP to £38.08 (+1.0%, +£0.38 since 2019) in Coventry and Warwickshire LEP.

Smoothed GVA per hour worked for the West Midlands region increased by 1.9% (+£0.62) since 2019 to £33.07 in 2020. **Smoothed GVA per hour worked for the East Midlands region increased by 2.5% (+£0.78) since 2019 to £32.58** in 2020. The UK smoothed GVA per hour worked increased by 2.1% (+£0.78) since 2019 to £37.73 in 2020.

Smoothed GVA per hour worked across all local authorities, with a special focus on the Midlands Engine in 2020:



Located on the Midlands Engine Intelligence hub is an **interactive map** covering GVA per hour and small area GVA estimates.

Gross value added (GVA) per hour worked divides GVA by the total hours worked by the workforce in the area.
GVA per hour worked is the preferred measure of labour productivity. In 2020, in response to the coronavirus pandemic, both the UK chained volume measure (CVM) GVA and hours worked declined substantially (by 10% and 11%, respectively). In the majority of areas, the decline in hours worked was greater than the decline in GVA. Positive productivity growth was mainly because of the distribution of economic activity between industries.

Source: Office for National Statistics (ONS), Subregional productivity in the UK: July 2022. Please note, a Midlands Engine figure is only available on an unsmoothed basis.

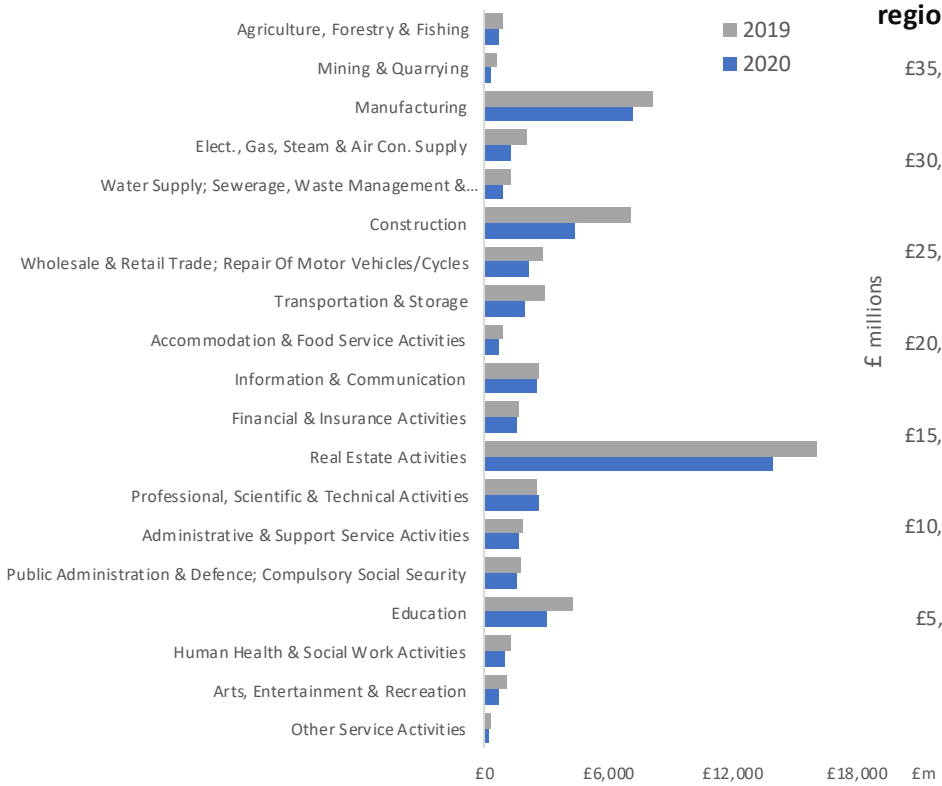
Gross Fixed Capital Formation (GFCF)

ONS recently released experimental regional gross fixed capital formation (GFCF) estimates by asset type: 1997 to 2020. GFCF is a **measure of investment (an input to GDP/GVA),** which has been split by broad industry and asset within the release (for example; transport equipment, intangible assets etc).

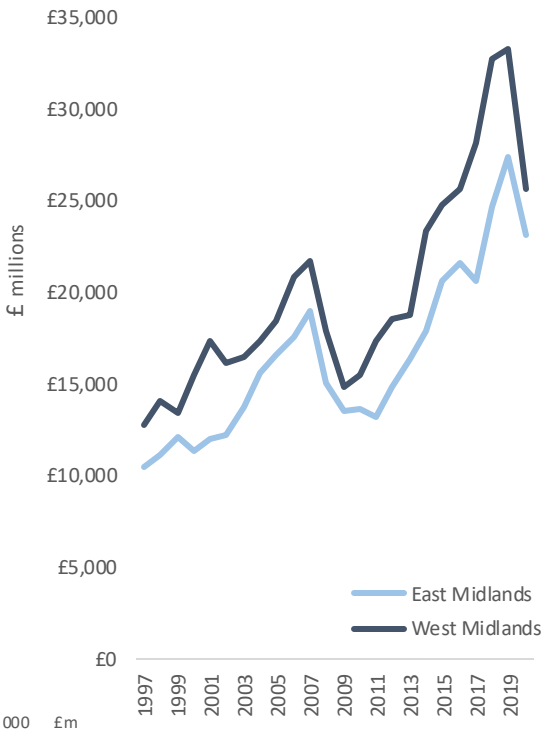
For the Midlands in 2020, GFCF totalled £48.7bn - split by £23.1bn for the East Midlands and £25.7bn for the West Midlands. However, the impacts from Covid-19 can be seen and compared to the 2019 period; **the Midlands overall was substantially hit, decreasing by 19.6% (-£11.9bn).** For the Midlands at industry level, since 2019 only professional, scientific and technical activities increased, by 1.3% (£35m to just over £2.6bn), with the East Midlands increasing by £86m which was offset by the West Midlands decreasing by £51m. The highest monetary value decreases for the Midlands was in construction (-£2.6bn to £4.4bn) and real estate activities (-£2.1bn to £14.0bn).

Across all 12 UK regions, the West Midlands had the highest decrease between 2019 and 2020 (-22.9%, -£7.6bn), followed by the East Midlands (-15.6%, -£4.3bn). The region with the third highest decrease was North West at -11.1% (-£4.2bn to £33.9bn) while in contrast, the only region to increase was Yorkshire and The Humber. **Looking at the longer term, when compared to 2010 the Midlands had the highest percentage increase of all regions at 67.3% (+£19.6bn), with** the East Midlands increasing by 69.4% (+£9.5bn) and the West Midlands increasing by 65.6% (+10.2bn). Yorkshire and The Humber had the third highest percentage increase at 59.2% (+£9.5bn) down to Northern Ireland increased by 19.2% (+£1.5bn).

The Midlands total GFCF (all assets) by industry for 2019 and 2020:



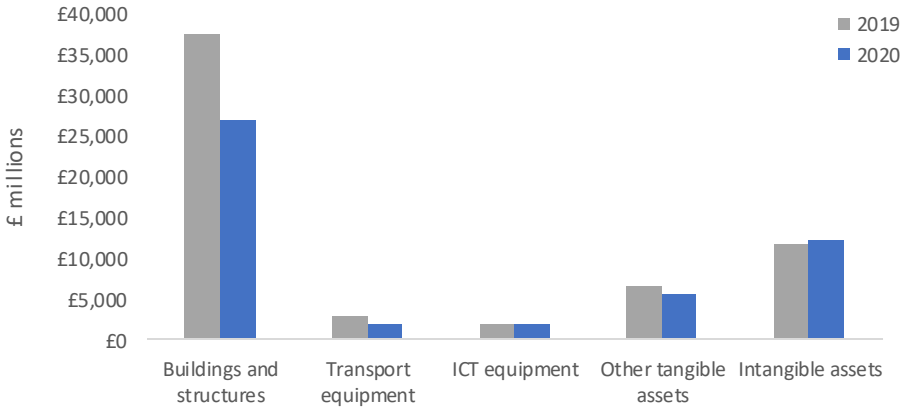
Timeseries of total GCFC by Midlands region:



Looking at the five GFCF assets in 2020, for the Midlands, **buildings and structures accounted for 55.2% (£26.9bn) of the total.** However, when compared to 2019, this asset decreased by 28.0% (-£10.5bn).

This was followed **by intangible assets which accounted for 25.2% (£12.3bn) of the total. This was the only assets to increase since 2019 – by 5.2% (+£608m).**

The Midlands GFCF by Assets for 2019 and 2020:



The Midlands Trade in Goods

In the year ending Q1 2022, the Midlands area exported £46.8bn worth of goods and imported £65.2bn. This represents a trade in goods deficit of £18.4bn. The West Midlands exported £25.8bn and imported £36.6bn – a trade in goods deficit of £10.8bn. The East Midlands exported £21.0bn and imported £28.6bn – a trade in goods deficit of £7.6bn.

Exports

In the year ending Q1 2022, exports from the Midlands area were worth £46.8bn which has increased by £3.6bn (+8.3%) since the year ending Q1 2021. The UK increased by a greater rate over the same period, overall by 13.3% to £321.2bn. **The West Midlands region exports in goods increased by £2.0bn (+8.4%)** since the year ending Q1 2021 to £25.8bn in the year ending Q1 2022. **East Midlands goods exports increased by £1.6bn (+8.2%)** to £21.0bn in the year ending Q1 2022.

The Midlands area accounted for 20.1% of England's goods exports (11.1% West Midlands and 9.0% East Midlands), above London (16.2%) and the South East (17.4%).

Quarter-on-quarter (Q4 2021–Q1 2022) analysis shows total goods exports from the Midlands decreased by £62m (-0.5%, UK -3.8%), this was due to the East Midlands decreasing by £283m (-4.9%), whereas the West Midlands increased by 3.3%. EU exports from the Midlands increased by £217m (+3.7%, UK +0.3%) and Non-EU exports from the Midlands decreased by over £279m (-4.3%, UK -8.0%), again, due to the East Midlands decreasing by £301m (-10.2%).

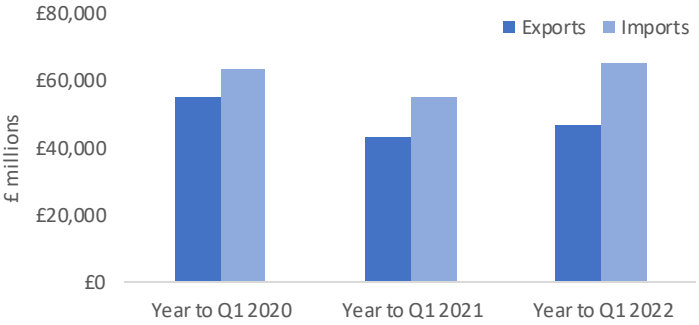
However**, annual quarterly (Q1 2021 – Q1 2022) analysis shows total goods exports from the Midlands increased by £1.2bn** (+11.2%, UK +16.3%); this was primarily due to the East Midlands increasing by £957m (+21.3%). EU exports from the Midlands increased by £1bn (+20.3%, UK +30.3%). Non-EU exports from the Midlands increased by £216m (+3.6%, UK +4.0%) as the East Midlands increased by £473m (+21.7%) but the West Midlands decreased by £257m (-6.6%).

Imports

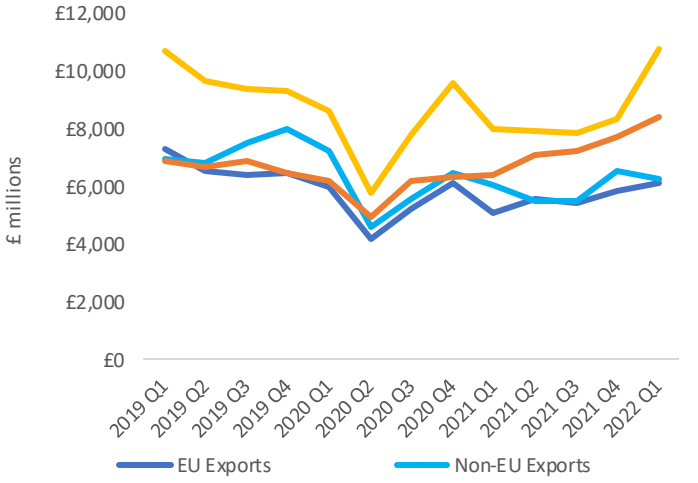
In the year ending Q1 2022, imports to the Midlands area were worth £65.2bn which is an increase of £10.3bn (+18.7%) when compared to the year ending Q1 2021. UK-wide total imports increased by 22.8% to £510.0bn over the same period. The value of West Midlands region goods imports increased by £6.4bn (+21.3%) when compared to the year ending Q1 2021 to £36.6bn in the year ending Q1 2022. East Midlands imports increased by £3.8bn (+15.5%) since the year ending Q1 2022 to £28.6bn in the year ending Q1 2022.

