MIDLANDS ENGINE

OBSERVATORY

MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

EDITION 32: NOVEMBER 2022

Executive Summary

Major global events have dominated much of the agenda in November 2022, with the start of the Football World Cup and COP27 taking place. Closer to home, the UK's economic issues were laid bare in the new Office for Budget Responsibility (OBR) forecasts that **predict a recession lasting just over a year from Q3 2022.**

The forecasts, also predicting **rises in; unemployment, the deficit and government debt**, were published on the day of the Government's Autumn Statement. This outlined the government's new fiscal plan with the Chancellor promising **stability, growth and support to public services in order to rebuild the UK economy**. Key announcements included:

- **Spending cuts delayed by 2 years but expected to total £30bn**. **NHS and schools budgets will increase.**
- Tax changes include a reduction in the level individuals will pay the **45% rate of tax, and freezing of thresholds.**
- **Businesses will also pay more tax** through changes to dividend tax allowances, R&D tax relief, capital gains tax, a larger windfall tax on energy companies, and the confirmed increase in corporation tax to 25% from April 2023.
- Further support will be provided to households most in need, both through the **extension of the household energy price cap** and other energy measures, and changes to pay (increasing the national living wage) and benefits.

While government intervention and expected market conditions are likely to reduce inflation in the next year, overall **living standards are forecast to reduce by 7% over the next two financial years**. This will be a painful period for many communities and businesses across the Midlands, already reflected in data and intelligence presented in this Monitor:

- Midlands' cities and towns are reportedly **facing inflation rates of up to and above 12%,** above the average.
- The **business community continues to be incredibly concerned by high levels of inflation and rising interest rates**, and the effect that these will have on their plans for the coming months and the next financial year. The biggest challenges to Midlands businesses are still the **cost of energy, staffing, supply chain, inflation and interest rates.**
- This pessimism is reflected in recent surveys: for example **ICAEW's Business Confidence Index for both the East Midlands and West Midlands slipped further into negative territory for Q4.** While the Business Activity Index for both the East Midlands and West Midlands remains below the 50 growth-mark.
- **Youth claimants in the Midlands Engine increased by 1.9% between September 2022 and October 2022.**
- Across the UK, **retail sales declined in the year to November (-19% from +18% in October).**

There are real concerns about how businesses and communities in the Midlands will deal with the economic downturn and particularly the cost of living crisis. This is largely driven by energy costs, with FSB research suggesting that **one in four small firms plan to close, downsize, or restructure if energy bills relief ends in April.** Whereas other factors are exacerbating the impact for individual sectors, for example **industrial action and the growing problem of avian flu.**

However there remains some doses of optimism, not least **greater confidence in the new government's fiscal plan and approach.** Part of this reflects **positive responses to some of the Autumn Statement announcements**, such as increased funding to **schools and the NHS, business rates support and committing to infrastructure investments like HS2 and Investment Zones.** Although business groups described the statement as a "missed opportunity" and many have called for more support, the decisions made have at least widely been viewed as a **"steadying of the ship."**

And in parts of the Midlands data and insight collected shows evidence of stabilisation and levelling off of poor results. This depends on the circumstances of specific geographies and sectors, but examples include:

- **Manufacturers reporting a rise in output in the three months to November**, the first increase since the three months to July 2022, according to the CBI's latest Industrial Trends Survey.
- The total number of claimants aged 16 years and over in the Midlands Engine area **decreasing slightly between September and October**, and labour demand remaining high in the region (albeit highlighting skills shortages).
- The **Business Activity Index for both Midlands regions increasing between September and October.**
- **Overall GDP increased by 1.2% in East Midlands region between Q4 2021 and Q1 2022, above the UK rate (0.7%).**
- Further back, and despite increases in enterprise deaths, **total enterprise stock and enterprise births also remained resilient across the Midlands Engine between 2020 and 2021**, despite the pandemic.

This month's monitor also highlights that **investment and growth is still very much happening across the Midlands** as businesses and other organisations look to navigate the economic downturn. For example, the **Arts Council has increased its funding to the Midlands by 25%**, while the **digital and immersive economy is identified by multiple reports as a key opportunity across and within specific areas of the Midlands Engine.** It will be critical for Midlands and national partners to create the right conditions for this potential cluster to thrive, especially **given the gaps in digital capability and knowledge highlighted by both Lloyds' 2022 Consumer Digital Index and Tech UK's Local Digital Capital Index.** But overall the region's position in this space appears a good foundation to build on, and one contributing route through and out of the present economic challenges.

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• The biggest challenges to Midlands businesses are still the cost of energy, staffing, supply chain, inflation, and an overall reduction in consumer demand. • The **business community continues to be incredibly concerned by high levels of inflation and rising interest rates**, and the effect that these will have on their plans for the coming months and the next financial year. • Some businesses are concerned that, should this economic crisis be prolonged much further, **they will not have the financial means to continue operating**. In particular, the Bank of England's interest rate rise to 3% has been **described as a "further headache" for business.** • This pessimism is reflected in recent surveys: ICAEW's Business Confidence Index for both the East Midlands and West Midlands slipped further into negative territory for Q4; while the FSB's Small Business Index for Q3 2022 finds that: - The East Midlands fared worse than all other regions for declining revenues. - Confidence among small business owners in the West Midlands has fallen for the third successive quarter. - However, the findings also report on defiance and resilience within the business community. • And, generally businesses have welcomed the new **Government's commitment and approach so far, to stabilising the economy** and focusing on economic growth. There is greater confidence in the latest government administration and fiscal approach, despite some continued policy reservations and acknowledgment of the poor current economic situation. • The latest KPMG and REC, UK Report on Jobs: Midlands survey saw **permanent placements decline for the first time since February 2021** and a second consecutive reduction in temporary billings during October. Pay inflation, meanwhile, remained elevated amid reports of both high demand for labour alongside shortages in candidate availability.
Autumn Statement	• Several Autumn Budget announcements have been much welcomed by Midlands businesses and business groups: particularly **business rates support** – including transitional relief, an inflationary freeze and continuing targeted support for some sectors – and **committing to infrastructure investments like HS2, Sizewell C and new the Investment Zones programme**. • The Budget has also been seen as a necessary **"steadying of the ship"** that will provide stability to markets, and, hopefully help reduce interest rates and inflation in the long-run. • But while the measures were less bleak than expected, businesses and communities will be concerned by the dire economic outlook presented by the OBR, with the UK already in recession and facing peak inflation, with disposable income to fall 7% in two years and unemployment to reach 4.9%. • Business groups have also described the Autumn Statement as a **"missed opportunity" to create conditions for business confidence, investment and growth**, while not going far enough to help businesses and in some cases burdening them. For example: - FSB described the budget as **"high on stealth-creation and low on wealth-creation"**, picking up on indirect tax rises for business announced through the freezing of thresholds / allowances. - British Chambers highlighted that **not enough was being done to improve conditions for businesses to invest and grow**, with Midlands Chamber voices adding to this that "there wasn't much for businesses to get excited about." - It's also been highlighted, including by MakeUK, that **measures related to the reduction of R&D credits may disincentivise innovation.**
Trading Environment	• Though the Energy Bill Relief Scheme announced by the previous Government was relatively well received, **many businesses have raised concerns about the extent to which the measure would tackle high energy bills and what support will be in place beyond April. This has been seen as a major omission from the Autumn Budget.** • There is concern over what the Government would consider a 'vulnerable business' should the support be extended for such businesses,. **SMEs have also noted their interest in targeted grant support to help them cope with dramatically increased bills.** • Businesses **need certainty on the business support scheme beyond the 6-month package and long-term investment in energy security.** FSB research suggests that one in four small firms plan to close, downsize, or restructure if energy bills relief ends in April next year.

1. Economic Outlook

Global and National Outlook

Global

The OECD Economic Outlook shows **a slowing of the global economy comparative to expectations**. The global economy is projected to grow below the outcomes expected before the war – **at a modest 3.1% this year, before slowing to 2.2% in 2023 and recovering moderately to a still sub-par 2.7% pace in 2024.** The OECD found persistent inflation, high energy prices, weak real household income growth, falling confidence and tighter financial conditions are all expected to curtail growth. Higher interest rates, while necessary to moderate inflation, will increase financial challenges for both households and corporate borrowers. Contributing to weakening growth prospects in the medium-term. **The largest contributor to global inflation is energy price rises, which is also affecting food and energy security.** With the OECD recommending that to fight the energy crisis, more decisive policy support to boost investment in clean technologies, foster energy efficiency, secure alternative supplies and realign policy with climate mitigation objectives.

European gas prices are on the rise after Russia warned it would be restricting supplies to western Europe. The threat of reductions in gas comes after Russian stated backed energy company Gazprom, accused Ukraine of taking gas meant for Moldova. With Russia now threatening to lower gas supplies through the one remaining pipeline to western Europe as a result.

According to the World Economic Forum (WEF)**, this year's COP27 did not progress commitments or show evidence of significant action by countries to further bring down global emissions.** However, over the last few months the impact of climate change on developing countries has been at the forefront of discussions, including climate adaption and loss and damage. With a breakthrough agreement coming out of this COP to provide loss and damage funding for vulnerable countries hit hard by climate change disasters, though the details of how this works has not yet been finalised.

The **World Cup in Qatar kicked off** in November. However, there have been problems for Qatar and FIFA along the way (since 2010 when named):

- FIFA executives embroiled in corruption scandals, violations of human rights as Qatar had to undergo extensive infrastructure developments. Since 2010, migrant workers have faced delayed or unpaid wages, forced labour, and intimidation.
- Qatar is a very conservative religious country - FIFA warned that any football players that wore LGBTQ+ supportive emblems would be given a yellow card.
- Further culture clashes when it was announced that alcohol was being banned at football matches.

National

The Supreme Court has ruled that the Scottish Government cannot hold an independence referendum without the consent of the UK government. The Supreme Court stated that the Scottish government, under the law that created the devolved Scottish Parliament in 1999, did not have the power to legislate on areas of the constitution, including independence from the Union. In order, to have an independence referendum therefore, the Scottish government would need permission from the UK government, which is very unlikely given the 2014 referendum was headlined as a once in a generation vote.

ONS has conducted research into inflation versus wage growth, finding that the only industry in which **wage growth outpaced inflation was the professional and scientific industry.**

A large part of the reason for the **wage growth increases over this year have been as a result of record high vacancies**. Worker shortages have driven wage increases, as employers compete to attract and retain labour. The ONS found four out of five industries where wage growth stayed above inflation in early 2022 (professional and scientific, information and communication, retail and finance), also had vacancy rates in June 2022 that were 1.5 or more percentage points higher than a year before.

Hospitality has also seen significant wage growth, largely because of people leaving the industry during in pandemic and not returning. Leading to many businesses having to increase wage offers to attract labour. However, furlough may still be impacting sectors highly disrupted by the pandemic. The sectors which saw some of the **lowest wage growth, were those with higher numbers of public sector employees**, such as education and public administration. With regular pay growth in the public sector being 2.2% comparative to the private sector at 6.6%, from July to September 2022.

Consumer group Which? analysed 214 of last year's Black Friday deals at 7 major home and tech retailers – Amazon, AO, Argos, Currys, John Lewis, Richer Sounds and Very - looking at prices every day in six months pre and post the sale day (26th November 2021):

- **98% of products were cheaper or the same price at other times of the year**
- 86% of products were cheaper or the same price in the six months prior to Black Friday
- 98% of products were cheaper or the same price in the six months after Black Friday
- 46% of products were cheaper at other times of the year compared to Black Friday.