Quarter-on-quarter analysis shows **total goods imports to the Midlands increased by £3.1bn** (+19.5%, UK +16.7%). EU exports to the Midlands increased by £2.4bn (+29.3% - matching UK) and Non-EU imports to the Midlands increased by £694m (+9.0%, UK +6.7%). This was driven by an increase in Non-EU imports to the East Midlands - by £545m (+16.6%). **Annual Quarterly** analysis shows **total goods imports to the Midlands increased by £4.7bn** (+33.0%, UK +48.6%). EU imports to the Midlands increased by £3.7bn (+11.9%, UK +48.2%) and Non-EU imports to the Midlands increased by £2.0bn (+48.9%, UK +48.9%).

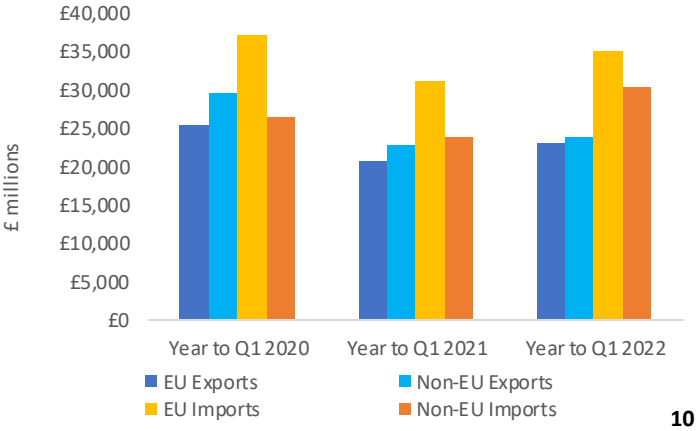
The Midlands total value of goods exported and imported, Year to Q1 2020 Year to Q1 2022:



The Midlands value of goods exported and imported split by quarter and EU/Non EU, Q1 2019 – Q1 2022:



The Midlands value of goods exported and imported split year to Q1 only and EU/Non- EU, 2020 – 2022:



The Midlands Trade in Goods

Standard International Trade Classification (SITC)

The **total value of goods exports in seven of the ten SITC sections increased** for the Midlands when compared to the year ending Q1 2021. The sections that declined were: beverages and tobacco, miscellaneous manufactures and other commodities nes.

The largest SITC section for goods exports in the Midlands area was machinery and transport at £30.3bn – 64.6% of total; of which £16.9bn (55.8%) went to non-EU locations. Compared to the year ending Q1 2021, overall, this SITC section increased by £2.0bn (+7.1%) due to exports to the EU increasing by £1.9bn. **10.8% (£5.1bn) of goods exported from the Midlands area came from manufactured goods, (of which 61.9% of the section total, or £3.1bn went to the EU).**

The total value of imports in nine of the ten SITC sections increased for the Midlands when compared to 2020. The SITC section that decreased was other commodities nes.

The largest SITC section that was imported to the Midlands area was machinery & transport at £28.5bn, which is 43.7% of total imports (of which £15.7bn of imports for this section was from the EU). This section overall has increased since the year ending Q1 2021 by £5.3bn (+22.8%). When split between EU and non-EU, there was an increase of £1.9bn from the EU and an increase of £3.3bn from non-EU countries. **18.3% (£12.0bn) of goods imported to the Midlands area were manufactured goods in the year ending Q1 2022.** There has been a large increase in the import of mineral fuels in the last year (+188.8%), driven by non-EU markets.

Country Group

The highest value of goods exports from the Midlands area was to the EU at £23.0bn, accounting for 49.1% of the total. The value of goods exports to the EU has increased by £2.4bn (+11.8%) from the year ending Q1 2021, lower than the UK-wide growth rate of 18.5%. When compared to year ending Q1 2021, Midland's goods exports to Asia & Oceania only increased by 3.6% (+£321m to £9.2bn) while imports increased by £3.5bn (+23.3% to £18.8bn).

The highest value of imports to the Midlands area was from the EU at £34.8bn, which accounted for 53.4% of the total. This was an increase of £3.7bn (+11.9%) when compared to the year ending Q1 2021. Imports from Western Europe have risen particularly fast in the last year (+80.7%).

Goods exported and goods imported by SITC Section:

	Midlands			UK		
	Year Ending Q1 2021	Year Ending Q1 2022		Year Ending Q1 2021	Year Ending Q1 2022	
Total Exports by SITC Section	£ millions		% Change	£ millions		% Change
0 Food and Live Animals	£1,555	£1,752	12.7%	£14,014	£14,031	0.1%
1 Beverages and Tobacco	£114	£111	-2.6%	£6,275	£7,510	19.7%
2 Crude Materials	£1,141	£1,800	57.8%	£6,879	£9,887	43.7%
3 Mineral Fuels	£204	£306	50.0%	£19,059	£29,850	56.6%
4 Animal and Vegetable Oils	£63	£82	30.2%	£500	£670	34.0%
5 Chemicals	£2,977	£3,182	6.9%	£51,094	£54,469	6.6%
6 Manufactured Goods	£4,256	£5,051	18.7%	£33,418	£36,527	9.3%
7 Machinery and Transport	£28,245	£30,260	7.1%	£103,437	£112,475	8.7%
8 Miscellaneous Manufactures	£4,565	£4,263	-6.6%	£37,589	£38,696	2.9%
9 Other commodities nes	£104	£10	-90.4%	£11,208	£17,111	52.7%
Total Exports	**£43,225**	**£46,816**	**8.3%**	**£283,472**	**£321,225**	**13.3%**
Total Imports by SITC Section	£ millions		% Change	£ millions		% Change
0 Food and Live Animals	£5,646	£5,755	1.9%	£39,628	£39,961	0.8%
1 Beverages and Tobacco	£476	£510	7.1%	£6,570	£7,026	6.9%
2 Crude Materials	£1,379	£1,681	21.9%	£12,175	£15,186	24.7%
3 Mineral Fuels	£493	£1,424	188.8%	£24,406	£71,041	191.1%
4 Animal and Vegetable Oils	£169	£198	17.2%	£1,487	£1,842	23.9%
5 Chemicals	£4,387	£5,185	18.2%	£54,344	£64,564	18.8%
6 Manufactured Goods	£9,578	£11,961	24.9%	£54,686	£64,444	17.8%
7 Machinery and Transport	£23,203	£28,487	22.8%	£146,381	£162,818	11.2%
8 Miscellaneous Manufactures	£9,594	£9,996	4.2%	£69,588	£73,909	6.2%
9 Other commodities nes	£23	£11	-52.2%	£6,141	£9,243	50.5%
Total Imports	**£54,948**	**£65,207**	**18.7%**	**£415,406**	**£510,033**	**22.8%**

Goods exported and goods imported by Country Group:

	Midlands			UK		
	Year Ending Q1 2021	Year Ending Q1 2022		Year Ending Q1 2021	Year Ending Q1 2022	
Exports by Country Group	£ millions		% Change	£ millions		% Change
Asia & Oceania	£8,899	£9,220	3.6%	£49,680	£52,949	6.6%
Eastern Europe (excl EU)	£792	£942	18.9%	£4,763	£5,788	21.5%
European Union	£20,564	£22,985	11.8%	£137,022	£162,308	18.5%
Latin America and Caribbean	£529	£683	29.1%	£4,046	£4,786	18.3%
Middle East and North Africa (excl EU)	£2,086	£2,100	0.7%	£13,606	£14,945	9.8%
North America	£8,006	£8,386	4.7%	£47,106	£49,851	5.8%
Sub-Saharan Africa	£669	£742	10.9%	£4,327	£5,538	28.0%
Western Europe (excl. EU)	£1,676	£1,752	4.5%	£14,070	£13,697	-2.7%
Undefined Country Group	£3	£6	100.0%	£8,850	£11,364	28.4%
Total Exports	**£43,225**	**£46,816**	**8.3%**	**£283,472**	**£321,225**	**13.3%**
Imports by Country Group	£ millions		% Change	£ millions		% Change
Asia & Oceania	£15,210	£18,754	23.3%	£104,394	£117,445	12.5%
Eastern Europe (excl EU)	£405	£639	57.8%	£7,306	£10,125	38.6%
European Union	£31,127	£34,841	11.9%	£217,268	£240,587	10.7%
Latin America and Caribbean	£850	£1,130	32.9%	£5,141	£6,871	33.7%
Middle East and North Africa (excl EU)	£1,016	£1,365	34.4%	£7,876	£15,660	98.8%
North America	£3,803	£4,266	12.2%	£36,158	£48,292	33.6%
Sub-Saharan Africa	£635	£779	22.7%	£5,998	£9,366	56.2%
Western Europe (excl. EU)	£1,900	£3,434	80.7%	£26,258	£56,234	114.2%
Undefined Country Group	-	-	-	£5,006	£5,454	8.9%
Total Imports	**£54,948**	**£65,207**	**18.7%**	**£415,406**	**£510,033**	**22.8%**

Source: HM Revenue & Customs, UK regional trade in goods statistics: first quarter 2022

2. Business Environment

Local Business Intelligence By Sector

SECTOR	KEY INSIGHTS
Construction	• There are high **levels of construction activity in the Midlands and strong future forecasts for demand.** • However, **skills and labour shortages remain an issue, as do the supply and cost of building materials.**
Manufacturing	• CBI's quarterly Industrial Trends Survey reported that **growth in manufacturing output and orders eased in the quarter to July, slowing to more typical rates of expansion** following a period of exceptionally strong growth over the previous years. - **Optimism within the sector fell for a third consecutive quarter.** However, investment intentions generally improved, and employment within the sector continued to grow at a robust pace, though less quickly than expected last quarter - **Average costs and prices continued to rise sharply**, although growth eased from recent highs. • In particular, prices for key inputs such as **energy, materials and labour are substantially reducing competitiveness,** while sector specific issues exacerbate problems; for example, semi-conductor shortages in automotive and strict rules of trade related to food products post-Brexit. • However, there **have been reports that the semi-conductor issue is reducing**, which will be a boost to automotive and its supply chain. Production is likely to ramp up which is good for Midlands supply chains **but managing to recruit enough staff is an issue and there are very few agency staff that can fill the vacant positions**.
Tourism, Hospitality & Retail	• Despite there being a sustained opening of retail for many months now, the cost of living and **industrial strike action is damaging retailers in the short-term, with longer-term decline in train and further on the horizon.** • This is reflected in results from CBI's monthly Distribute Trades Survey that shows that **retail sales volumes continue to fall in the UK.** - Retail sales volumes fell at a modest pace in the year to July (balance of -4% from -5% in June). Next month, retailers expect sales to decline at a faster pace (-14%). - Retail sales were seen as poor for the time of year in July, but to a lesser extent than in June (-9% from -19% in June). Sales are expected to remain similarly weaker than seasonal norms next month (-6%). • While new research on the **number of pubs in Britain** **has shows that levels have hit a record low.** • Tourism, hospitality & retail is hoping to get a **boost from the Commonwealth Games**, while other more positive outcomes are still happening: for example the West Midlands has agreed a 10-year Strategic Framework Agreement with the **Global Esports Federation (GEF).** The agreement will cement the region's **position as a hotbed for the esports and gaming industry**, with the West Midlands already responsible for one quarter of the UK's output in the sector.
Business, Professional and Financial Services	• Lloyds Banking Group has confirmed a **further 66 branch closures** from October, including another **nine branches across the Midlands**. - The West Midlands will lose Lloyds Bank branches in Edgbaston, Weoley Castle, Aldridge and Malvern Link, as well as a Halifax branch in Birmingham. - In the East Midlands, Lloyds branches in Belper, Lutterworth and New Ollerton will close, alongside Halifax's site in Retford.
All Sectors	• A new list of the top **500 biggest businesses in the East Midlands** **has been published by BusinessLive**, compiled by De Montfort, Derby and Nottingham Trent Universities, and supported by East Midlands Chamber. • The top 10 companies on the list are: **Boots UK, Synter Group, Pendragon Plc, Next Plc, Frasers Group (formerly Sports Direct International), Barratt Developments Plc, Toyota Motor Manufacturing UK, Ecot-Bat Technologies, Bloor Investments (Bloor Homes and Triumph Bikes), and Amalgamated Holdings Wilkinson's (Wilko).**

Manufacturing Outlook

The most recent instalment of Make UK's Regional Manufacturing Outlook report provides an update on the activities of UK manufacturers by region.