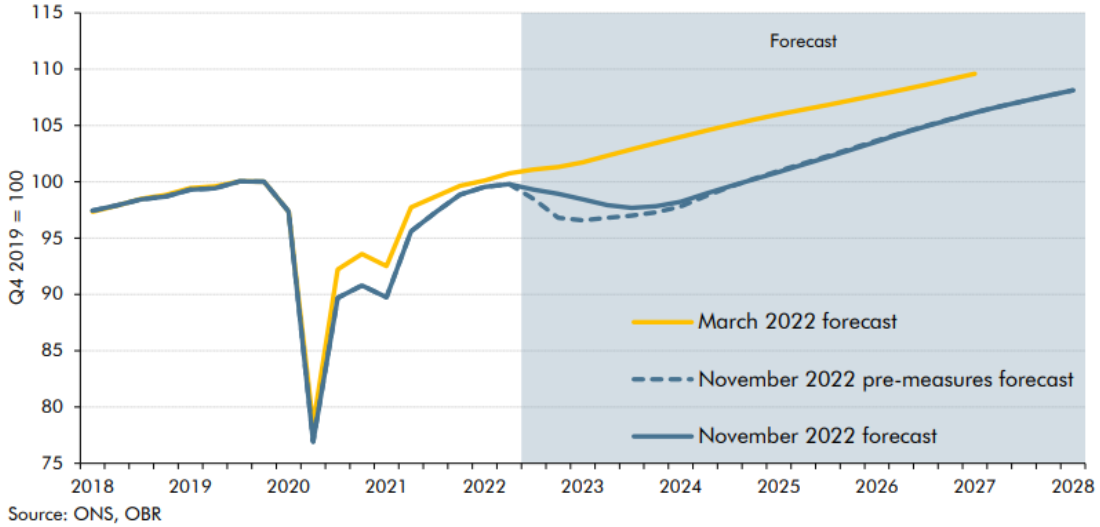
Source: City-REDI University of Birmingham

OBR Forecasts and Autumn Statement

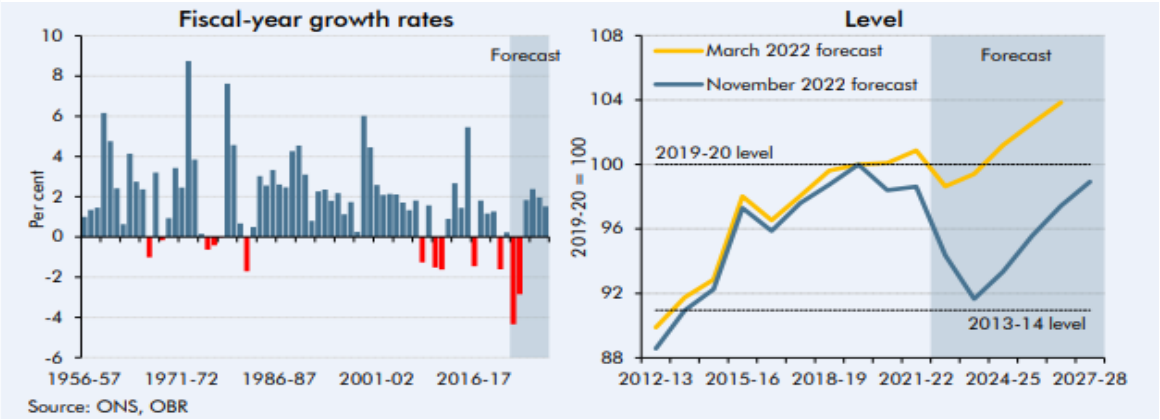
A period of continued turbulence, uncertainty and overall challenge is currently impacting the UK's economy and society. **Driven by inflation not seen in the UK in 40 years and rising interest rates, the economic outlook has deteriorated materially.**

In analysis that was published on the day of the Autumn Statement, the Office for Budget Responsibility (OBR) predicts a **recession lasting just over a year from Q3 2022, with a peak-to-trough fall in GDP of 2%, with growth returning in 2024.** While government intervention and expected market conditions are likely to reduce inflation in the next year, **overall living standards are forecast to reduce by 7% over the next two financial years.** This will be a painful period for many communities and businesses across the Midlands.

Real GDP:



Real Household Disposable Income per Person:

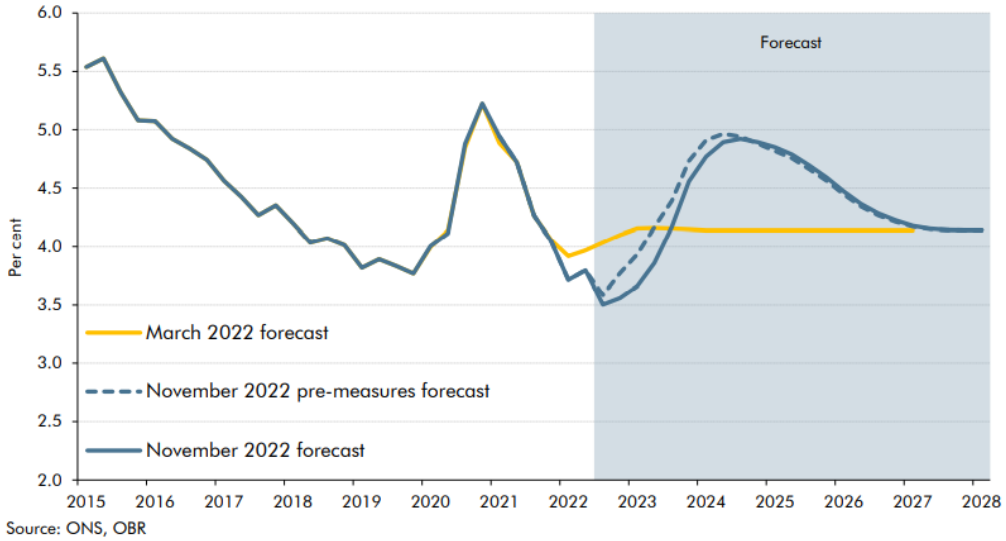


Further predictions included

- **Unemployment** - this is set to rise from 3.5% to 4.9% by 2024.
- **The Deficit** - is set to rise from £133.3bn (5.7% of GDP) last year, to £177.0bn (7.1% of GDP) this year. However, borrowing will then fall to £140bn (5.5% of GDP), as a result of tax rises and scaled back support, continuing to fall to £69.2bn (2.4% of GDP) in 2027/28.
- **Public Spending** - despite expected departmental cuts from 2024, total public spending rises from 39.3% of GDP to 43.4% in 2027/28. This is 2.9% higher than forecasted in March, reflecting higher debt interest rates and welfare spending raising cash spending.
- **Government Debt** - higher borrowing is set to push underlying debt from 84.3% of GDP to 97.6% in 2025. With the share of revenues consumed by servicing the debt rises from under 5% in 2019/20 to 8.5% in 2027/28, meaning public finances will be more vulnerable to future shocks or swings in market sentiment.
- **House price -** forecast to fall by 9.0% between the fourth quarter of 2022 and the third quarter of 2024, largely driven by significantly higher mortgage rates as well as the wider economic downturn.

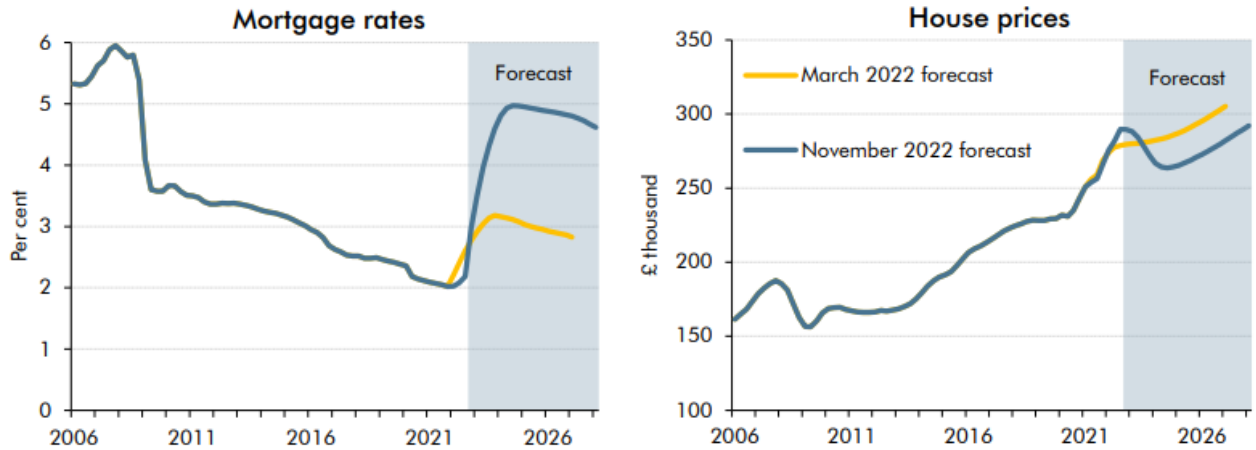
OBR Forecasts and Autumn Statement

Unemployment Rate:



Source: ONS, OBR

Mortgage Rates and House Prices:



Source: Bank of England, Datastream, OBR

The latest forecast provides evidence of the **real difficult economic situation** the UK finds itself in. The government's fiscal and policy response was highlighted in an Autumn Statement on 17th November, in which the Chancellor **Jeremy Hunt promised stability, growth and support to public services in order to rebuild the UK economy**. Key announcements included the following, of which the **Midlands Engine impact and reaction will be considered throughout this monitor:**

- **Spending cuts will be delayed by 2 years but are expected to total £30bn**. In the short-term, the **NHS and schools budgets will increase** (by £3.3bn and £2.3bn each year respectively), and defence will remain at its current level.
- Tax changes include a reduction in the level individuals will pay the **45% rate of tax, freezing of income tax & personal allowance thresholds**, and allowing local authorities to increase council tax.
- **Businesses will also pay more tax** through changes to dividend tax allowances, R&D tax relief, capital gains tax, a larger windfall tax on energy companies, and the confirmed increase in corporation tax to 25% from April 2023.
- But **business rates reform will result in a £13.6bn package of support**, including the freezing of the business rate multiplier for another year, and increased rates of relief for retail, hospitality and leisure firms.
- Further support will be provided to households most in need, through the **extension of the household energy price cap** and other energy measures, and changes to pay (increasing the national living wage) and benefits.
- The **investment zones are set to be refocused to catalyse on a limited number of high potential clusters**, working with local stakeholders and will be announced in the coming months.
- The government has restated its commitment to agree **trailblazer devolution deals with Greater Manchester and the West Midlands**, seeing more devolved powers in areas including skills, transport and housing.
- Infrastructure such as HS2 to Manchester, Northern Powerhouse Rail and East West Rail will **go ahead as planned.**
- A taskforce has been announced, which will focus on an **initiative to insulate homes and upgrade boilers.**

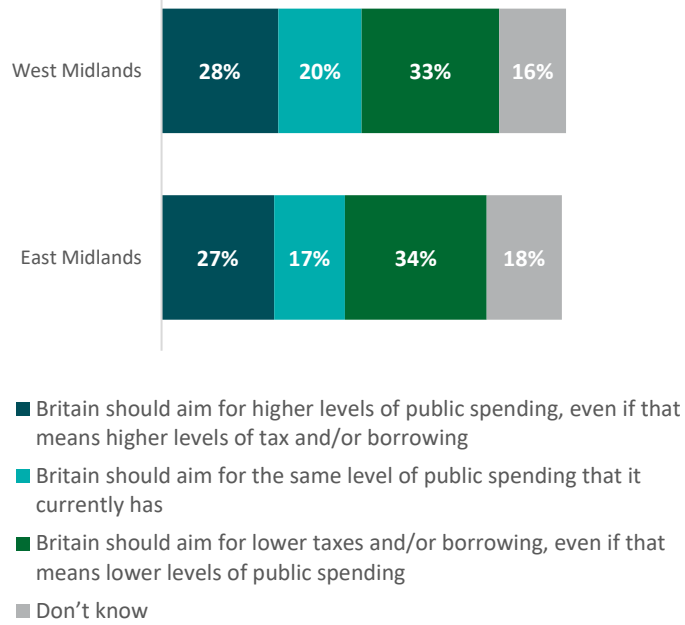
State of the State

Deloitte's latest State of the State 2022-2023 report provides a unique and independent analysis of the UK public sector and government. It finds that public attitudes are deeply affected by the cost of living crisis, pessimism for the future and passion about climate change. It also finds **public sector leaders eager for reform after years of responding to crises**.

Based on Deloitte's citizen survey, conducted in September 2022, there are eight key insights into public sentiment of the state:

1) **The public is split on the balance of taxes, borrowing and spending** – with no consensus on the right direction.
2) Views on **tax and spending differ across the UK nations and regions**.

Public Attitudes to Spending by Midlands Region



Attitudes to tax and spending vary significantly across England, with Londoners being the most likely to back higher public spending and people in the North East being most likely to back tax cuts.

Within the East Midlands, the majority (**34%**) stated that Britain should aim for lower taxes and/or borrowing, even if it meant lower levels of public spending. In contrast, **27%** stated that Britain should aim to increase levels of public spending, even if it meant higher levels of taxes and/or borrowing whilst **17%** stated that public spending should remain at the levels it currently has.

The West Midlands followed the same distribution with the majority (**33%**) stating that Britain should aim to lower taxes and/or borrowing, **28%** stated the opposite that Britain should aim to increase public spending whilst **20%** stated that spending should remain at the same levels.

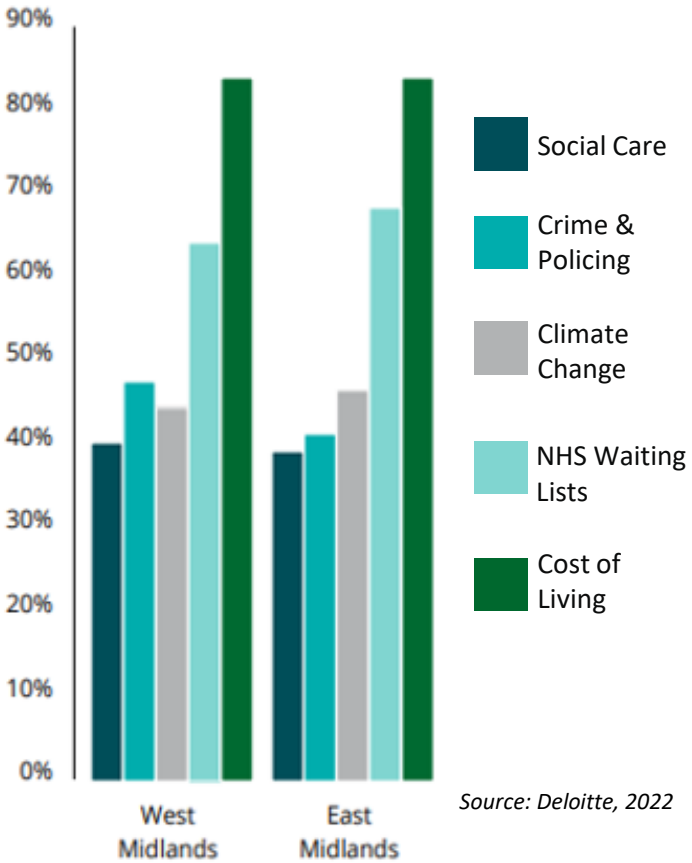
Source: Deloitte, 2022

3) Public priorities are the cost of living crisis and NHS waiting lists, followed by climate change.