Overview

All UK regions have reported an increase in output, orders, employment and investment intentions between Q3 2021 - Q2 2022. However, the report suggests performance has peaked as Q2 2022 showed a slowdown in quarterly performance and further decline is expected. The **East and West Midlands have not performed considerably far from the UK average in any performance metric** despite a high percentage of manufacturing output stemming from Transport Equipment production, which has **recovered slower than other subsectors** since the end of the pandemic.

The table below shows the latest regional performance against five indicators:

Regional summary

% average balance of change 2021 Q3 – 2022 Q2

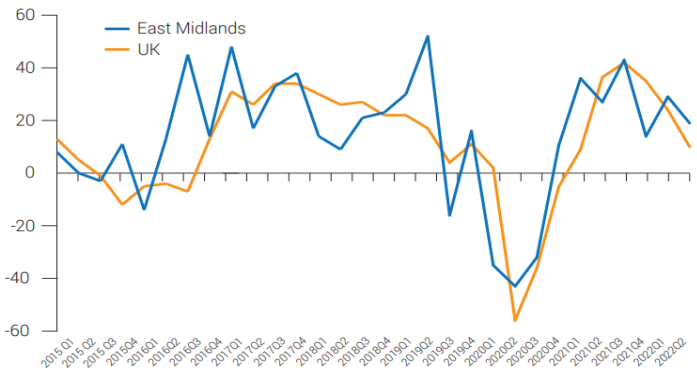
	OUTPUT	ORDERS	INVESTMENT	EMPLOYMENT	OUTPUT (Next 3 months)
East Midlands	26	29	13	24	33
Eastern	23	49 ↑	16	16 ↑	54
North East	40	33	26 ↑	22	22
North West	31	28	12	10	4
South East & London	35 ↑	40	38	26	21
South West	24	27	7	27	29
West Midlands	19	39	18	18	47
Yorks & Humber	33	51	19	22	26
Scotland	25	35	20	22	35
Wales	18	46	17	9	45

Source: Make UK Manufacturing Outlook Survey

■ Top performer
Bottom performer
↑ Improved most compared with last year
↓ Worsened most compared with last year

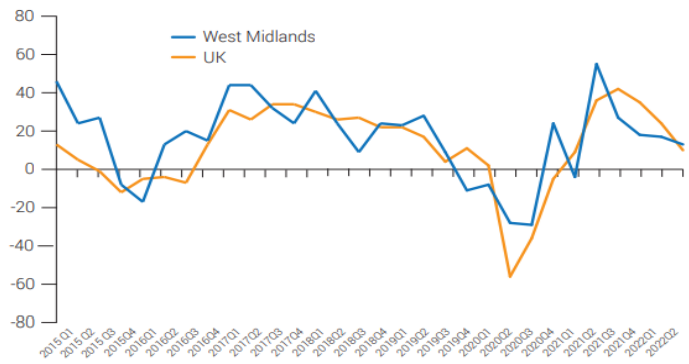
East Midlands output balance has remained positive since Q4 2020

% balance of change in output (past 3 months)



West Midlands output balances holds strong positive position this year

% balance of change in output (past 3 months)



Output

The East Midlands' manufacturing output performance has largely followed the UK's average, with the exception of Q4 2021, where output performance was about half as strong as the national average, but **recovered to above the UK average in Q2 2022**. The region experienced a **26% rise in average output over the 4 quarters up to Q2 2022.** Growth was slowed by supressed demand post-pandemic for Transport Equipment and **motivated by the growth of the Food & Drink subsector** as demand from hospitality and retail sectors rose post-lockdown. The West Midlands reported consistent **positive output balances, with an average of +19% between Q3 2021 and Q2 2022**.

Investment

At the start of 2022, West Midlands investment intentions indicated an overall contraction in contrast with the rest of the UK. In Q2 2022 this metric has **slightly recovered but is close to zero and still sensitive to future downturns.**

Manufacturing Outlook

Orders

Order growth in the West Midlands has been above the UK average but its average output balance increase reveals **supply-chain pressure has meant demand has not been met over the past 4 quarters**. **Raw materials and component scarcity alongside labour shortages have negatively affected supply,** especially in the Transport Equipment subsector, which makes up 30.6% of the West Midlands' manufacturing output. The East Midlands **domestic orders are notably strong against the UK average.**

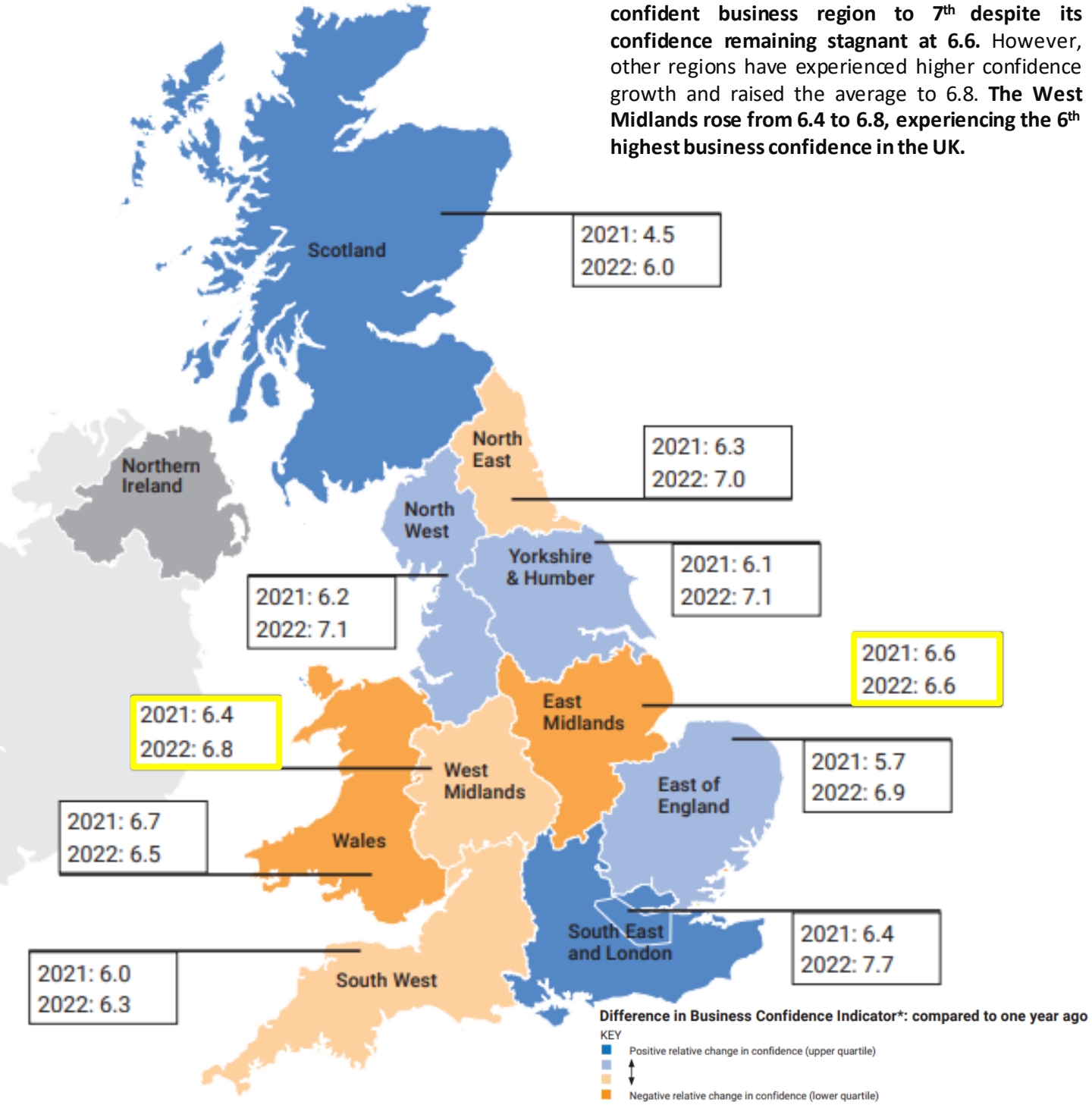
Employment

Manufacturing jobs in the East Midlands have fallen by 6,000 in the last year and remain unchanged in the West Midlands. The **West Midlands employment growth is slowing down faster than the UK average.** However, the latest data is not reflective of the current economic environment as the demand for labour is high right now and businesses are likely hiring more where they are able to.

Confidence

The **East Midlands has fallen from 2nd most confident business region to 7th despite its confidence remaining stagnant at 6.6.** However, other regions have experienced higher confidence growth and raised the average to 6.8. **The West Midlands rose from 6.4 to 6.8, experiencing the 6th highest business confidence in the UK.**

Difference in Business Confidence Indicator: compared to one year ago



Homeworking Patterns

During the coronavirus pandemic there was an unprecedented increase in the number of individuals working from home. Recent analysis shows that this **increased homeworking is likely here to stay**. Despite the end of UK government guidance to work from home, in February 2022 **more than 8 in 10 workers who had to work from home during the coronavirus pandemic said they planned to work both from home and in the workplace (hybrid work).** Of those workers surveyed, 42% were planning to work "most working hours from home, and sometimes from their usual place of work". The increase in homeworking practices has led many to consider the implications on local labour markets and consumption.