Where the results suggested public priorities be broken down into three tiers: crises for which the public expects immediate action, and then tier one and two priorities which required less immediate action. **The cost of living (81%) and NHS waiting lists (66%)** were amongst the most urgent matters, with **climate change being third (46%)**. Interestingly, tackling inter-regional inequalities was only described as a priority by **22%** of the public, with many components of Levelling Up being higher on the priority list like housing (**40%**).

4) Priorities for the government differ by nation and region of the UK.

Top Priorities for Improvements across the Midlands over the next few years are viewed as:

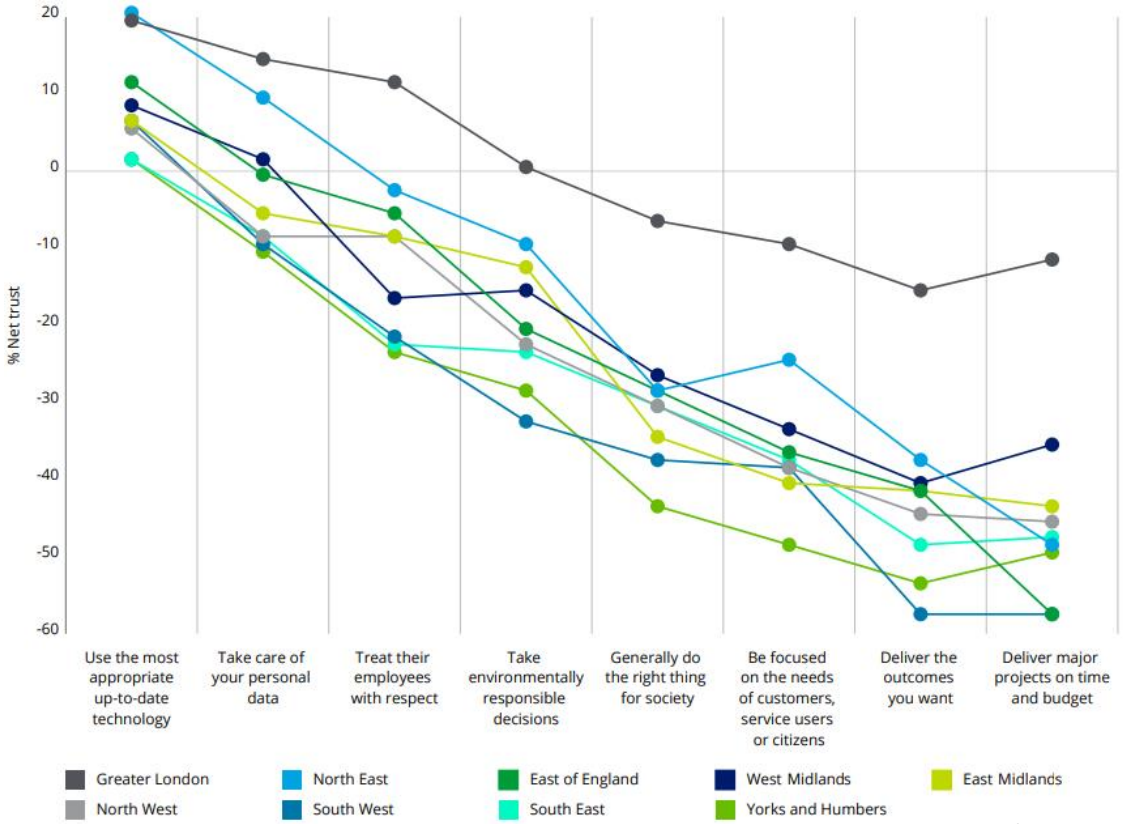


Source: Deloitte, 2022

Broadly speaking there is a general consensus for the top five priorities as shown in the chart, those being: **the cost-of-living crisis, NHS waiting lists, climate change, crime and policing, and social care**. Regionally, there are subtle difference such the East Midlands is most concerned with the cost of living crisis, with **81%** of the public wanting the government to prioritise it. Meanwhile the West Midlands is less concerned about regional differences with just **17%** of the public stating that regional inequality is a priority compared to the UK average of **22%**.

5) Trust varies across government and public services, and it has gone down - a**s seen in the regional chart to the right:**

As shown by the chart, Londoners appear to trust the UK Government more than the rest of England, followed by the North-East in general. In contrast, Yorkshire and Humberside, the South-East and South-West tend to be the least trusting regions with **the Midlands generally falling in the middle**.



Source: Deloitte, 2022

As in the rest of the UK, people within the English regions **show relative confidence that the Government uses up-to-date technology**, but there also appears to be a view that **the state struggles to deliver major projects on time and to budget**.

6) An otherwise pessimistic public think our protection against Covid-19 is improving. This comes as **almost three quarters** think the **cost-of-living will get worse** in the next few years, but there are some glimmers of hope including belief that **protection against Covid-19 will improve**, and just **one in five believe our trading relationships with other countries will improve**. The public appear to be most pessimistic about issues which matter the most to them.

7) When it comes to digital public services, data security is non-negotiable. This comes as government increases its digital interaction with the public, **the biggest concerns relate to data security** with almost **three in four** saying that keeping their data safe is essential or very important. The next priority being the **ease of use** with younger age groups (16-34) are keen on **accessing services via smartphone.**

8) The private and third sectors can reduce pressure on local services but the public worry about accountability. With the public seeing **the main advantage of private and charity sector engagement with the public sector as the opportunity to reduce demand on services.** The main disadvantage of private sector engagement being seen as **weaker accountability**, with a fifth of the public recognising that working with the public sector encourages companies to make a difference through 'social value'.

In conclusion, Deloitte's research points to **three accelerators** which could help power the public sector towards its vision for the future:

- Government needs to **think post-digital:** a mindset shift that requires an end to asking, 'what should we do with digital', but instead starts with 'what problems do we need to solve?'.
- **Trust needs to be prioritised and rebuilt by leaders with empathy purpose**. Research shows trust is built by people and organisations delivering on their promises and values. In the public sector this could mean leading by example, delivering with excellence, performing with distinction, securing the foundation, and amplifying core values.
- Today's challenges require **optimisation for delivery and outcomes**: providing clarities on priorities for central government; considering structural reforms with delivery in mind; further devolution at local level; partnership with other sectors; making sure the right capabilities are available when needed.

Source: Deloitte, 2022

2. Economic and Labour Market Impacts

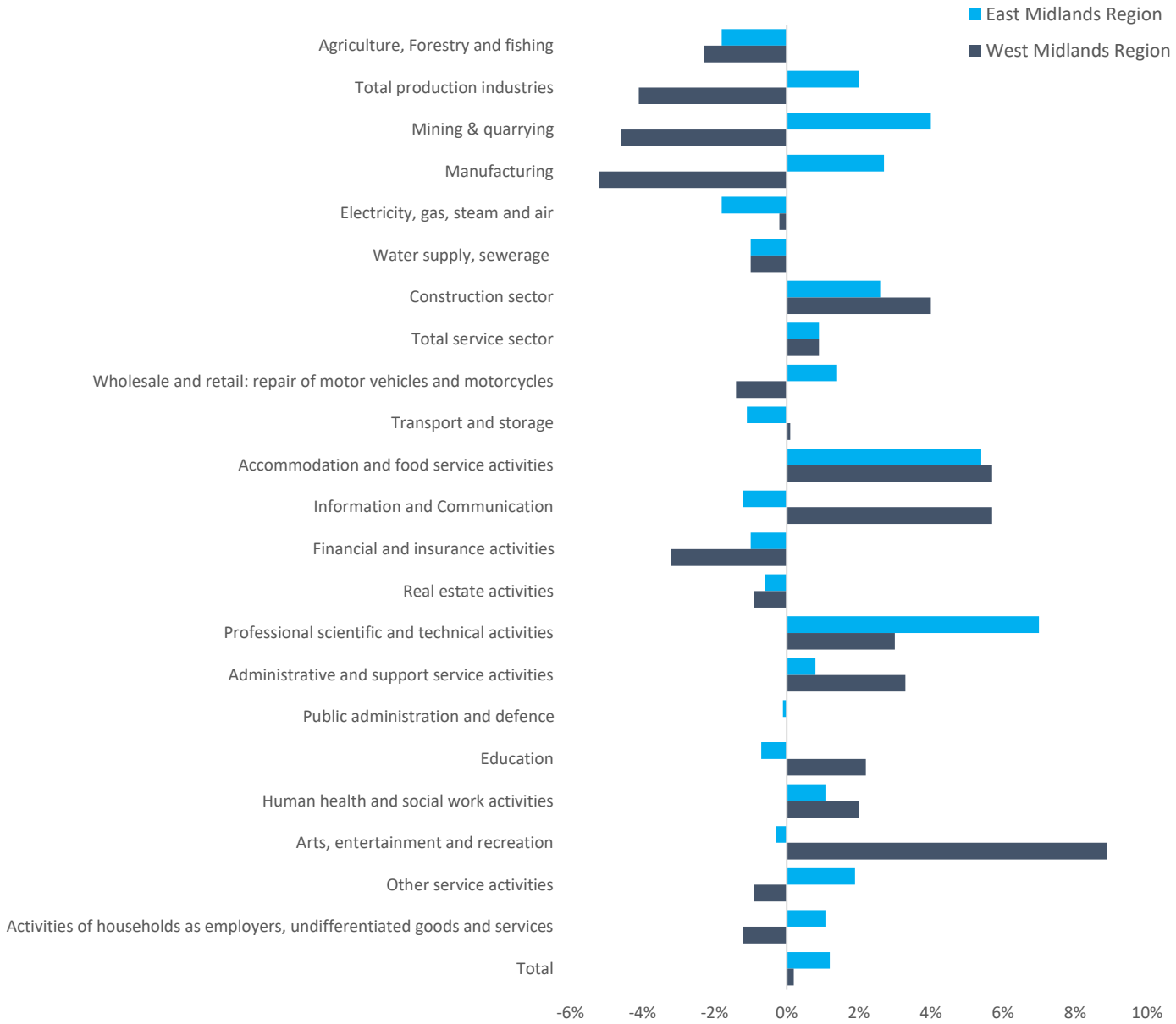
Quarterly Regional Gross Domestic Product

Quarter on Quarter analysis shows that **overall GDP increased by 0.2% in the West Midlands region and by 1.2% in the East Midlands region**, compared to the the UK-wide growth of 0.7% in Q1 2022. Wales remained flat at 0% and there was a positive growth for all other regions in Q1 2022.

The latest Quarter on Quarter GDP percentage change shows for **the West Midlands region that 9 industries and the overall services and construction sectors increased in Q1 2022**. GDP growth was driven by the arts, entertainment & recreation industry, increasing by 8.9%. Quarter on Quarter GDP growth was restricted due to 10 industries and the overall total production sector contracting. The highest contraction in GDP was in manufacturing by 5.2%.

The latest Quarter on Quarter GDP percentage change shows for the **East Midlands region that 9 industries and the overall services, construction and production sectors increased in Q1 2022.** GDP growth was driven by the professional scientific & technical activities industry, increasing by 7.0%. Quarter on Quarter GDP growth was restricted due to 10 industries contracting. The highest contraction in GDP was in agriculture, forestry & fishing, and electricity, gas, steam and air industries - both by 1.8%.

Quarter on Quarter GDP Percentage Change for Industries and Overall Sectors in the West Midlands Region and East Midlands Region in Q1 2022:



ONS: [GDP, UK regions and Countries: January to March 2022](#) – released November 2022. Please note, these estimates are designated as experimental statistics while they are still in development, and should be interpreted with some caution. Regional data can be volatile and quarterly movements should be considered alongside the long-term trend.

Business Activity

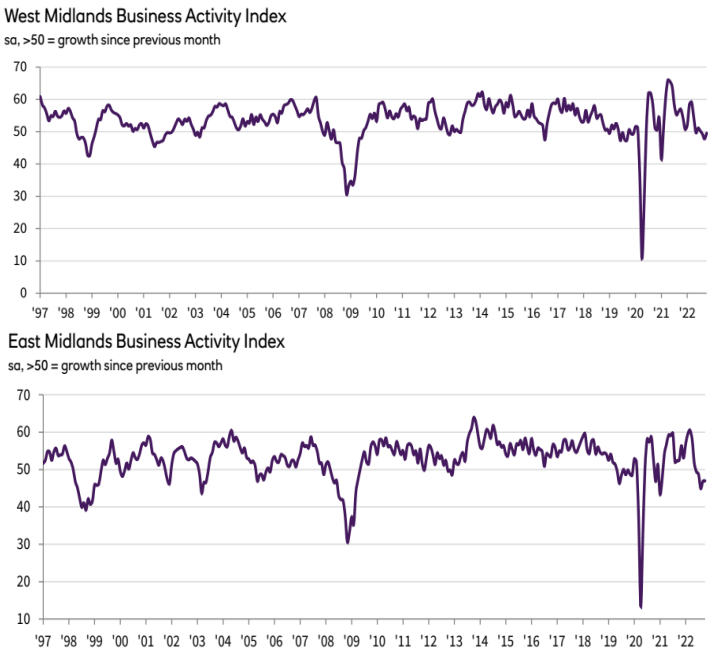
Business Activity Index

The **West Midlands Business Activity Index rose from a 20-month low of 47.8 in September 2022 to 49.6 in October 2022** – although, remained below the 50-growth mark as West Midlands firms struggled to secure new business. West Midlands firms reported clients reducing spending linked to recession fears and financial difficulties.

The **East Midlands Business Activity Index increased from 46.8 in September 2022 to 47.0 in October 2022**, although it still remains below the 50-growth mark and has been for the last five consecutive months. East Midlands firms indicated falling demand due to the deteriorating economic conditions was behind the latest decline.

The UK Business Activity Index decreased from 49.1 in September 2022 to 48.2 in October 2022.

The West Midlands and East Midlands Business Activity Index trends:



Source: NatWest PMI, November 2022

Of the 12 UK regions, the West Midlands and the East Midlands were second highest and fifth lowest respectively for the Business Activity Index in October 2022.

Demand

The **West Midlands New Business Index increased from 46.0 in September 2022 to 48.5 in October 2022.** Although, remaining below the 50 growth mark which was linked to the cost of living crises, price pressures and recession fears. **The East Midlands New Business Index decreased from 45.1 in September 2022 to 44.9 in October 2022,** as seen previously, remaining below the 50 growth mark. The decrease in new business was linked to a lack of confidence in the economy.

Exports

The **West Midlands Export Climate Index decreased from 49.0 in September 2022 to 48.2 in October 2022**. The quickest deterioration in export opportunities since mid-2020. The **East Midlands Export Climate Index decreased from 50.2 in September 2022 to 49.9 in October 2022** which indicated stagnation.

Business Capacity

The **West Midlands Employment Index increased from 53.4 in September 2022 to 53.9 in September 2022**. The **East Midlands Employment Index decreased from 55.2 in September 2022 to 52.4 in October 2022.**

The **West Midlands Outstanding Business Index increased from 46.5 in September 2022 to 50.6 in October 2022.** The **East Midlands Outstanding Business Index decreased from 51.0 in September 2022 to 49.8 in October 2022**, the second decline in three months.

Prices

The West Midlands Input Prices Index increased from 74.9 in September 2022 to 75.1 in October 2022. The East Midlands Input Prices Index increased 77.8 in September 2022 to 79.0 in October 2022.

The West Midlands Prices Charged Index decreased from 65.2 in September 2022 to 64.3 in October 2022. The East Midlands Prices Charged Index remained at 63.9 in October 2022.

Outlook

The **West Midlands Future Business Activity Index decreased from 64.4 in September 2022 to 60.7 in October 2022.** The degree of optimism towards was at its lowest level since the first Covid-19 lockdown. The fall in optimism was linked to concerns over the economic outlook and customer spending.

The **East Midlands Future Activity Index decreased from 61.9 in September 2022 to 57.6 in October 2022.** The Index has fallen to the lowest seen since the first wave of the Covid-19 pandemic (excl. March and April 2020). Firms that remained optimistic reported hopes of more stable economic conditions and new product launches.

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

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

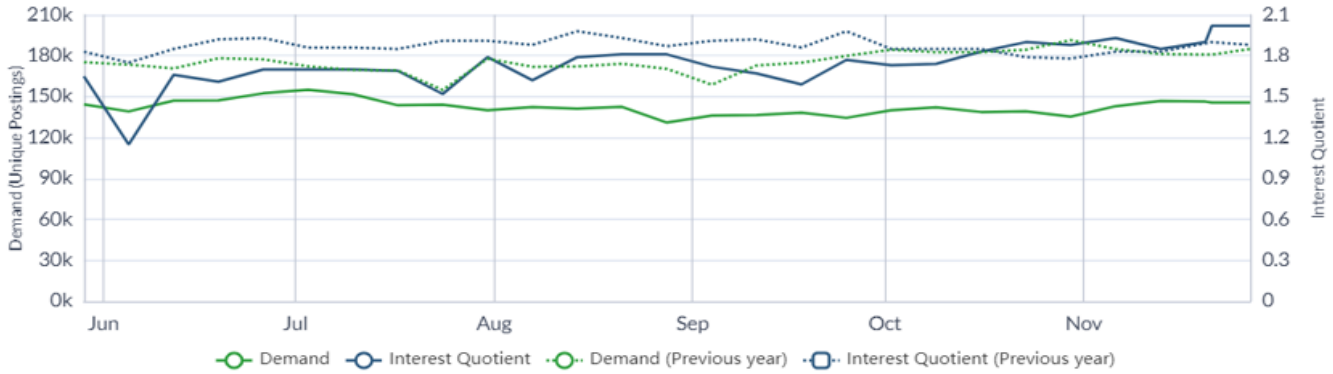
Labour Market and Job Postings

Employer demand remains strong across the Midlands Engine region, with **over 1.3m job postings logged in the last six months**. All sectors now back above pre-pandemic levels and pretty much in-line with the long-run average.

However, mirroring trends nationally there are signs that **demand is starting to weaken** – with total postings **in the last 6 months down 22% compared to this time last year.**

Despite employer demand narrowing, those seeking work - wanting a job (the Interest Quotient uses jobseeker data to quantify the level of interest in particular roles), currently remains heightened and above the comparable period in 2021.

Demand and Interest:

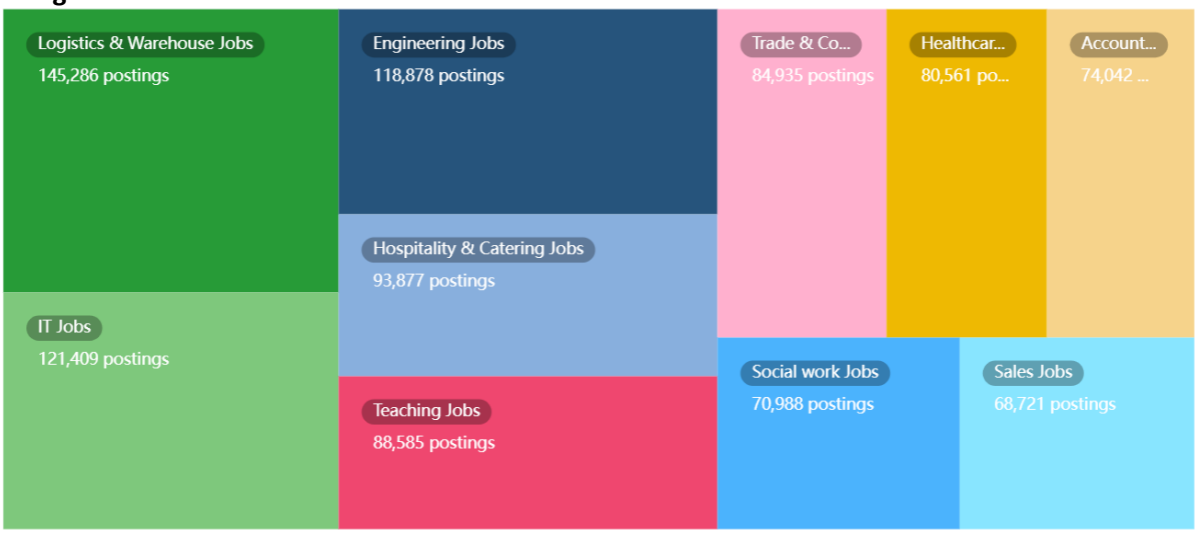


Nevertheless, advertised **median salary across the region has increased by 6.0%** year-on-year to £28,000; £2,000 below the national average.

Salary Trend

Job posting **demand was greatest for roles in logistics and warehousing**, IT jobs (digital skills) and engineering/manufacturing. These three sectors accounted for almost 30% of all job postings in the last six months.

Sectors Hiring:



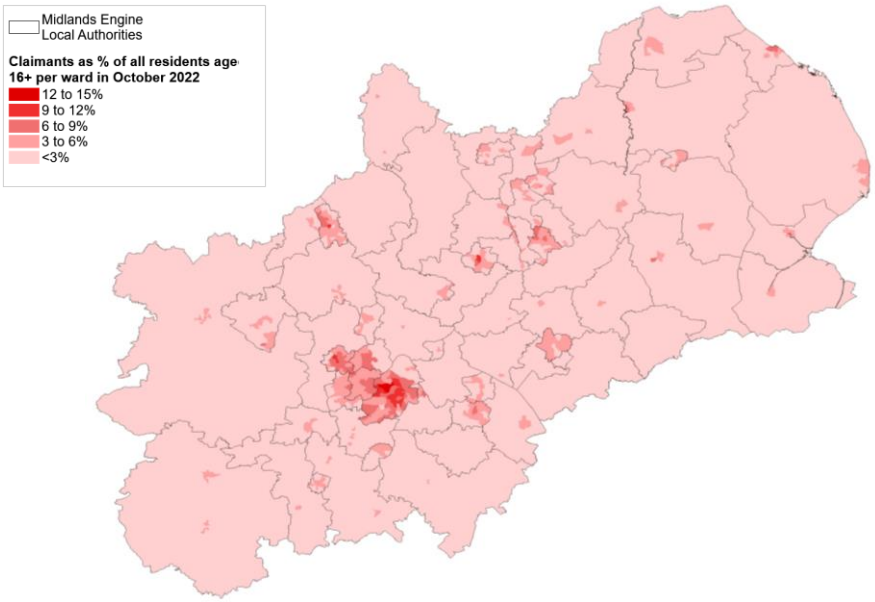
Source: Adzuna Limited Job Posting Intelligence, November 2022

Labour Market Impacts: Claimants

There were **262,960 claimants aged 16 years and over in the Midlands Engine area in October 2022**, a decrease of 85 claimants since the previous month. This equated to a decrease of 0.03% for the Midlands Engine area (UK -0.1%). **There are 41,420 (+18.7%, UK +18.9%) more claimants when compared to March 2020**. East Lindsey (-925), North East Lincolnshire (-490), North Lincolnshire (-120) and Chesterfield (-20) had lower levels than March 2020.

The number of claimants as a percentage of residents aged 16 years was 3.1% in the Midlands Engine (UK 2.8%) in October 2022 – remaining slightly above the pre-pandemic levels of 2.7% (UK 2.4%) in March 2020.

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



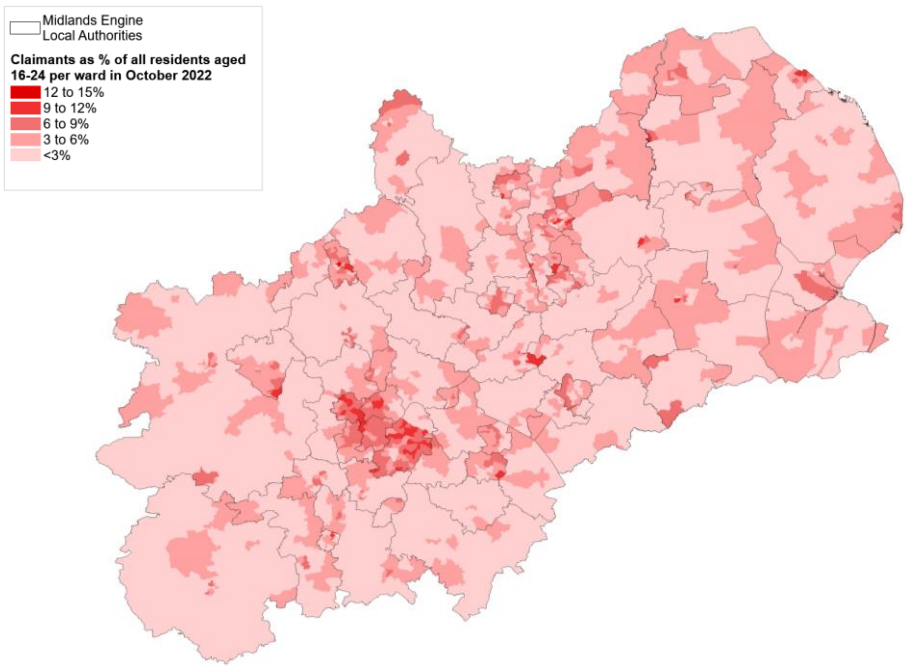
Out of the 1,511 wards within the Midlands Engine, **429 were at or above the UK proportion of 2.8%** for the number of claimants as a percentage of the population aged 16 years and over in October 2022.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, Birchfield was the highest with 14.1%. This is followed by Lozells at 13.9% and then Handsworth at 13.5%.

There were 47,880 claimants aged 16-24 years old in the Midlands Engine area in October 2022 – an increase of 910 youth claimants since September 2022. This equated to an increase of 1.9% for the Midlands Engine area (UK +2.2%). Since March 2020, **the number of claimants aged 16-24 years old has increased by 3,685** (+8.3%, UK +7.2%). Notably, 21 local authorities were lower than March 2020 levels and a further 2 were at the same level.