Workers were categorised into:

- live and homework in the same region (homeworkers)
- live and non-homework in the same region (non-homeworkers)
- work in a region but live in a different region (regional commuters)

Changes in regional workers

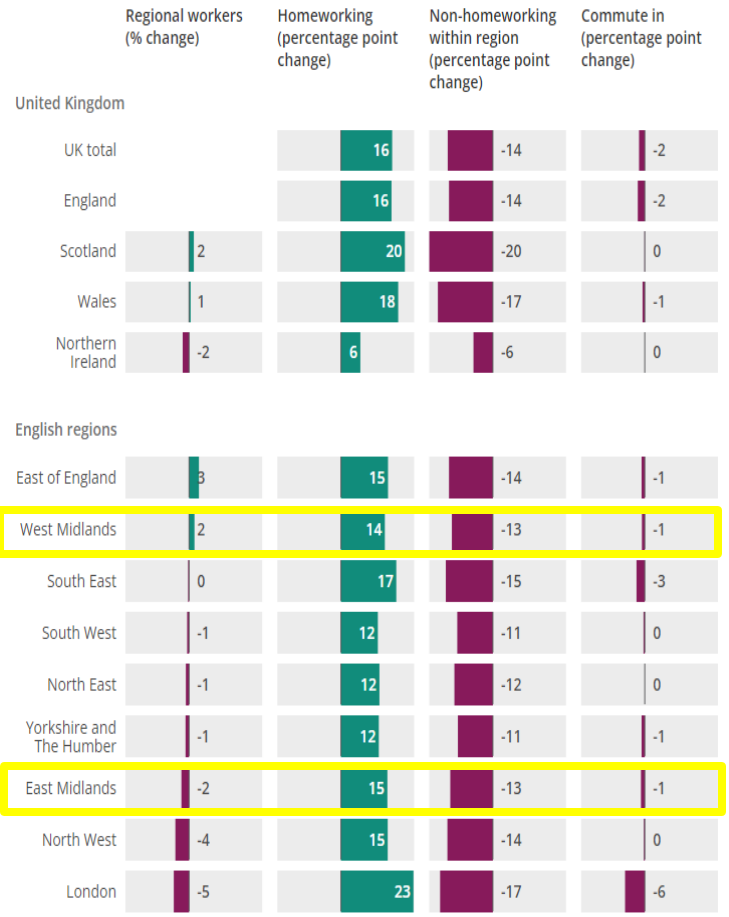
The largest percentage increases in regional workers:

- in the East of England by 3.1% (up 89,000)
- **in the West Midlands by 1.7% (up 48,000)**
- in Scotland by 1.5% (up 39,000)

The largest percentage decreases in regional workers:

- in London by 4.8% (down 258,000)
- in the North West by 4.3% (down 151,000)
- **in the East Midlands by 2.4% (down 56,000)**

Contribution to change in the number of regional workers between October to December 2019 and January to March 2022, not seasonally adjusted:



Source: ONS, July 2022

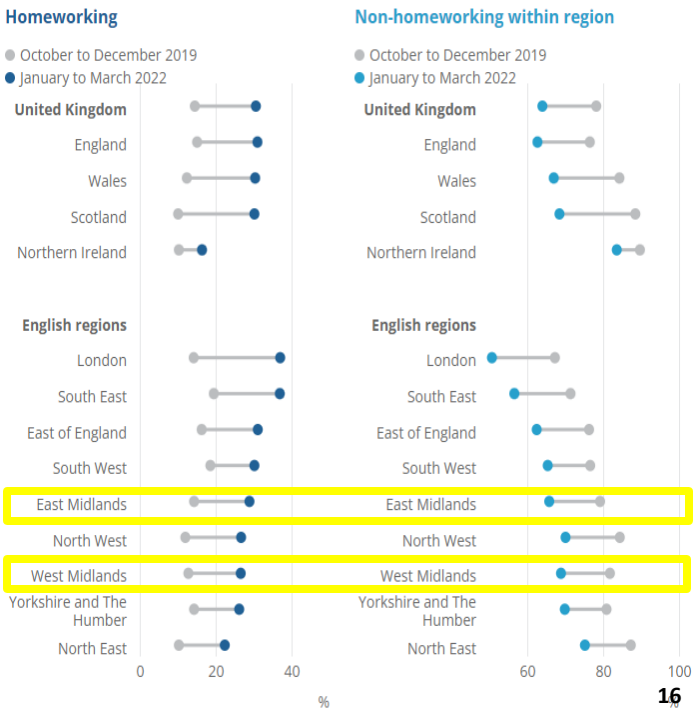
Homeworking

Between October to December 2019 and January to March 2022, homeworking in the UK more than doubled, increasing by 108.8%. The number of homeworkers increased by more than 50% in all UK regions. Scotland saw the largest percentage increase in homeworking (203.5%) and Northern Ireland the smallest percentage increase (56.4%). **The West Midlands increased by 111.6% and the East Midlands increased by 97.7%.**

The regions with the highest percentage of homeworkers in January to March 2022 were London (37.0%, 1.9 million), and the South East (36.9%, 1.6 million). The regions with the lowest percentage of homeworkers were Northern Ireland (16.4%, 137,000) and the North East (22.4%, 262,000). **There were 648,000 (28.9%) and 755,000 (26.6%) of workers in the East Midlands and West Midlands working from home respectively.**

Between the same two periods, the percentage of non-homeworkers (people who live in a region and leave their homes to work in the same region) decreased in all UK regions. **In the East Midlands this decreased by 19.1% (-376,000) and by -14.4% (-350,000) in the West Midlands.** The UK decreased by 19.7%.

Change in homeworking and non-homeworking, not seasonally adjusted:



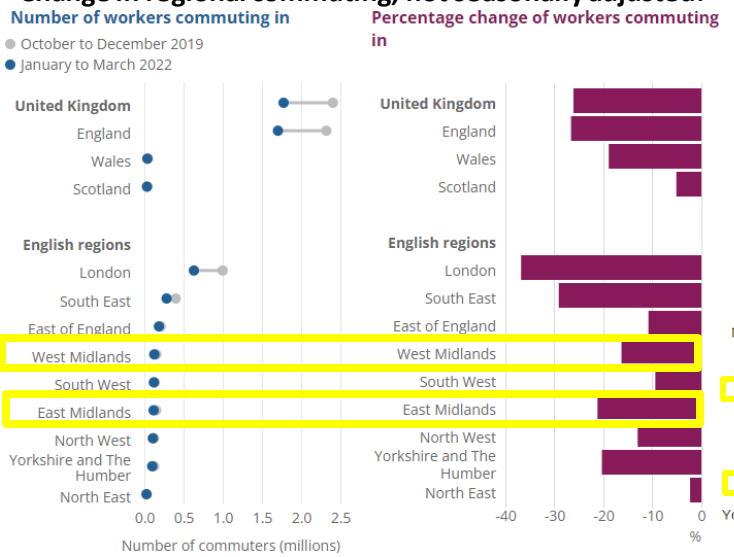
Homeworking Patterns

Commuting between regions

Between October to December 2019 and January to March 2022, the number of people who commuted into a region different to their region of residence for work fell across the UK by 26.1% (down 629,000). The decrease happened in all UK regions but was largest in:

- London 36.8% (down 367,000)
- South East 29.1% (down 117,000)
- **East Midlands 21.2% (down 32,000)**

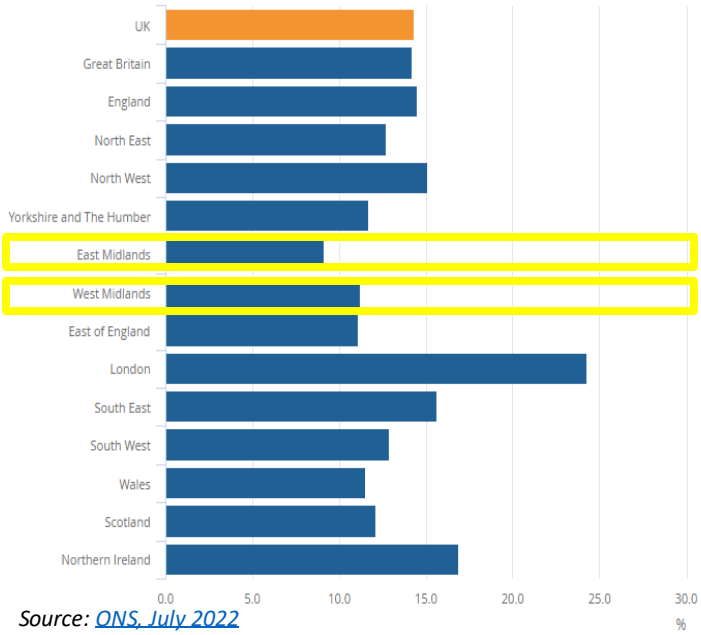
Change in regional commuting, not seasonally adjusted:



Flexible working

Across the UK, in January to March 2022, 14.3% of people (2.8 million) who did not mainly work from home (non-homeworkers) said they worked from home at least one day in the reference week. **9.1% did so in the East Midlands and 11.2% did in the West Midlands.**

Percentage of workers who do not mainly work from home but reported working from home at least one day in the reference week, January to March 2022:



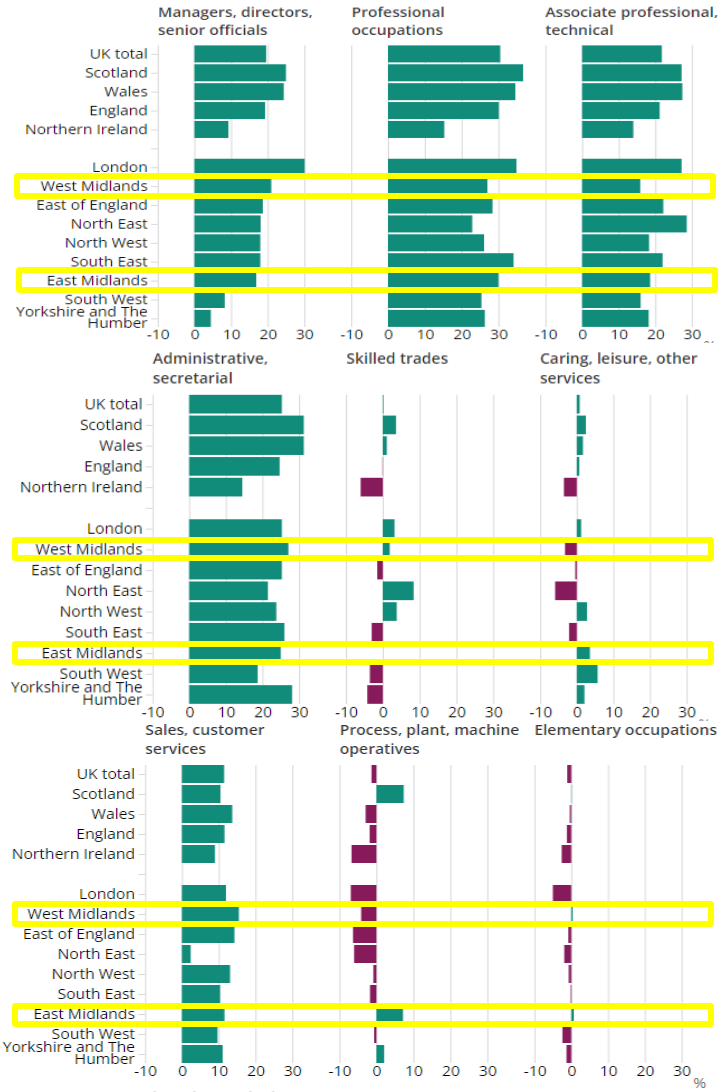
Effects on spending

Around half of those who worked from home as a result of the Covid-19 pandemic reported spending less as a result.

Industry composition and occupation

The industry composition of each region is one explanation for regional variation in the rate of homeworking. **Those employed in professional occupations saw the largest increase in homeworking (+30pp in the East Midlands and +27pp in the West Midlands, rising to 42.1% and 37.8% respectively in January to March 2022.**

Change in percentage of homeworking, by occupation, October to December 2019 and January to March 2022, not seasonally adjusted:



Demographic breakdowns:

	Female	Male	Aged 16 to 29	Aged 30 to 39	Aged 40 to 49	Aged 50 to 59	Aged 60+
East Midlands	28.1%	29.7%	16.5%	19.6%	32.7%	31.5%	35.5%
West Midlands	25.5%	27.7%	16.4%	15.6%	32%	30.1%	33.2%
UK	29.9%	31.2%	21.3%	32.1%	34.3%	32.5%	35%

Source: ONS, July 2022

Gender Index

Midlands Engine (ME) Female Owned Businesses

- From a dataset of 505,150 companies, recent analysis in the Gender Index reports that there are **79,862 female-led companies** in the Midlands Engine. This represents **15.8%** of all active Midlands Engine businesses in the study, **below the UK average of 16.2%.**
- While there is much more to be done, this ranks the **West Midlands at 3rd at 16.0%,** and the **East Midlands 7th at 15.5%** for the proportion of companies that are female-led.
- The Midlands Engine overall **performs better than the UK average for the proportion of new female led companies and female-led companies with angel investments**. But falls short of the UK for high growth, and other investments like venture capital and private equity.