The number of claimants as a percentage of residents aged between 16 and 24 years old was 4.1% in the Midlands Engine and 3.7% for the UK in October 2022.

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



Out of the 1,511 wards within the Midlands Engine, **617 were at or above the UK proportion of 3.7%** for the number of claimants as a percentage of the population aged between 16-24 years old in October 2022.

The ward with the highest the number of claimants as a percentage of the population was Joiner's Square (Stoke-on-Trent) at 14.4%. This is by followed Stockland Green (Birmingham) at 12.0% and East Marsh (North East Lincolnshire) at 11.7%. In contrast, within the Midlands Engine there were 105 wards with no youth claimants in October 2022.

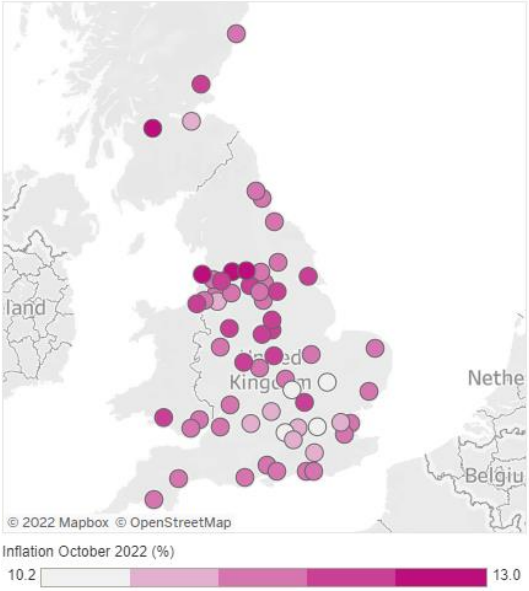
Source: ONS/ Department for Work and Pensions, November 2022.
Located on the Midlands Engine Hub is an [Interactive Claimant Count Dashboard]

Cost of Living Tracker

The UK is in a cost of living crisis, and there is a very clear North-South divide in how the crisis is playing out across the country. Centre for Cities tracks city-by-city inflation figures which are based on the consumption basket of each city, wages, as well as credit and debit card spending data on essentials like groceries, petrol and energy.

Across the cities monitored, in October inflation was recorded as:

Birmingham 12.0% **Leicester 12.2%** **Stoke 12.1%**
Coventry 11.9% **Mansfield 12.0%** **Telford 11.4%**
Derby 12.0% **Nottingham 12.0%**

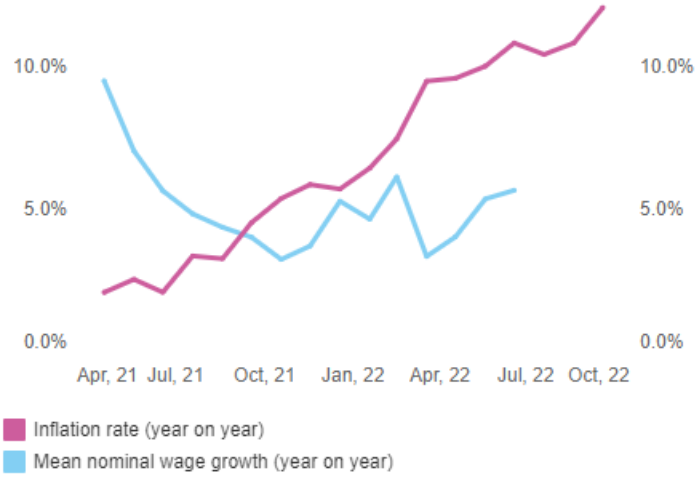


Using Nottingham as an example, the report looked at how inflation is playing out across this city.

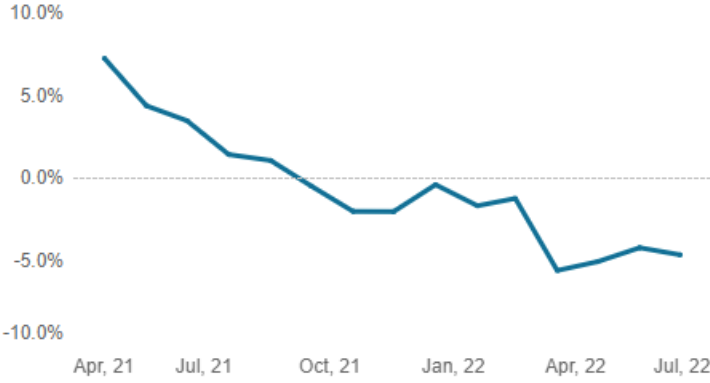
- Since January **inflation rose by 6.3%** points.
- Nominal wages **declined by 0.4%** since January (Jan 22- July 22).
- Therefore, workers living in Nottingham are on average **£103 a month poorer.**

How much rising prices squeeze standards of living depends on how they are offset by increases in income. The charts below compare inflation to changes in wages in Nottingham, and show what this means for the real wage.

How are prices and wages rising across Nottingham:
Inflation rate year on year, and mean wage growth Y-o-Y

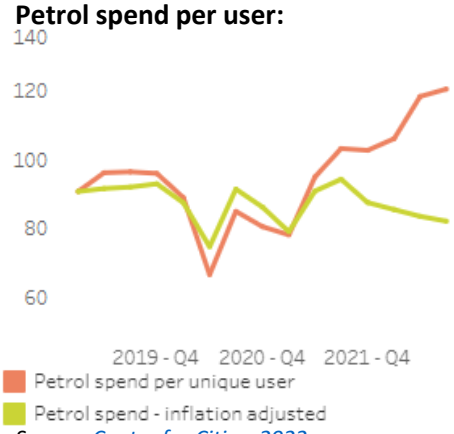


What's the impact of rising prices on money in peoples pockets:
Mean real wage growth year on year

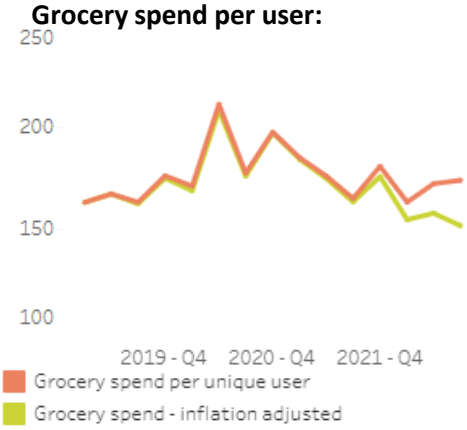


Spending per unique user on essentials in Nottingham:
Inflation is largely driven by rising costs of essential goods like food, petrol and energy. The charts below show how the current cost of living crisis is impacting how much people spend across these three sectors over time.

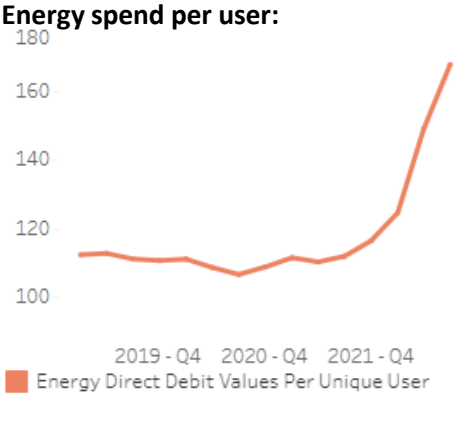
Petrol spend per user:



Grocery spend per user:



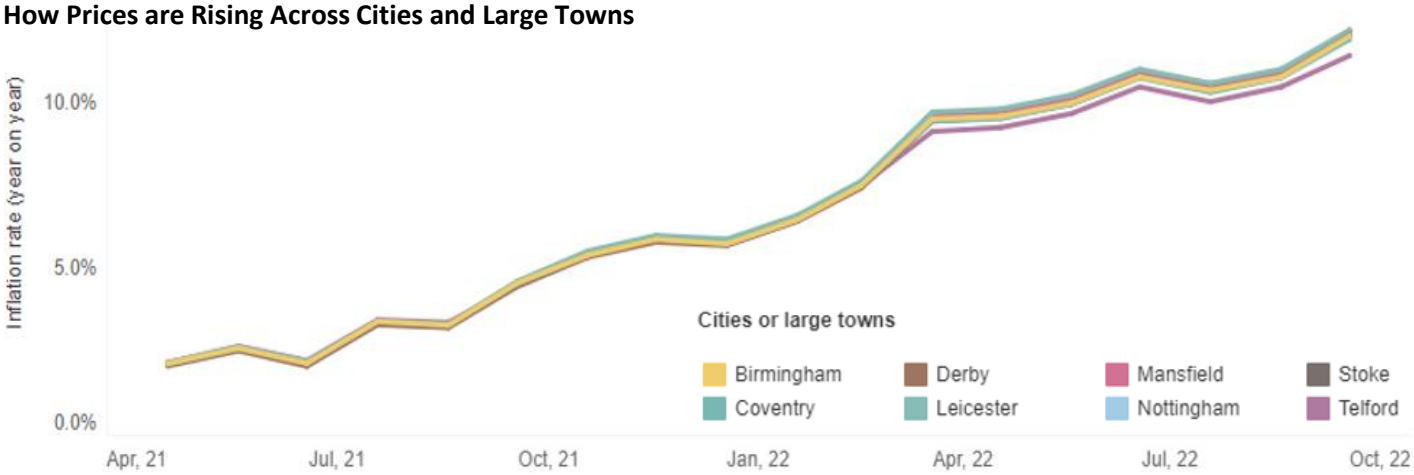
Energy spend per user:



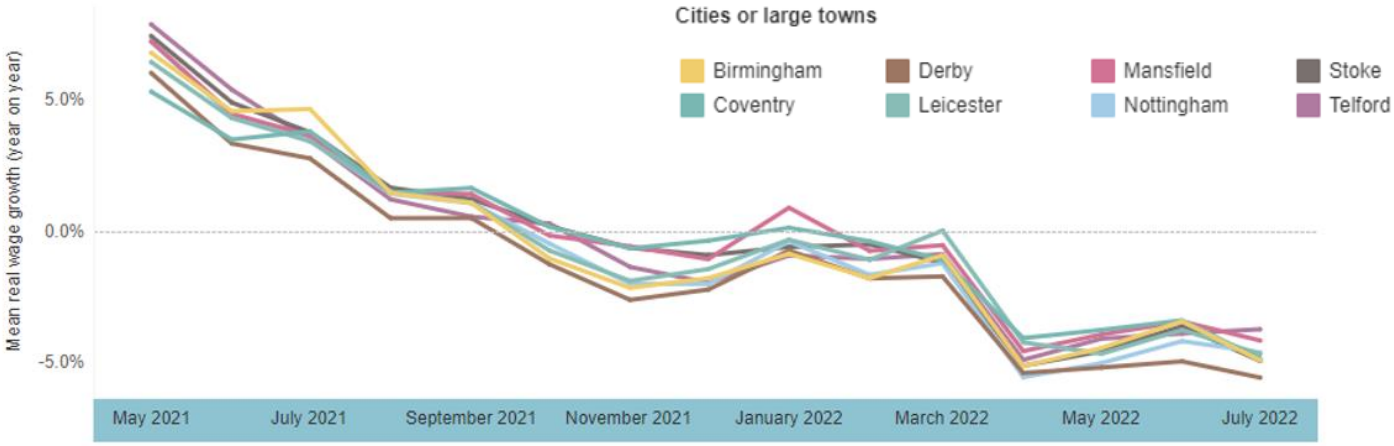
Source: Centre for Cities, 2022

Cost of Living Tracker

How Prices are Rising Across Cities and Large Towns



How Wages are Rising Across Cities and Large Towns:



Energy prices tracker

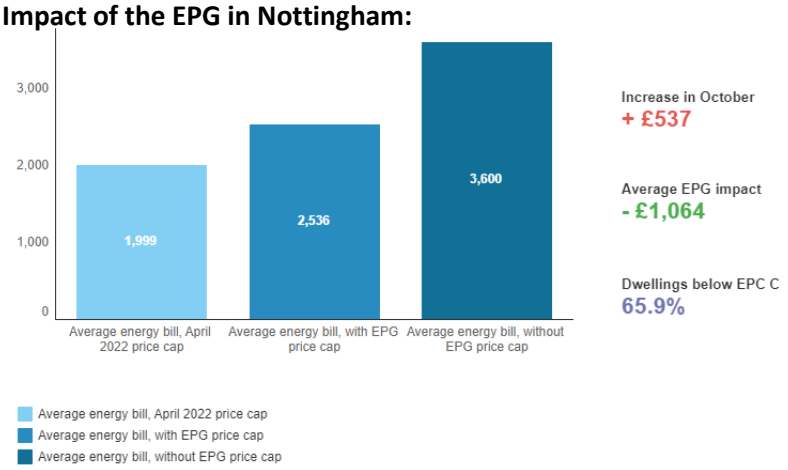
Centre for Cities estimates a city-by-city average energy bill based on the housing stock of each city (before the EPG and how much they would be without it).

In October Nottingham's estimated annual energy bill is £2,536, this is a £537 increase compared to the previous period (April 22 – Sept 22. Without the Energy Price Guarantee (EPG), the average energy bill was expected to reach £3,600. Therefore the EPG is reducing households in Nottingham by £1,064 a year.

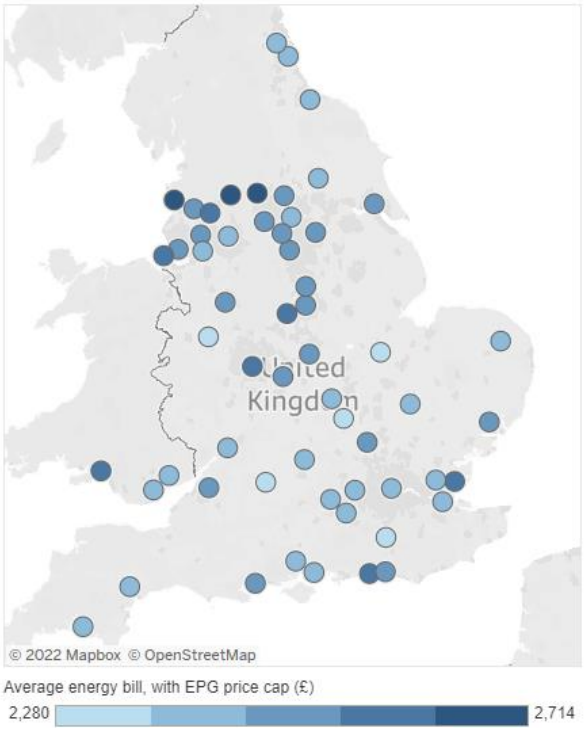
Energy consumption needs on the energy efficiency of dwellings:

In Nottingham 66% of dwellings are below EPC grade C, compared to 62% in England and Wales.

Impact of the EPG in Nottingham:



Where are Energy Bills the Highest:



Source: Centre for Cities, 2022

3. Business Environment

Business Demography

The ONS released their annual business demography publication in November 2022, providing **data on the number of enterprises, births, deaths, survival rates and high growth firms across the UK in 2021.**

Active Enterprises

For the Midlands Engine area, there **were 407,825 active enterprises in 2021**. This has **increased by 2.2% (a net increase of 8,885 enterprises)** since 2020, faster than the UK overall rate of 1.5%.

There were **368 enterprises per 10,000 population in the Midlands Engine area in 2021**, compared to 459 per 10,000 population nationally. These reflect only marginal increases from 2020, across the Midlands Engine (from 360 per 10,000), and nationally (from 452 per 10,000).

For the Midlands Engine to reach the national average of 459 per 10,000 population requires an additional 100,238 active enterprises.

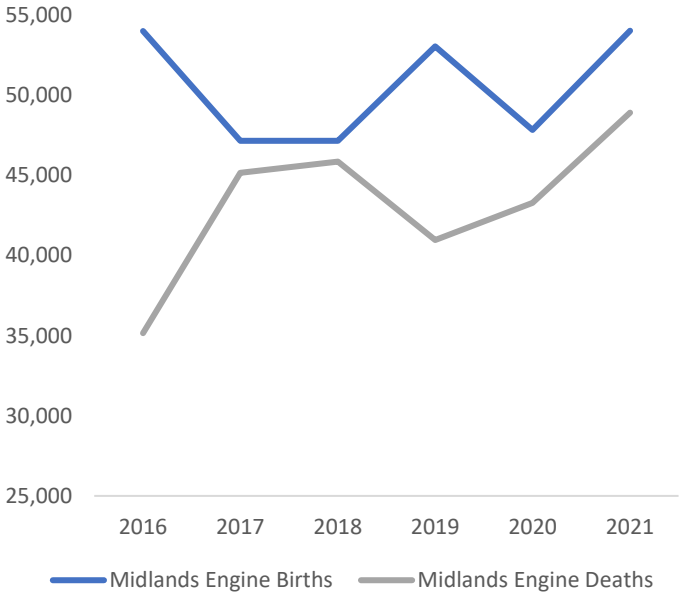
Enterprise Births and Deaths

There were **54,015 enterprise births in the Midlands Engine** in 2021. This represents an increase of 12.9% (+6,175 births) since 2020, with the UK increasing at a slower rate (by 9.3%) over the same period.

There were **49 enterprise births per 10,000 population** in the Midlands Engine area in 2021, below the England figure of 57 births per 10,000 population. For the Midlands Engine to reach the national average, an additional 9,079 enterprise births are required each year.

Enterprise deaths in the Midlands Engine area increased by 13.0% (+5,625 deaths) between 2020 and 2021 to 48,900, above the UK overall growth rate of 9.4%.

Midlands Engine enterprise births and deaths in recent years:

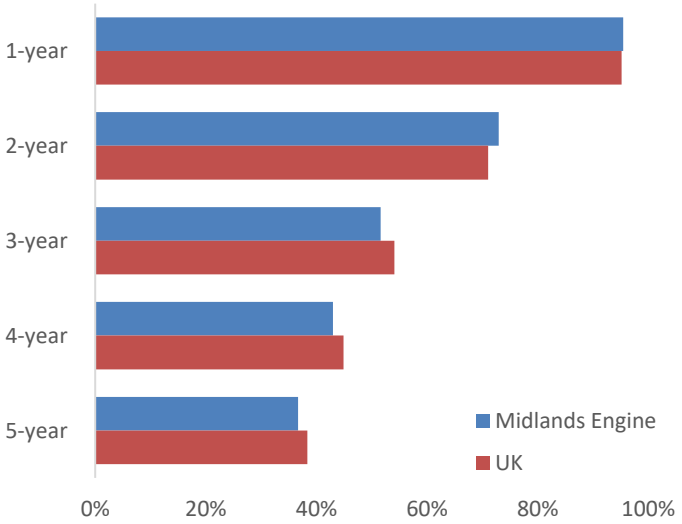


Survival Rates

As with previous years, the findings suggest the **Midlands Engine area performs better on short-term survival** (1–2-year enterprise survival rates are higher in the Midlands Engine than the UK average), but lags behind when it comes to longer-term (3-5 years enterprise survival rates in UK are higher than in the Midlands Engine).

- Of the 47,840 enterprise births in 2020 in the Midlands Engine area, 94.3% (45,100) were still active after 1 year. This is above the UK 1-year survival rate of 92.9%.
- Of the 47,155 enterprise births in 2018 in the Midlands Engine area, 54.1% (25,525) were still active after 3 years compared to 57.6% for the UK.
- Of the 54,005 enterprise births in 2016 in the Midlands Engine area, 36.7% (19,800) were still active in 2021. This is below the UK survival rate of 38.4%.

The following chart shows from 2016 births the 5 year survival rates for the Midlands Engine area and the UK:



High Growth Enterprises

The latest available data suggests there **was 1,385 high growth enterprise**s across the Midlands Engine in 2021. This represents a decrease of -10.4% (-160) since 2020, broadly in line with the UK overall rate of decrease (-11.2%).

The number of high growth enterprises has now **decreased in each of the last 3 years, perhaps somewhat unexpected given major economic shocks.**

At the local authority level, the greatest increases in high growth businesses between 2020 and 2021 were reported in Rutland (+100.0%), Bolsover (+50.0%) and North East Lincolnshire (+33.3%), but in most places the number of high growth companies either fell or remained the same.

Local Business Intelligence

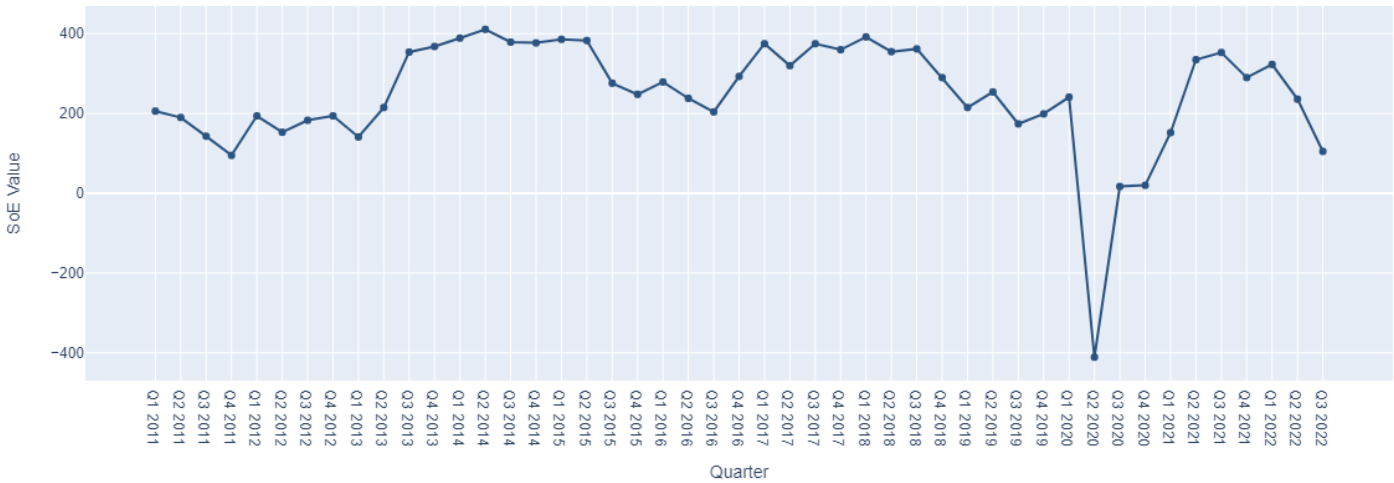
This section draws on contributions from the East Midlands Chamber, Make UK, the NFU, and the FSB.

East Midlands Chamber Regional Overview

This commentary draws on the Q3 Quarterly Economic Survey results which became available at the end of September and early findings from the Q4 QES that was still underway at the time of writing. These results should therefore be regarded as interim.

The overall **State of the Economy Index compiled from the QES has fallen further since Q2 reinforcing the view that the economies of the Midlands are heading into recession.** Early indications from the Q4 survey suggest that this downward trajectory will be maintained for many of the headline indicators included in this survey.

State of the Economy Index to Q3 2022



Chamber members continue to report significant input cost pressures.

Demand for the goods and services that they supply in the domestic market is reported to have softened slightly, but sales in overseas markets is now recording a negative net balance and the size of this negative balance is expected to grow. Whether this will continue to be the case as the 'cost of living' crises impacts on household expenditure remains to be seen.

32% (down from 39%) of Chamber members are reported to be **operating at full capacity.**

The cashflow indicator is now recording a negative balance.

Investment intentions dropped quarter on quarter for investment in plant and machinery. It has been suggested that one would normally expect investment intentions to be stronger. This may reflect growing borrowing costs and a generally uncertain economic outlook.

Recruitment remains a significant business concern, but the level of recruitment activity is reported to have fallen somewhat. It is noteworthy that recruitment difficulties are still being reported at all skill levels – including in relation to unskilled roles.

When asked about their biggest current concerns, **labour costs, utilities costs, fuel costs and raw materials costs were the most commonly cited issues.** It is noteworthy that concerns about supply chain issues would appear to have lessened somewhat in recent months.

Expectation for turnover over the next twelve months remain relatively strong, but expectations for profitability are now showing a negative net balance.

Make UK – manufacturing

The overriding story of manufacturing industry in the Midlands is reported to be one of **great volatility**. **Order books remain relatively healthy – but confidence has softened markedly in recent weeks.**

Local Business Intelligence

Despite suffering significant input cost increases, many manufacturers are reporting limited scope to pass these cost increases to their customers. **Supply chain problems remain a concern for many.**

Business performance remains adversely affected by shortages in the availability of skilled labour. However, there are said to be signs that some businesses are **considering redundancies**. These are said not to be a function of falling demand, rather they are thought to relate uncompetitive business conditions in the UK.

In the context of a generally tight labour market, pay settlements in the sector are reported to be typically in the region of 5%. But **wider input cost pressures are said to be creating concerns about the scope for further pay increases.**

Demand is reported to be holding-up better in domestic markets than abroad – although this could be affected by recent exchange rate fluctuation.

Small-batch exports to the EU remain difficult, particularly in sectors such as biotech. More government support to export active businesses is said to be required.

Business intelligence provided by the Make UK Regional Councils in the Midlands is broadly consistent with the picture reported by the Chamber QES. Helpfully some of the questions used shed light on other aspects of business performance and also point to some interesting, if tentative, conclusions on variations in the experience of East and West Midlands:

- **Order books were reported to have deteriorated over the last 3 months by around a third of manufacturers in both East and West Midlands**, but the East Midlands reports around two thirds having increased in contrast to a third in the West;
- **Recruitment intentions remain unchanged for around 70% of all manufacturers in both regions** with the West reporting a neutral balance on intentions to recruit in contrast to a modest positive balance in the East;
- Similarly, investment intentions remain unchanged for around half of all manufacturers in the East and 70% in the West. While a **positive net balance of 20pp report increased intentions to invest in the East in contrast to a level balance in the West;**
- **Rising energy costs are now cited by around half of manufacturers as their biggest business challenge.** Input prices are cited by over half and the level of future orders/demand is cited by more than half of respondents in both regions;

Supply chain disruption is reported by a higher proportion of manufacturers in the East Midlands than the West – but this concern is less pronounced than it has been for some time.