The most common sectors for female-led businesses are wholesale and retail, professional, scientific and technical services, construction – followed by administrative and support service activities. **The Midlands Engine has relative strengths in female-owned businesses for public health and safety services, and logistics and storage services.**

Local authorities in the Midlands Engine area with the highest proportion of female-led companies:

	Total Companies	Female-led Companies	% Female-led
Wyre Forest	6,807	1,783	26.2%
Wolverhampton	15,831	3,271	20.7%
Wychavon	10,227	2,010	19.7%
South Staffordshire	5,552	1,074	19.3%
Redditch	4,855	934	19.2%

Key Statistics for the Midlands Engine Region:

	ME	%	UK %	ME / UK Difference
Total companies	505,150	-	-	-
Female led companies	79,862	15.8%	16.9%	-1.1%
New female led companies	29,234	20.7%	20.3%	0.4%
Female led fast growth companies	34	4.7%	8.8%	-4.1%
Female led companies with venture capital investments	50	0.2%	0.5%	-0.3%
Female led companies with private equity investments	17	0.08%	0.1%	-0.03%
Female led companies with angel investments	18,361	89.2%	87.9%	1.3%
Female led companies with investments from companies	2,801	13.6%	15.1%	-1.5%
Female led companies with no investments	59,275	74.2%	77.3%	-3.1%

Key Statistics for the Midlands Engine by Sector:

Sectors	ME Total Companies	ME Female-led Companies	ME % Female-led	UK % Female-led	ME / UK Difference
Accommodation and food service activities	27,401	5,582	20.4%	19.8%	0.6%
Administrative and support service activities	47,438	9,482	20.0%	19.6%	0.4%
Agriculture, Forestry and Fishing	5,188	691	13.3%	13.2%	0.1%
Arts, entertainment and recreation	9,588	1,923	20.1%	21.7%	-1.6%
Construction	59,417	3,633	6.1%	6.0%	0.1%
Education	7,888	2,479	31.4%	33.1%	-1.6%
Energy suppliers	1,210	56	4.6%	4.8%	-0.2%
Financial services	17,695	1,675	9.5%	9.2%	0.3%
Health, wellbeing and social care	23,233	7,583	32.6%	35.4%	-2.7%
Household employers	174	62	35.6%	32.6%	3.1%
Information, communication and technology	33,358	3,469	10.4%	12.2%	-1.8%
Logistics and storage services	30,617	4,854	15.9%	13.7%	2.2%
Manufacturing	34,463	3,331	9.7%	12.3%	-2.7%
Mining and Quarrying	598	37	6.2%	5.7%	0.5%
Overseas organisations	51	9	17.7%	15.5%	2.2%
Professional, scientific and technical services	61,287	10,445	17.0%	19.1%	-2.1%
Public health and safety services	1,005	321	31.9%	29.3%	2.6%
Real estate activities	44,684	5,753	12.9%	13.7%	-0.9%
Service sector	22,625	6,301	27.9%	27.8%	0.07%
Water and waste services	2,279	193	8.5%	8.1%	0.4%
Wholesale and retail	74,951	11,983	16.0%	18.2%	-2.3%

Source: The Gender Index

Business Insights and Impact on the UK Economy

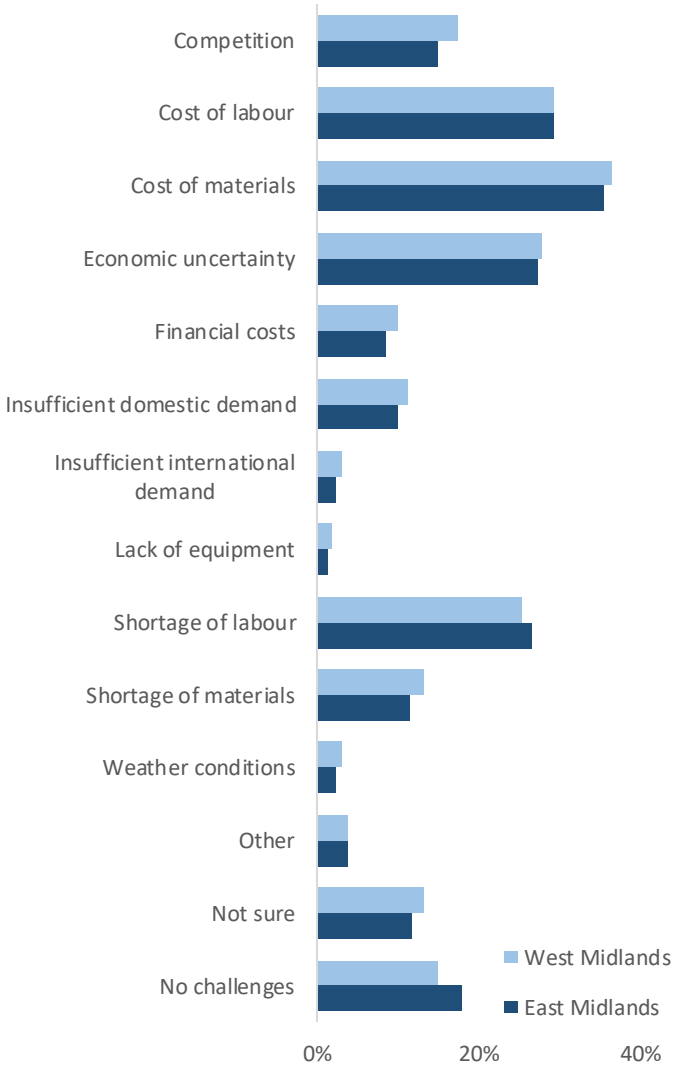
The Office for National Statistics (ONS) have published the final results from **Wave 60 of the Business Insights and Conditions Survey (BICS)**. In addition, on the 26th July, ONS released Business insights and impact on the UK subnational single-site economy: July 2022 which can provide some further lower level detail, however there are data gaps, the following summary is based on the West Midlands and East Midlands regions.

Financial Performance

21.7% of West Midlands businesses and 20.4% of East Midlands businesses reported that the business turnover in June 2022 when compared with the previous calendar month had **increased**. At the other end of the scale, **20.0% of West Midlands businesses and 19.7% of East Midlands businesses reported turnover had decreased.**

36.4% of responding West Midlands businesses reported that the **costs of materials was impacting business turnover**.

Challenges, if any, are currently impacting West Midlands businesses turnover:



18.9% of West Midlands businesses and 21.1% of East Midlands businesses reported that they expect business turnover in August 2022 to increase. While, 15.**6% of West Midlands businesses and 13.6% of East Midlands businesses expect turnover to decrease.**

Demand for Goods and Services

54.6% of West Midlands businesses and 56.1% of East Midlands businesses reported the **domestic demand** for goods or services in June 2022 when compared to the previous calendar month had stayed the same. 12.0% of West Midlands businesses and 11.2% of East Midlands businesses reported an increase. **13.9% of West Midlands businesses and 12.7% of East Midlands businesses reported that domestic demand had decreased.**

In comparison, 25.7% of West Midlands businesses and 24.8% of East Midlands businesses reported the **international demand** for goods or services in June 2022 when compared to the previous calendar month had stayed the same. 4.9% of West Midlands businesses and 2.9% of East Midlands businesses reported an increase. Although, **4.1% of West Midlands businesses and 4.3% of East Midlands businesses reported that international demand had decreased.**

Capital Expenditure

14.5% of West Midlands businesses and 16.3% of East Midlands businesses **expect capital expenditure will increase over the next three months**. 8.8% of West Midlands businesses and 9.6% of East Midlands businesses expect capital expenditure to decrease.

1.5% of West Midlands businesses and 1.4% of East Midlands businesses had to scrap capital assets earlier than intended in June 2022.

Number of Employees

60.3% of West Midlands businesses and 59.0% of East Midlands businesses reported that the number of employees in June 2022 when compared to the previous month had stayed the same. 19.9% of West Midlands businesses and 20.5% of East Midlands businesses reported the number of employees had increased Although, **10.9% of West Midlands businesses and 11.9% of East Midlands businesses reported the number of employees had decreased.**

61.0% of West Midlands businesses and 59.8% of East Midlands businesses expect that the number of employees in August 2022 will stay the same. 22.2% of West Midlands businesses and 23.7% of East Midlands businesses expect the number of employees to increase. **For both regions, 7.5% expect the number of employees to decrease.**

Business Insights and Impact on the UK Economy

Staffing Costs

59.1% of West Midlands businesses and 60.0% of East Midlands businesses reported that **staffing costs had increased over the last three months**. 26.2% of West Midlands businesses and 25.3% of East Midlands businesses reported **staffing costs had stayed the same** and 2.2% of West Midlands businesses and 2.1% of East Midlands businesses reported that staffing costs had decreased.

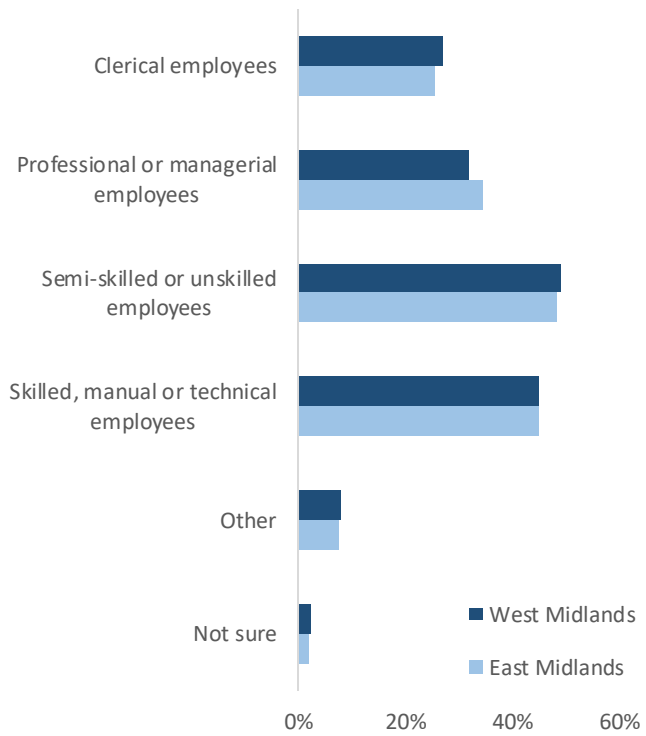
42.2% of West Midlands businesses and 41.9% of East Midlands businesses are **expecting staffing costs to increase over the next three months**. 40.1% of West Midlands businesses and 40.6% of East Midlands businesses expect staffing costs to stay the same. For both regions, 2.0% of businesses are expecting staffing costs to decrease.

Recruitment Difficulties

41.0% of West Midlands businesses and 43.5% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in June 2022. While 29.7% of West Midlands businesses and 28.8% of East Midlands businesses reported no difficulties in recruitment.

49.0% of West Midlands businesses and 48.2% of East Midlands businesses reported to have **difficulties in recruiting for semi-skilled or unskilled employees**.

Why Midlands businesses are experiencing difficulties in recruiting employees:



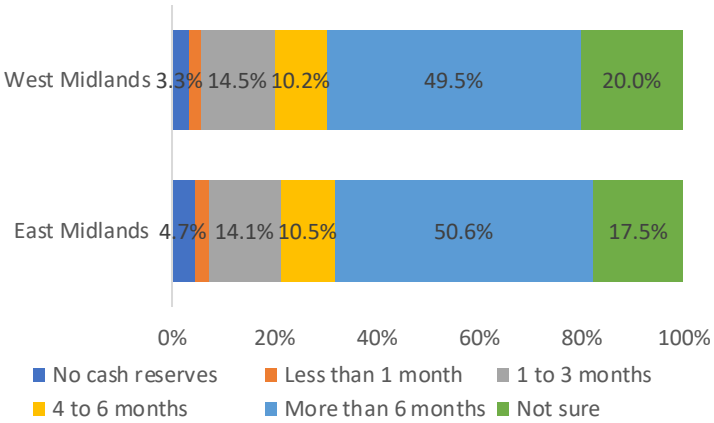
61.5% of West Midlands businesses and 59.5% of East Midlands businesses reported that **low number of applications for the roles on offer** was causing difficulties in recruiting.

Cash Reserves

49.5% of West Midlands businesses reported having **more than 6 months of cash reserves**, while 3.3% reported **no cash reserves**.

50.6% of East Midlands businesses reported having **more than 6 months of cash reserves**, while 4.7% reported **no cash reserves**.