Manufacturing Outlook

Make UK's Quarterly Economic Outlook report has also been published recently with a particular focus on the impact of inflation: Manufacturing Outlook Q3 2022 – Inflationary special | Make UK.

FSB – Small Business Experiences

Anecdotal evidence from FSB members in the Midlands, suggests that a **good proportion have coped surprisingly well in the still volatile business climate**, while others have, or are about to, make some really tough decisions about their businesses in the medium to longer term. This is borne out in our most recent, quarterly 'Small Business Index' report for the East and West Midlands. They show that, across indicators such as revenue growth, employment growth and capital investment intentions, small businesses are reporting that Quarter 3 of 2022 saw:

- **Slightly positive (West Midlands) or slightly negative (East Midlands) net performance across these indicators during the quarter**, in terms of the number of small businesses reporting increases vs reductions;
- **Looking forward, small businesses in both regions are anticipating negative net performance across these indicators** (i.e. more anticipate they will face reductions than increases – so a complete reversal (West Midlands) or worsening (East Midlands) of their Q3 performance).

Across both regions, **small businesses feel the main barrier to their growth is the general economic state of the UK,** 69% in the East and 63% in the West placing this as their number one concern – and by a considerable margin.

The other most mentioned factors were utility costs and consumer demand (East Midlands); and fuel costs, accessing skilled labour and input costs (West Midlands).

FSB has been highlighting the 'cost of doing business crisis' for some months now, so is calling on the new Prime Minister to end the political turmoil in Westminster and to deliver the promised support for small firms on energy bills and cutting National Insurance, and on securing growth and prosperity in the medium and long term.

Since publishing its quarter three, 'Small Business Index' report for the East and West Midlands in October, local FSB members have grown increasingly worried about the general economic conditions in the UK, their biggest concern by far, when asked about their future prospects.

Consumer demand was another top concern, with the cost of living crisis eating into consumers' confidence, disposable income and buying intentions. The Autumn Statement on 17th November has done little to address these concerns. Indeed, FSB's view is that it was high on stealth tax creation and low on business investment creation. The measures overall, will put more pressure on the already hard-pressed 5.5 million small businesses in the UK, their employers and their customers.

Unwelcome measures include:

- **the slashing of dividend taxation allowances**
- **freezing the threshold for employer National Insurance**
- **rise in the National Living Wage will ramp up the costs** of employment without offsetting that with measures to reduce other business costs
- **freezing the VAT threshold** - FSB's research shows 24% of small firms and the self-employed are held back by the VAT threshold
- Gutting the **Research and Development (R&D) tax credit scheme** will crush innovation and growth, resulting in tens of thousands fewer R&D intensive small businesses
- **fuel duty** next year would hurt many small businesses and individuals who need to travel for work.

On the positive side:

- The retention of the **Employment Allowance** at its current level, plus the continuation of the lower National Insurance rate for the self-employed and employees.
- The announcement of a **£13.6bn package for business rates.**
- The **energy support** package for small firms will remain in place until April.

Small businesses, which account for more than 16 million jobs in the UK, were already facing an acute cost of doing business crisis through soaring costs, falling revenues, shrinking availability of affordable finance, and a rise in invoices being paid late. Following the Autumn Statement, they now face **even higher taxes, cuts to innovation, and a recipe for a longer and deeper recession.**

NFU – Farming

The NFU report continuing **concerns about cost of living increases in rural areas** as a function both of their typical reliance on cars and the preponderance of off-grid heating systems in use by rural communities.

The major concern reported by the farming sector echo those of other sectors reported here: input costs are reported as rising on all sides. It is said to be inevitable that farmers input costs will have to be passed-on to consumers. Particular cost concerns are reported in relation to **energy, foodstuffs for livestock and fertilisers**.

In common with other sectors noted above, long term solutions to labour supply problems are said to be required. Labour shortages earlier in the year are reported to have resulted in **significant food wastage particularly among growers of fruit and vegetables**. At their peak, NFU estimates that these labour shortages amounted to some 40% of required labour – **averaging at a labour shortfall of around 15% across the year**.

Avian Influenza has become a major challenge for producers of poultry meat and eggs. The requirement to keep birds indoors is adding to cost pressures resulting from **energy and feed prices (up by 28% over the year).** This combination of factors is said to be making it difficult for producers to invest in future production. Confidence in this sector is said to be low. These challenges are compounded by the **inability of many producers to pass these costs on to supermarket customers.**

The NFU wants to see food produced with positive environmental outcomes. Continued uncertainty over the funding of environmental schemes by Government is making it very difficult for many farm businesses to plan for the long term. Indeed, the announcement of further changes (without adequate detail on implementation) is said to have further hit confidence within the sector.

Recently reported comments about the Australia trade deal by George Eustace MP (former DEFRA minister) have reinforced concerns within the sector about the handling of agricultural standards in trade deal negotiations. **It remains the NFU position that trade negotiations should not allow imports of produce that would not meet UK standard if produced domestically.**

More positively, labour shortages in abattoirs that caused problems in the run-up to Christmas 2021 are said to be less of an issue this year.

Business Insights and Impact on the UK Economy

ONS have published the final results from Wave 69 of the [Business Insights and Conditions Survey (BICS)](#).

Financial Performance

25.1% of West Midlands businesses and 26.3% of East Midlands businesses reported that the business turnover in October 2022 when compared to September 2022 had increased. While **25.4% of West Midlands businesses and 24.6% of East Midlands businesses reported turnover had decreased.**

20.8% of West Midlands businesses and 21.9% of East Midlands businesses expect turnover to increase in December 2022. At the other end of the scale, 29.0% of West Midlands businesses and 27.1% of East Midlands businesses expect turnover to decrease in December.

Prices

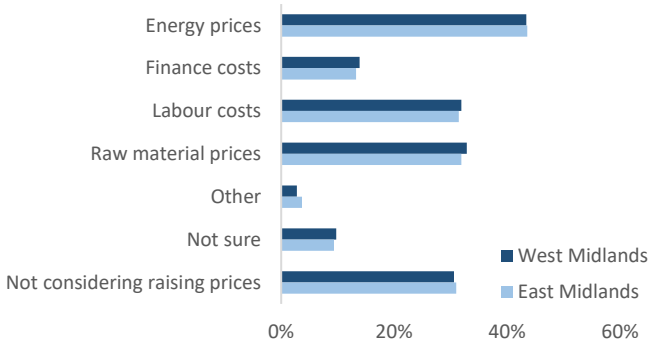
44.0% of West Midlands businesses and 45.9% of East Midlands businesses reported the prices of goods or services brought in October 2022 when compared to the previous month had increased. While less than 1% of West Midlands businesses and 1.1% of East Midlands businesses reported that prices of goods or services brought had decreased.

21.2% of West Midlands businesses and 22.4% of East Midlands businesses reported the prices of goods or services sold in October 2022 compared to September 2022 had increased. 1.0% of West Midlands businesses and 1.3% of East Midlands businesses reported that prices of goods or services sold had decreased.

21.2% of West Midlands businesses and 22.7% of East Midlands businesses expect the prices of goods or services sold in December 2022 to increase. While, 1.7% of West Midlands businesses and 1.2% of East Midlands businesses expect the prices of goods or services sold to decrease.

43.4% of West Midlands businesses and 43.6% of East Midlands businesses reported that energy prices were a factor for the business to consider rising prices in December 2022.

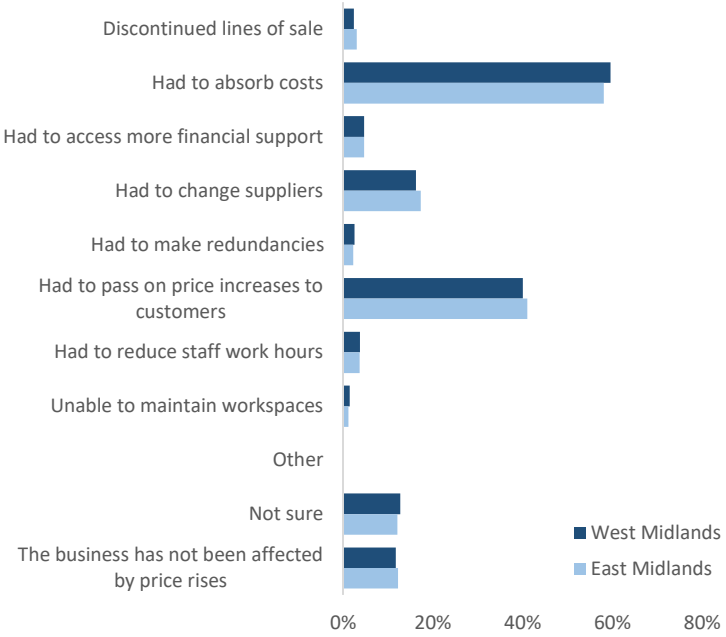
Factors (if any), are causing Midlands businesses to consider raising prices in December 2022:



Impacts of Price Rises

59.6% of West Midlands businesses and 58.1% of East Midlands businesses have had to absorb costs due to price rises.

Reasons (if any), Midlands businesses have been affected by price rises:



High Costs to Prices

7.6% of West Midlands businesses and 8.6% of East Midlands businesses have already passed through more than 75% higher costs to prices. While, 27.0% of West Midlands businesses and 26.6% of East Midlands businesses reported to have not passed through any higher costs.

Demand for Goods and Services

49.9% of West Midlands businesses and 51.1% of East Midlands businesses reported the **domestic demand** for goods or services in October 2022 when compared to September 2022 had stayed the same. 12.8% of West Midlands businesses and 12.7% of East Midlands businesses reported an increase. **17.6% of West Midlands businesses and 16.1% of East Midlands businesses reported that domestic demand had decreased.**

In comparison, 23.6% of West Midlands businesses and 22.6% of East Midlands businesses reported the **international demand** for goods or services in October 2022 when compared to the previous calendar month had stayed the same. 5.0% of West Midlands businesses and 3.7% of East Midlands businesses reported an increase. Although, **6.1% of West Midlands businesses and 5.1% of East Midlands businesses reported that international demand had decreased.**

Business Insights and Impact on the UK Economy

Number of Employees

22.6% of West Midlands businesses and 23.7% of East Midlands businesses reported the number of employees had increased in October 2022 when compared to the previous month. Although, **13.0% of West Midlands businesses and 12.9% of East Midlands businesses reported the number of employees had decreased.**

20.7% of West Midlands businesses and 20.4% of East Midlands businesses expect the number of employees in December 2022 to increase. **7.6% of West Midlands businesses and 5.6% of East Midlands businesses expect the number of employees to decrease.**

Recruitment Difficulties

37.7% of West Midlands businesses and 39.8% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in October 2022. While 36.0% of West Midlands businesses and 36.3% of East Midlands businesses reported no difficulties.

Skills Demand and Skills Shortages

28.6% of West Midlands businesses and 29.9% of East Midlands businesses reported a high demand for manual skills in the last 12 months.

Skills (if any) Midlands businesses have a had a high demand for in the last 12 months:

	West Midlands Business	East Midlands Businesses
Advanced digital skills	14.8%	14.8%
Basic digital skills	15.0%	14.7%
Customer service skills	25.7%	25.0%
Management or leadership skills	25.4%	24.8%
Manual skills	28.6%	27.2%
Transferable skills	11.8%	11.7%
Other	3.6%	3.6%
None of the above	33.2%	34.4%

18.7% of West Midlands businesses and 19.5% of East Midlands businesses reported the workforce required extra support or training in management or leadership skills.

The table to the top right shows skills (if any) Midlands businesses reported that the workforce requires extra support or training in:

	West Midlands Businesses	East Midlands businesses
Advanced digital skills	11.4%	10.8%
Basic digital skills	8.3%	8.8%
Customer service skills	11.9%	12.3%
Management or leadership skills	18.7%	19.5%
Manual skills	12.7%	13.7%
Transferable skills	7.5%	8.3%
Other	1.0%	1.0%
None of the above	59.6%	58.0%

Debts and Insolvency

3.3% of West Midlands businesses and 2.7% of East Midlands businesses reported that repayments were between 50% and 100% of turnover in October 2022. 3.8% of West Midlands businesses and 3.1% of East Midlands businesses reported that repayments were between 20% and 50% of turnover. 23.5% of West Midlands businesses and 26.1% of East Midlands businesses reported that repayments were up to 20% of **turnover.**

46.8% of West Midlands businesses and 47.3% of East Midlands businesses reported high confidence to meet the current debt obligations, 14.9% of West Midlands businesses and 14.2% of East Midlands businesses had moderate confidence. Both regions reported that 1.8% of businesses had low confidence.

Less than 1% of businesses across both regions reported to be at severe risk of insolvency. 5.9% of West Midlands businesses and 4.7% of East Midlands businesses reported to be at moderate risk of insolvency.

Overall Performance

28.5% of West Midlands businesses and 27.0% of East Midlands businesses reported that **performance had increased** in October 2022. Although, 20.9% of West Midlands businesses and 21.1% of East Midlands businesses reported that **performance had decreased**.