Expectations of how long Midlands businesses expect cash reserves to last:



Overall Performance

39.0% of West Midlands businesses and 41.8% of East Midlands businesses reported that the **business's overall performance** in June 2022 compared with the same period in 2021 had **stayed the same**. 28.8% of West Midlands businesses and 28.4% of East Midlands businesses reported that **performance had increased**. Although, 19.0% of West Midlands businesses and 17.4% of East Midlands businesses reported that **performance had decreased**.

37.7% of West Midlands businesses and 40.9% of East Midlands businesses expect that the business's overall performance in the next 12 months will **stay the same**. 33.1% of West Midlands businesses and 34.0% of East Midlands businesses and expect an **increase in overall performance**. Although, 11.5% of West Midlands businesses and 10.0% of East Midlands businesses expect **performance will decrease.**

Source: ONS: Wave 60 of the Business Insights and Conditions Survey. In the West Midlands there was a response rate of 23.8% and in the East Midlands there was a response rate of 25.8% where businesses have a presence in the region. There was a response rate of 23.2% for the West Midlands and 26.2% of East Midlands where businesses are headquartered in the region. Survey reference period: 1st to 30th June 2022. Survey live period: 27th June to 10th July 2022. As response rates are low and the data is unweighted and should be treated with caution.

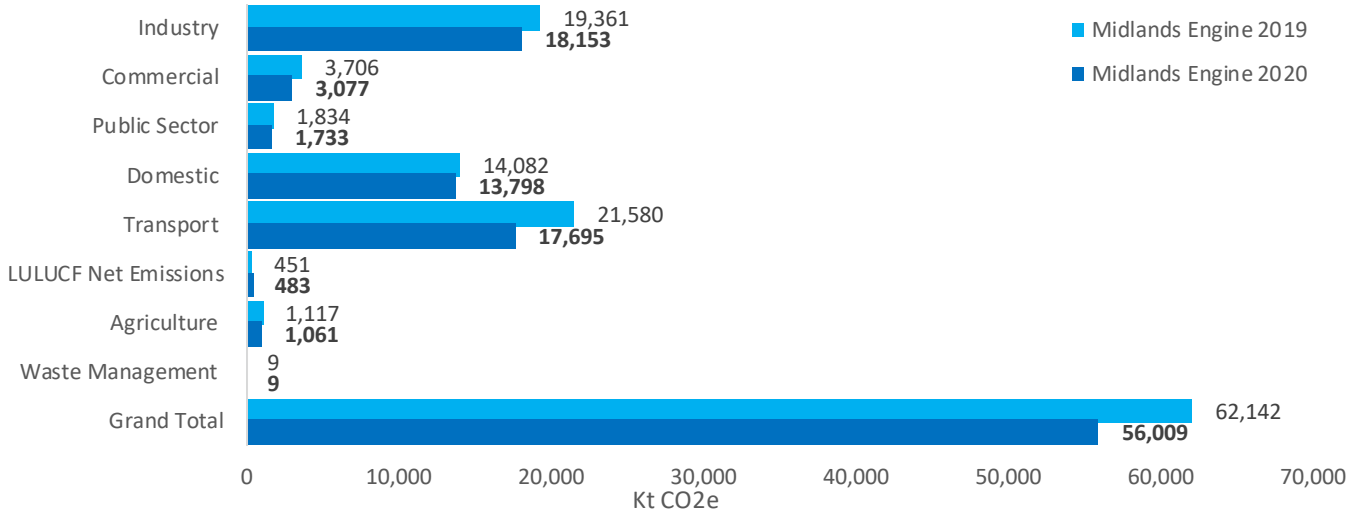
3. Green Growth

The Midlands Carbon Dioxide Emissions

In 2020, **the Midlands Engine area produced a total of 56,009 kt CO_2e emissions**, a decrease of 9.9% (-6,133 Kt CO_2e) compared to a decrease of 10.5% nationally since 2019. Carbon dioxide emissions are broken into eight main categories which can be seen in the following chart. In 2020, **three categories accounted for 88.6% of carbon dioxide** emissions in the Midlands Engine area**:**

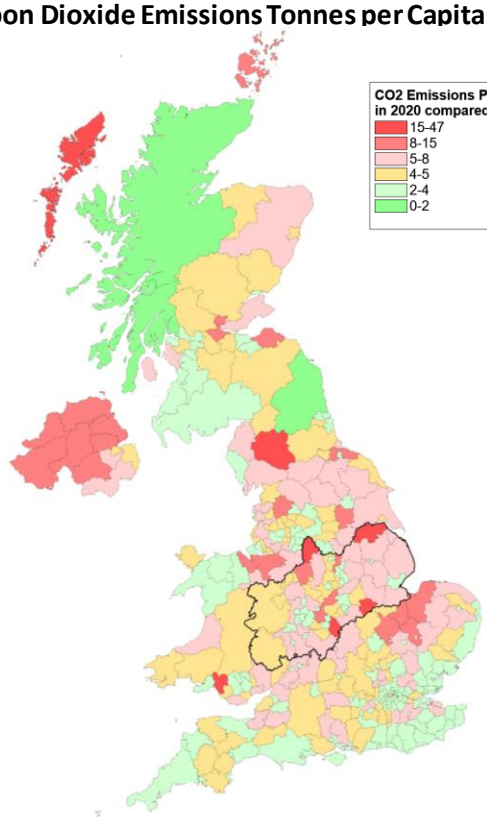
- **Industry accounted for the highest proportion at 32.4% (**18,153 Kt CO_2e) of total emissions, which was **above** the England-wide proportion of 17.4%.
- **Transport at 31.6%** (17,695 Kt CO_2e) of the total (England 30.7%)
- **Domestic at 24.6%** (13,798 Kt CO_2e) of the total (England 26.3%).

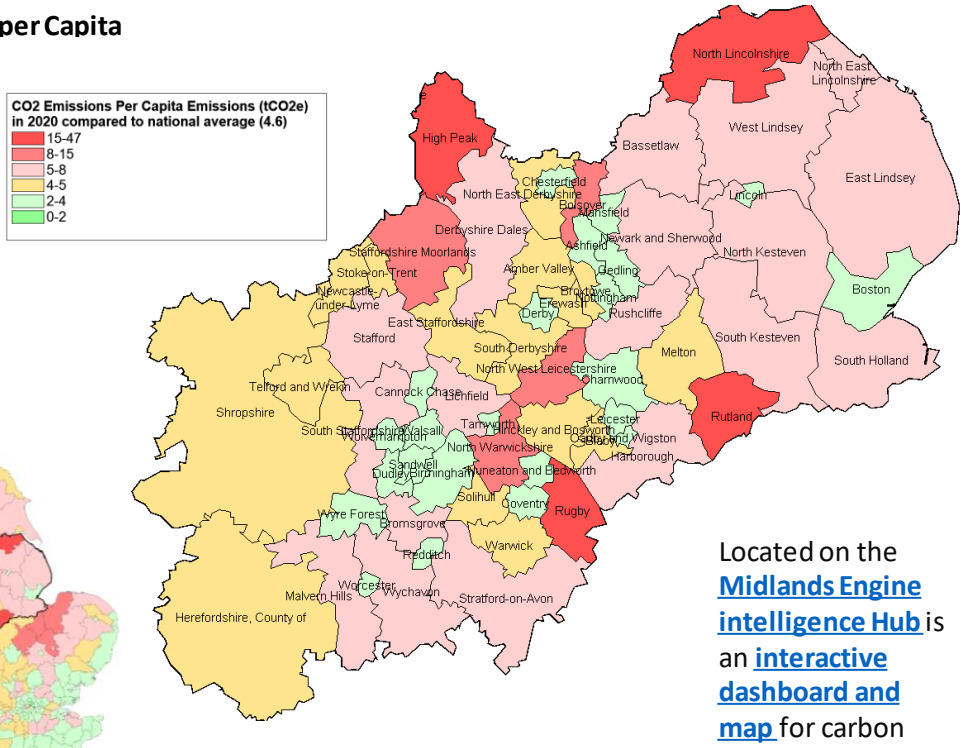
Midlands Engine Carbon Dioxide emissions summary, 2019 and 2020:



Carbon dioxide emissions for the Midlands Engine area equated to 5.4 tonnes per capita, above the England average of 4.3 in 2020. Out of 374 local authorities, there were **four local authorities in the Midlands Engine area that were in the top 10 for highest tonnes per capita in 2020**, these included; North Lincolnshire (3rd highest at 37.9), High Peak (4th highest at 28.8), Rutland (5th highest at 22.7) and Rugby (9th highest at 15.1).

Carbon Dioxide Emissions Tonnes per Capita





Located on the [Midlands Engine intelligence Hub](#) is an [interactive dashboard and map](#) for carbon dioxide emissions.

Source: Department for Business, Energy & Industrial Strategy, UK local authority and regional greenhouse gas emissions,

4. The Cost of Living Crisis

The Cost of Living Crisis

Centre for Cities' city-level annual inflation rates are estimated by considering the varying nature of consumption baskets across cities. The **inflation rate** for each consumption component (i.e. energy, groceries, etc) is **constant** across cities, but their **weight** varies between cities depending on their **consumption patterns**. The consumption baskets weights at the city level are divided into three groups:

Inflation is higher in the UK's poorest cities:

- **Cities with lower pre-inflation wages are the ones hardest hit by inflation.**
- **Energy and petrol consumption account for most of the differences between places.**

The reason why a number of cities in the North have higher inflation rates is because these two components, energy and petrol, have a **higher weight** in their total consumption baskets.

The nature and quality of the housing stock:
The leakiest, least insulated stock tends to be concentrated in the North. Previous Centre for Cities research has shown that of the 10 cities and large towns with the least energy efficient housing stock, seven are in the North or the Midlands.

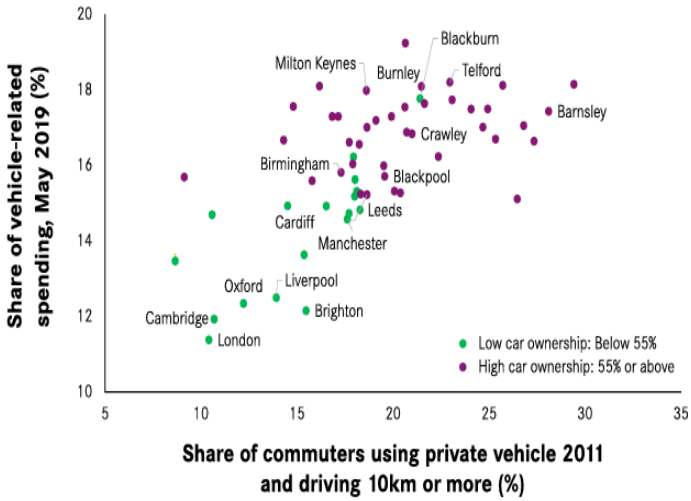
Average domestic energy costs per year (2021), top and bottom 10:

	City	Ten highest annual costs (2021)		City	Ten lowest annual costs (2021)
1	Burnley	£1,272	49	Newcastle	£998
2	Blackpool	£1,243	50	Sunderland	£987
3	Bradford	£1,206	51	Basildon	£986
4	Southend	£1,177	52	Slough	£981
5	Swansea	£1,148	53	Cambridge	£960
6	Birkenhead	£1,145	54	Peterborough	£959
7	Worthing	£1,140	55	Telford	£943
8	Birmingham	£1,131	56	Swindon	£939
9	Blackburn	£1,130	57	Crawley	£919
10	Derby	£1,121	58	Milton Keynes	£889

Vehicle usage, and spending on petrol:
Cities where households are more reliant on cars to get around are **more exposed** to increases in fuel prices, particularly when they drive longer distances.

Share of spending on vehicles is highly correlated with the share of commuters using private-vehicles:

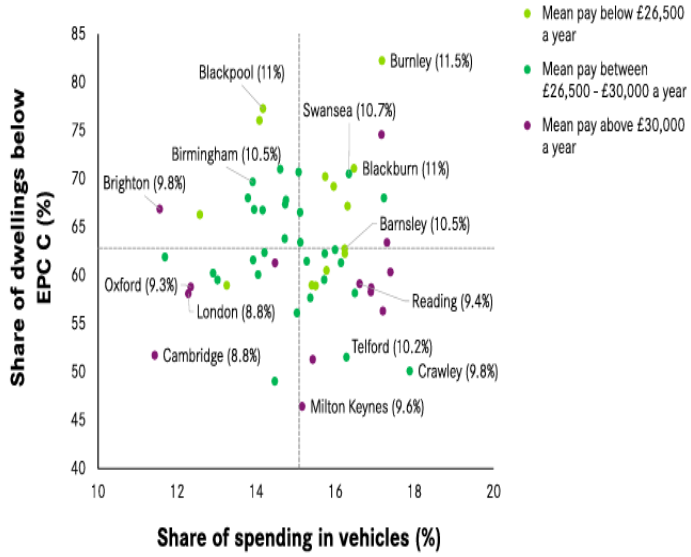
Vehicle-related spending and commuting



Income levels:
Poorer households earn less, but heating their homes or driving their car costs the same (or even more, depending on where they live – see table on the left). As a result, they **spend a higher proportion of their income on essentials** like energy bills, petrol and groceries, sectors where inflation is currently high. At the national level, it has been estimated that the poorest 10 per cent face an inflation rate of 10.9 per cent, three percentage points higher than the 10 per cent richest.

A combination of low incomes, poor energy stock and a high share of vehicle-related spending explains why most cities in the North and Midlands face higher inflation:

Inflation and main exposure factors



Source: Centre for Cities, 2022

The Cost of Living Crisis

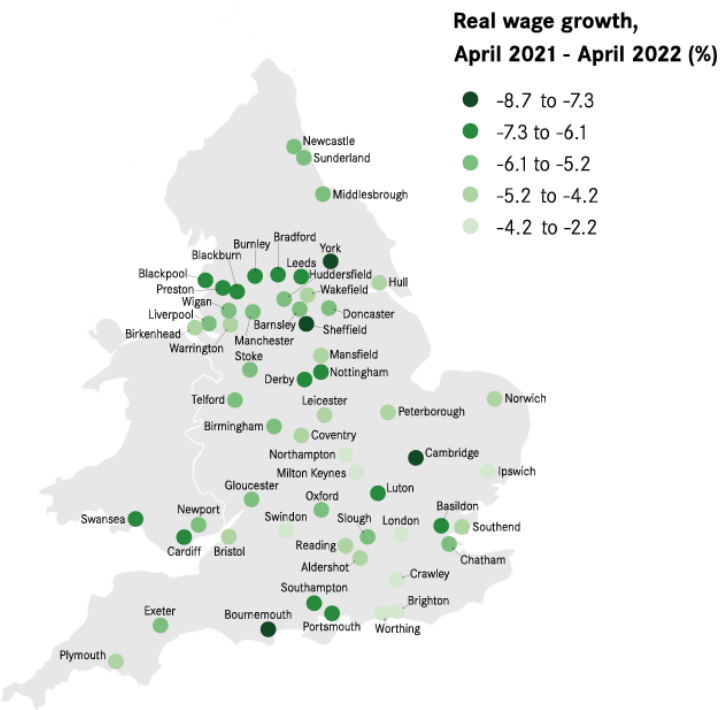
Wage growth has failed to keep pace with inflation: When prices grow faster than nominal wages, consumer spending power is squeezed.

Cities with the strongest nominal wage growth in the last tend to be located in the South of England:

	Top 10	Mean wages annual growth (%) April 2021 – April 2022		Bottom 10	Mean wages annual growth (%) April 2021 – April 2022
1	Ipswich	7.7	49	Swansea	3.2
2	Swindon	7.3	50	Portsmouth	3.2
3	Northampton	6.8	51	Oxford	3.1
4	Crawley	6.7	52	Leeds	3.0
5	Worthing	6.7	53	Basildon	2.7
6	London	6.2	54	Cardiff	2.6
7	Milton Keynes	6.1	55	Sheffield	2.2
8	Brighton	5.9	56	Bournemouth	2.0
9	Norwich	5.5	57	York	1.5
10	Peterborough	5.5	58	Cambridge	-0.7

Wages have fallen everywhere in the past year, but the cities that combined low nominal wage growth and high inflation rates experienced a particularly severe downturn.

Cities where the real mean wages have declined the least are typically located in the South of England:

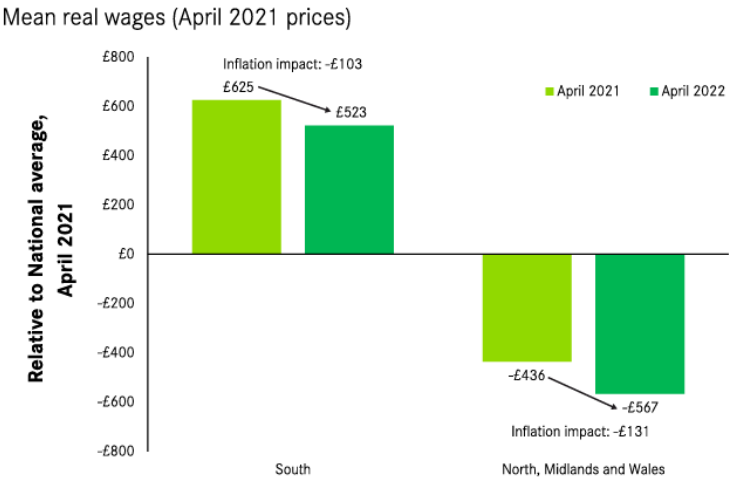


All places are worse off, but **those where wages were already well below average before the cost of living crisis are the hardest hit.** There is a clear geography to it.

Source: Centre for Cities, 2022

As of April 2022, **workers in the North, Midlands and Wales were on average £131 a month poorer** (a 5.8 per cent decrease) than in April 2021; compared to workers in the South who were around £103 worse off than in May 2021 (3.1 per cent decrease).

Cities in the poorest areas are the ones where real wages declined the most:



In most places, the Government support package isn't enough to offset inflation

The relief the package gives varies across the country. It broadly matches the North-South divide: **cities in the North and Midlands are likely to receive a higher amount of support than cities in the South because a higher proportion of their residents are either benefit recipients or pensioners.**

How much support the package offers differs across cities. There are only eleven cities where the average support offsets the average increase in energy costs. These are Middlesbrough, Hull, Newcastle, Slough, Newport, Swindon, Sunderland, **Telford**, Crawley, Milton Keynes, and Peterborough.

The cost of living package in most cities is estimated to be below the increasing energy costs.

Centre for Cities Recommendations for Change:

- **Increasing benefits now to bring them in line with inflation.** Universal Credit payments rose by 3.1 per cent in April, which is far from the near-10 per cent inflation rate. This is because benefits rates are aligned with the Consumer Price Index from the previous year.
- **Reintroducing the £20 uplift for Universal Credit** for the 5.9 million people that are currently on benefits.
- **Providing households living in dwellings below EPC band C with a one-off payment to help them face soaring energy bills**.
- Accelerate the **retrofit agenda.**

5. Economic Modelling Forecast Update

Oxford Economics Model Forecasts

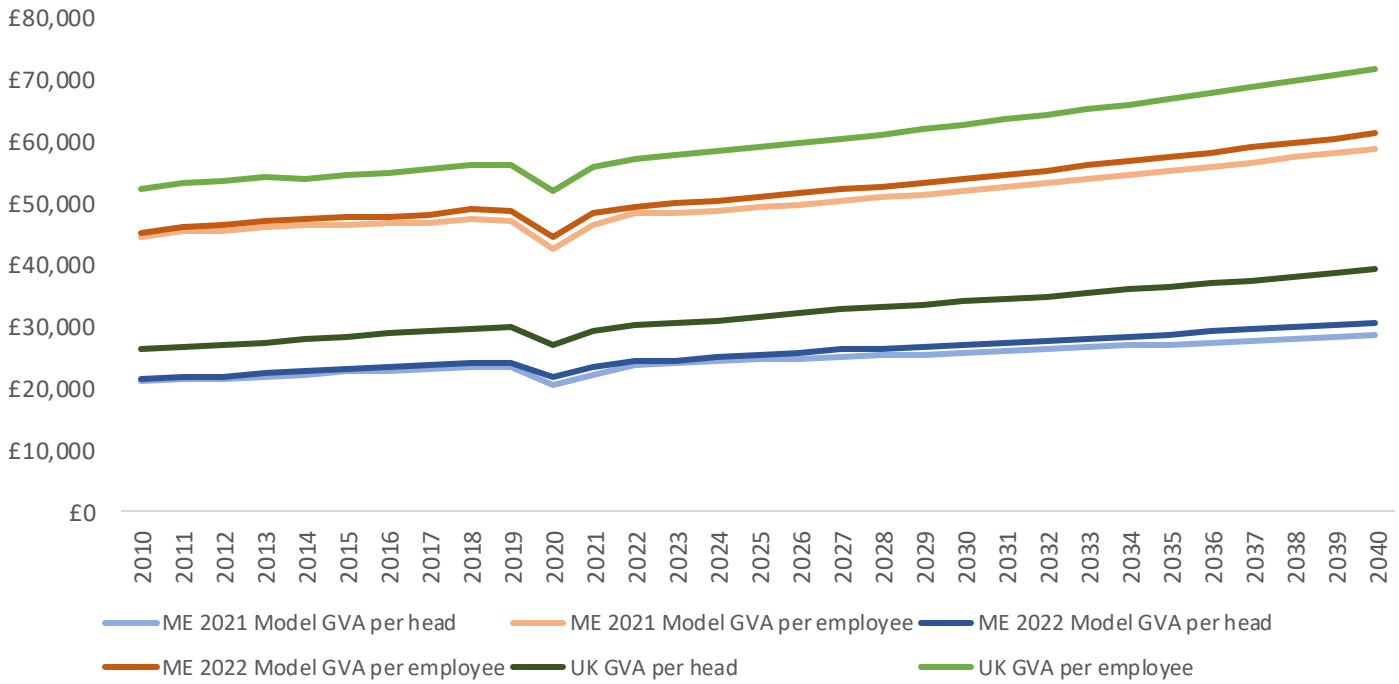
The Midlands Engine Forecasting Model provides a baseline (or "trend") forecast, reflecting Oxford Economics latest view on the trajectory of economies up to 2040. This includes a **short-term outlook underpinned by growing inflation and tighter fiscal policy, with longer-term effects related** to the impact of Brexit risks, pandemic scarring and demographic trends.

Oxford Economics have provided an **annual update of the forecast model (July 2022),** and while much of the trajectory is similar than the previous version of the model (2021), there are some **notable differences across indicators.**

The updated economic model from the July 2022 forecasts show **the following between 2020 and 2040 for the Midlands Engine:**

- An **increase in Gross Value Added (GVA) of +41.0% from £225bn to £317bn**, similar to the forecast from the previous year model (+41.6%) and still below the UK average growth rate of +47%.
- **An increase in GVA per head of +41.7% from £21,588 to £30,582**, an uplift in the forecast from the previous year model (+39.2%), but below the UK growth rate (+45%). This means that the **output gap between the Midlands Engine and the UK overall is set to increasingly widen up to 2040.**
- An **increase in GVA per employee** (productivity measure) of 37.8% from £44,420 to £61,211, similar to the forecast from the previous year model (+37.9%) and the UK baseline forecast. (+38.0%).

Baseline model GVA per head and GVA per employee: Midlands Engine & UK:

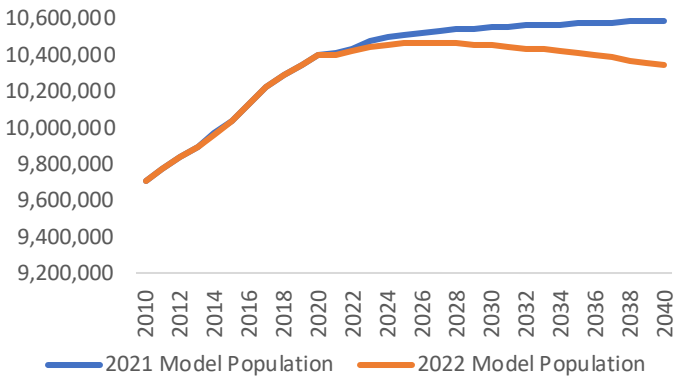


- The baseline model also predicts a **marginal increase in Midlands Engine employment of +2.3%** from 5.055million to 5.171m, a slightly weaker trajectory than forecast in the 2021 edition of the model (+2.7%) and **considerably lower than the UK average growth rate of +6.7%.** While employment overall will increase, it is expected to peter out from the mid-2020s following an initial rise post-Covid.
- In addition, the **trajectory for earnings is similar to the previous model**, with a slight uplift in the trend up to 2040. **Average resident-based earnings in the Midlands Engine are forecast to reach over £50,000 by 2040**, an increase of over 80% from the current average of £28,000.

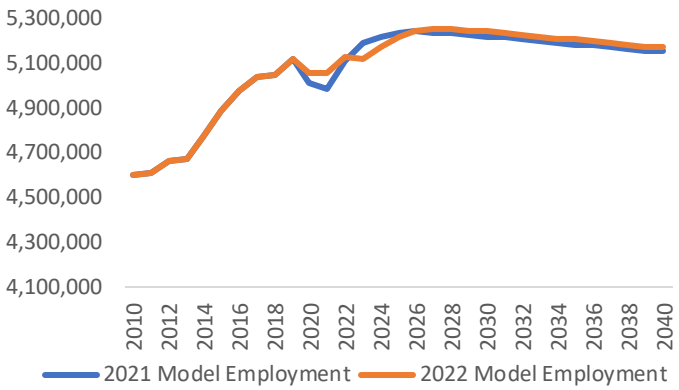
- Furthermore, a **decrease in the overall population is now predicted, from 10.402million to 10.351m (-0.005%)**, a reversal of steady increases in population predicted in the 2021 version of the model (+1.8%). The UK's population overall is expected to rise by 1.7% between 2020 and 2040.
- The change in results relates to the choice of assumptions by Oxford Economics. They incorporate the ONS' most recent (2022) national population projections (2020-based interim), which include **downward revisions to "natural change" in population – the rate of deaths is expected to be higher than the rate of births**, thus overall population growth is revised down – despite continued growth of the population across the Midlands Engine in recent years.

Oxford Economics Model Forecasts

Midlands Engine population: baseline forecast:



Midlands Engine employment: baseline forecast:



The impact of the pandemic and EU Exit on sectors in the region continues to shift reflecting the waves of different impacts the economy has suffered. The **varying trajectories for jobs and GVA predicted in the 2021 version of the model largely remain, though some results have been revised up or down**.

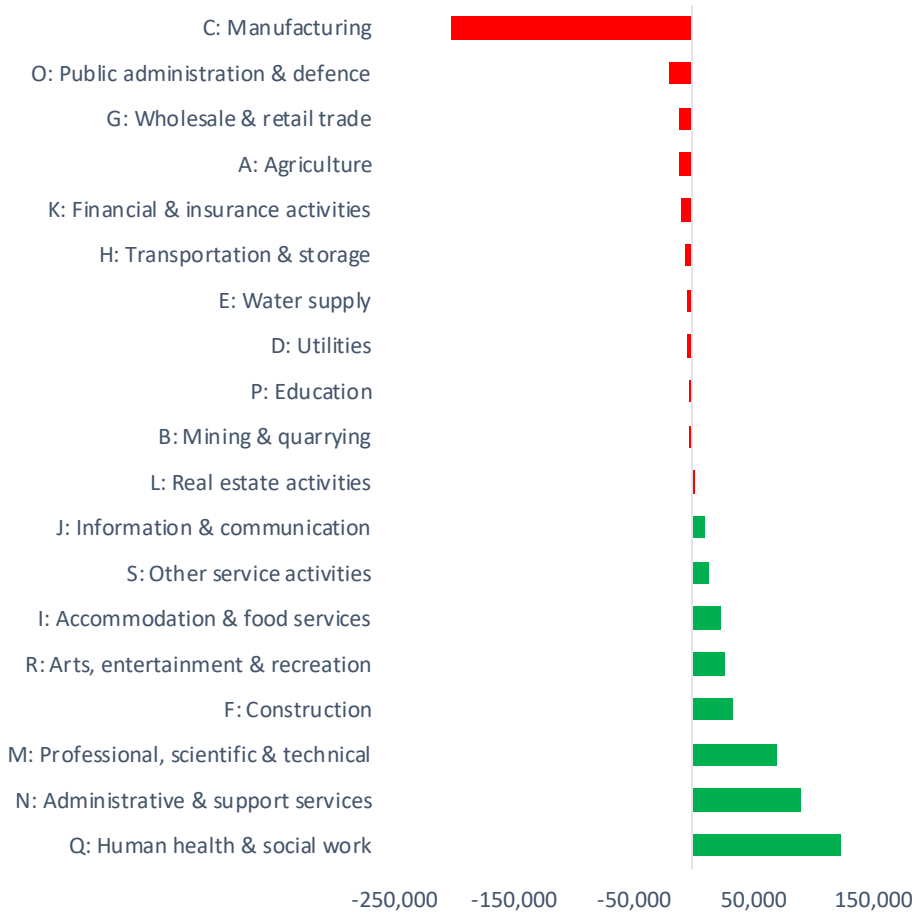
- The **sector forecast to have the highest volume growth in employment in the Midlands Engine is human health & social work (+125,000 jobs between 2020 and 2040),** followed by administrative & support services (+90,000) and professional, scientific and technical (+71,000).
- **Manufacturing employment is forecast to reduce by over a third (-35.4%) across the Midlands Engine in the next two decades, a fall of over 200,000.** Other sectors forecast to have relatively high employment decline include the public sector (-10%, -20,000 jobs), wholesale and retail (-1.5%, -11,500 jobs) and agriculture (-18%, -11,000 jobs).
- GVA **growth between 2020 and 2040 is expected to be highest in service-based sectors** such as information & communication (+82.9%) and administrative and support services (+70.3%), as well as accommodation & food services (+129.0%) and arts, entertainment and recreation (+71.4%).

Overall, the Oxford Economics forecast takes the **view that the Midlands Engine will now fall back to its long run performance** and the gains in growth made in the run up to 2019 have been lost because of the impacts of the pandemic specifically on t**rade and manufacturing.**

The forecast performance for the region reflects the **significant impacts the region, places and people have faced but overall suggests the region will get back on track in the long term** – but with losses for particular sectors and areas.

In the short term though, we can see from the data that the region, like many places globally, faces **significant challenges, flagged in the real time data affecting businesses** over the last 12 months; now flowing through into the recent data releases and thus forecasts.

Midlands Engine sector employment change baseline model (2020-2040):



Megatrends

As the recovery from the Covid-19 pandemic takes hold, the interaction of the economic reopening with long-term 'megatrends' in technology and demography makes for defining questions about how city centres will function in the future. **Different possible scenarios for work and leisure uses in the city have implications for everything from jobs and consumer spending, to house prices and the operation of the transport system**.

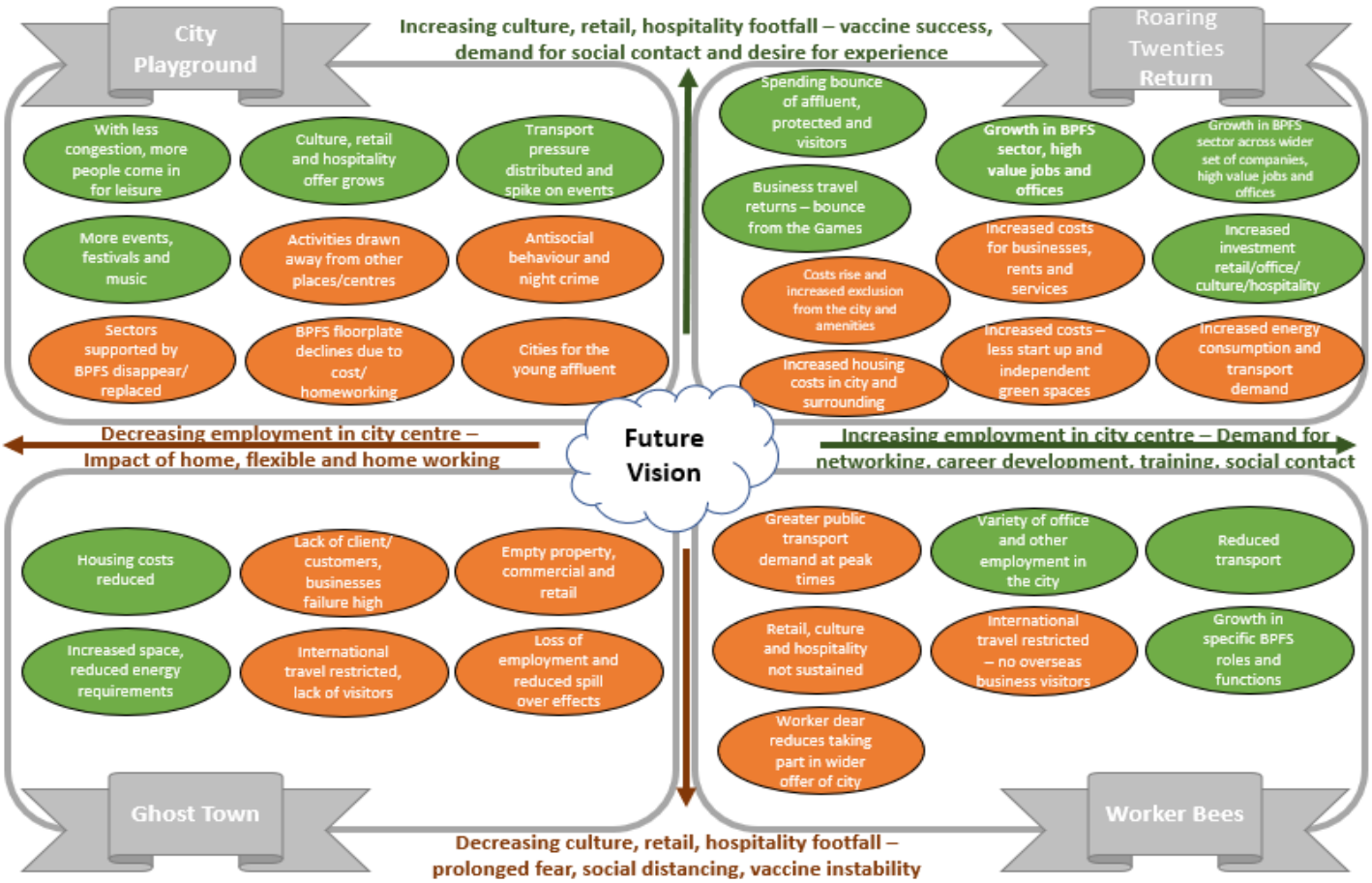
Recent interviews and workshop discussions with key stakeholders in the region raise the following challenges:

- Negative implications of working from home, including **impaired learning and development**.
- Need for frequent and reliable trains, spreading peak public transport demand across the day.
- The need for a compelling city centre offer including both employment and leisure, given the reduction in the number of commuters. This will likely also mean greater residential development near the city centre.
- Rapid utilisation of new technologies **threatens to leave some behind**.
- Challenges of Net Zero in developing new office and residential space.
- Providing **skills and employment** support to the increased number of unemployed young people, and those leaving the furlough scheme.
- Rising inequality may be exacerbated in some scenarios of strong economic recovery, particularly due to **upward pressure on rents.**

As well as opportunities, including:

- More flexible working, making it possible to re-imagine office space around collaboration.
- Pent up demand from a high savings rate during Covid-19.
- Re-imagining health services via social prescribing and an **emphasis on prevention** in the face of rising chronic disease.
- Greater localisation and the development of cycle lanes and the Clean Air Zone are opening up possibilities for greater environmental stewardship and the path towards Net Zero.
- Ramping up provision of digital skills via bootcamps, and improving digital services as skills and infrastructure improve.

The two dimensions of the scenario: city centre employment and retail and hospitality footfall, define four distinct scenarios with their own unique characteristics:



Source: City-REDI University of Birmingham

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