33.3% of West Midlands businesses and 32.5% of East Midlands businesses and expect an **increase in overall performance in the next 12 months**. Although, 12.9% of West Midlands businesses and 13.7% of East Midlands businesses expect **performance will decrease.**

Source: ONS: Wave 69 of the Business Insights and Conditions Survey. In the West Midlands there was a response rate of 25.6% and in the East Midlands there was a response rate of 26.6% where businesses have a presence in the region. There was a response rate of 24.1% for the West Midlands and 26.0% of East Midlands where businesses are headquartered in the region. Survey reference period: 1st to 31st October 2022. Survey live period: 31st October to 13th November 2022. As response rates are low and the data is unweighted and should be treated with caution.

Local Business Intelligence By Sector

SECTOR	KEY INSIGHTS
Manufacturing	• UK **manufacturers reported a rise in output in the three months to November**, the first increase since the three months to July 2022, according to the CBI's latest Industrial Trends Survey. However, production is expected to decline in the next quarter; likely to be exacerbated if stories of production reduction in automotive come to fruition. • The survey found that while stocks remained broadly adequate**, total order books and export order books were reported as below normal.** Selling price inflation is expected to remain historically high in the next three months. • There are concerns about the **lack of further support announced at the Autumn Statement for them on energy bills, while R&D changes are deemed a disincentive for SMEs.**
Hospitality, Tourism & Retail	• Retailers saw their sales volumes fall at a firm pace in the year to November, according to the CBI's latest quarterly Distributive Trades Survey. **Retail sales declined in the year to November (-19% from +18% in October) with a broadly similar fall expected next month**. • However, there has been a **slow improvement in national vacancy rates** according to the Local Data Company / BRC (down to 13.9% in Q3 2022, 0.1 pp better than Q2 and 0.6 pp better than Q3 2021. The East Midlands vacancy rate has decreased to 14.7% (down from 16% in Q3 2021) while the West Midlands has remained unchanged at 15.8%. • Recent ONS analysis found that food **and drink service firms are most likely to cut trading to tackle energy costs.** • And while some measures from the Autumn Statement were welcomed by the sector (e.g. business rates reform), **pubs, restaurants and shops were hoping for more support.**
Agriculture / Food	• The agriculture & food and drink sectors are concerned about **access to labour, increased labour costs, dependence on visa-based labour, food security, cost of ingredients, cost of transport and supply chain issues.** • **Avian flu** has become a major challenge for producers of poultry meat and eggs, damaging the competitiveness and livelihoods of some farmers. • Mondelēz International, makers and bakers of iconic brands including Cadbury, OREO and Maynards Bassetts, has said that the **West Midlands accounted for almost half of its total contribution to the UK economy last year** (over £438.5m out of £933m total).
Arts & Entertainment	• Arts Council England has **announced funding for Midlands attractions through its 2023-2026 Investment Programme applications.** • The Arts Council's 2023-2026 investment programme shows a 25% increase to the Midlands to £83.6m (annually). • **During 2023-26, the Investment Programme will invest £446 million in 990 organisations from across the UK**, including attractions / organisations in the Midlands such as: - Black Country Living Museum - Derby Museums - Disability Arts in Shropshire - Ironbridge Gorge Museums - Leicester Theatre Trust - Nottingham Playhouse - Shakespeare Birthplace Trust - Walsall New Art Gallery - 20-21 Visual Arts Centre – North Lincolnshire • According to a new report, 3 Midlands Engine cities are in the top 10 of cities for sports GVA as a % of overall economy outlook: Wolverhampton (3rd) ,Derby (9th) and Leicester (10th).
Cross-Sector	• The **weakness of sterling has added to cost pressures for importers but a potential opportunity for exporters able to sell at more competitive prices**. • The number of **overseas businesses thinking of investing in the West Midlands has more than doubled following the Commonwealth Games,** according to the region's mayor, with more than 1,200 businesses now seeing the region as an opportunity. • The **East Midlands Chamber has launched a** Business Manifesto for Growth **to develop region as a 'Centre of Trading Excellence'**

4. Digital

Consumer Digital Index

Lloyd's 2022 Consumer Digital Index is the UK's largest study of digital and financial lives. The study uses the behavioural and transactional data of one million consumers to build a view of digital and financial capability across the UK.

UK Digital Lives

99% of the UK are now online; this is a significant change from the **89%** figure in 2016 when this benchmark began. This also means that **seven million more people in the UK are now online since 2016**. The pandemic can be viewed as a catalyst for this with **65%** of respondents saying that they have tried something new since the pandemic began and 90% have continued with these activities. Moreover, when looking at the transactional dataset of one million people and their digital behaviours; the digital engagement score has increased from **48.5** in 2021, to **50.9** in 2022 **(+5%**) showing that more people are interacting online and using technology than before.

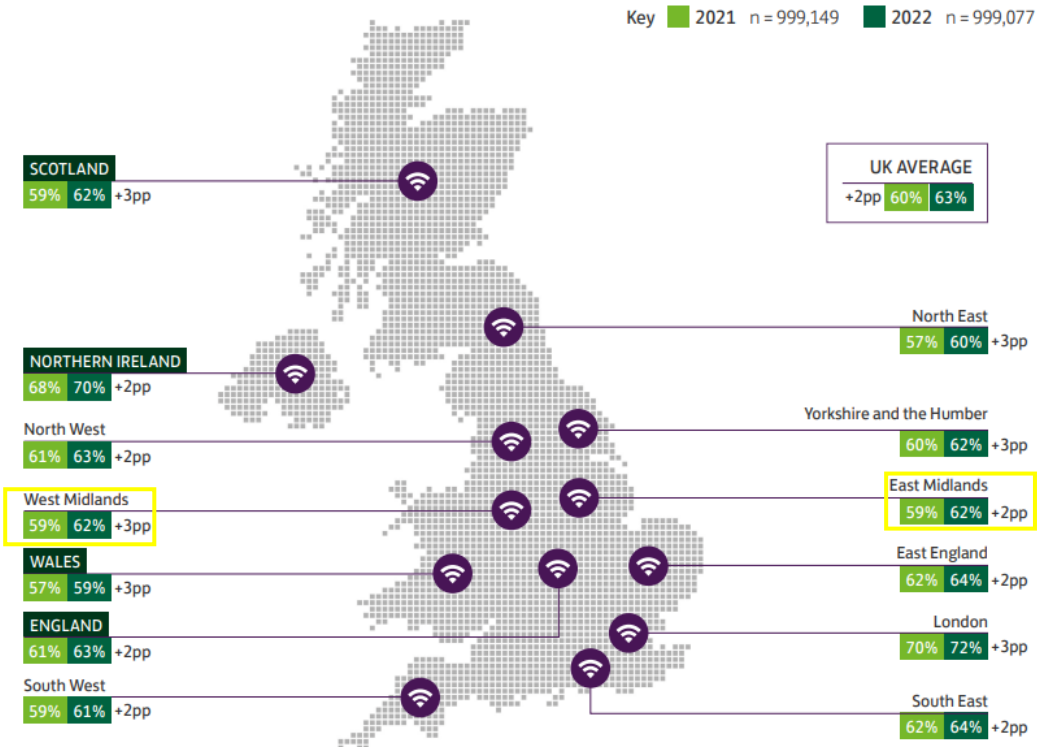
Furthermore, **12.4m (24%) now have the highest digital capability**, an increase of **2.6m (+5%)** in the last 12 months. All other digital segments have either decreased or stayed the same, implying a **positive shift**. However, despite all of this, **14m (27%)** still have the lowest digital capability meaning they are likely to struggle interacting with online services and are at risk of being left out from society. Out of this, there are **6.7m (13%)** within the 'ultra-low' group' with very low digital engagement.

Is it also worth noting that **digital capability is not a permanent state**, with **only 84%** of those within the very high segment in 2021 have maintained this level. Overall, **6%** having reduced their digital capabilities since last year. On the other hand, **one-in-ten** of the 70-79 age bracket improved, compared to **one-in-four** in the 18-24 age band. However, almost a quarter (**24%**) of those who moved up two or more digital segments were aged 60+. Higher income is also likely to result in individuals increasing their digital segment, with those in the £50,000 income segment income tier are more likely to have improved.

Digital Capability Across the UK

2022 sees London with the regional lead (**72%**) in highest digital capability, followed by Northern Ireland (**70%**) and the East of England and South-East (**64%**) above the UK average (**63**%). Within this the East and West Midlands both just fall short of the UK average at a shared **62%** of digital capability. Despite this, since 2021 both the East and West Midlands increased their digital capability by **+3%** (**from 59% to 62%**).

High digital capability, split by region, 2022 and 2021:



Source: Lloyds, 2022

Motivation, Digital Upskilling and Support

91% of the UK are choosing to upscale their digital skills for personal reasons, and **64%** say they are upskilling for work and **56%** are upskilling for both life and work. Work and employment related reasons continue to be a key driving factors, maintaining trends from the previous year. A key reason for this includes working from home, which was a stimulus for **17%** of the population to gain digital skills. Of those who specifically selected work-related reasons (**26%**): **63%** selected needing to work from home; **29%** wanted to improve their performance and productivity; **25%** said they were encouraged by their employer for their current role. Within this sub-group, **people in East Midlands (33%) were most likely to give a work-related answer**, followed by the North-West or London (31%).

Essential Digital Skills

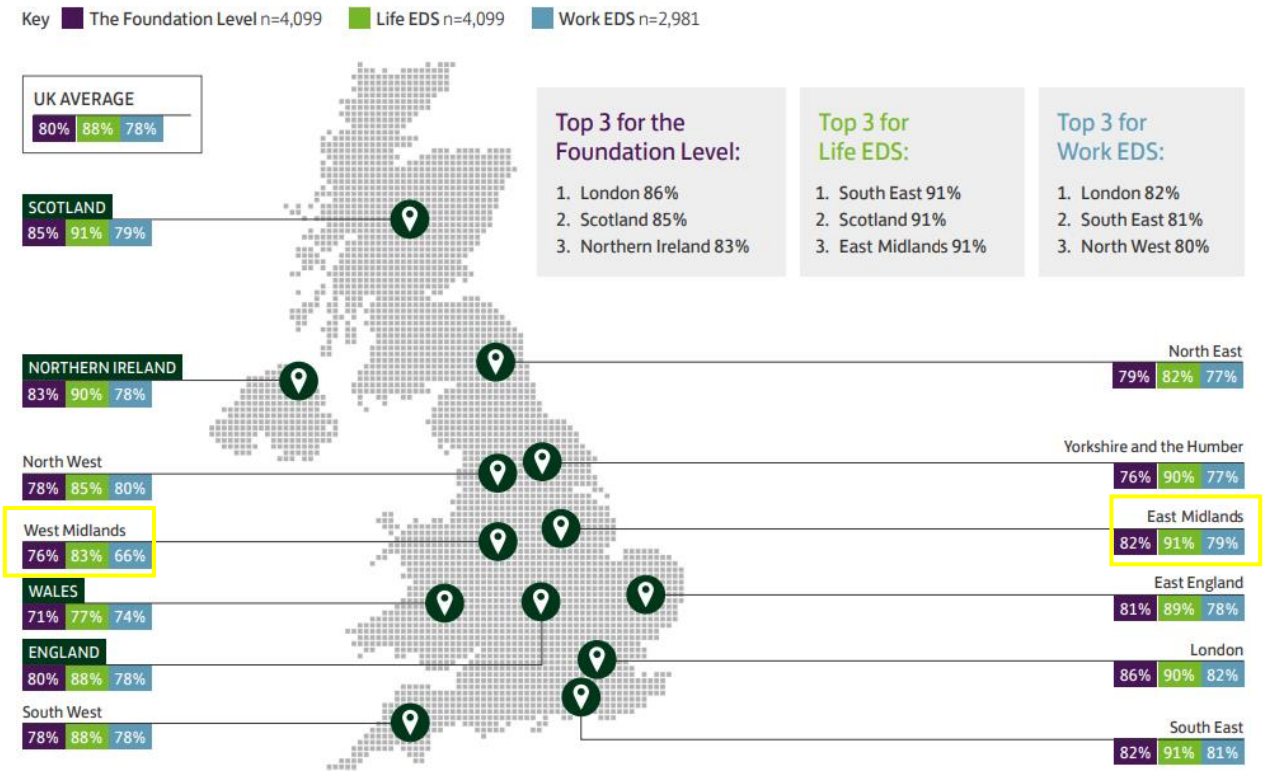
Essential Digital Skills (EDS) can be confined to three categories: Foundation Level Skills, EDS for Life and EDS for work. Consistently across all regions, people are most likely to have Essential Digital Skills for Life, relative to other skill sets. Within the work component of the framework, where there is the largest disparity between the employed and those not in employment, **those who are not in employment most likely to be in the West Midlands (12%)** against the UK average (**9%**).

Out of these regions, **the East Midlands, London, South-East and Scotland are all ahead of the UK average across all three areas** of the EDS framework. London is the leading region for the Foundation Level (**86%**) and digital skills for work (**82%**), however the East Midlands, South East and Scotland nudge ahead for life skills (**91% vs. 90%**). Conversely, the North East, West Midlands and Wales all rank below the UK average. Wales is the region scoring lowest for the Foundation Level (**71%**) and Life EDS (**77%**), however when it comes to Work EDS, it is the West Midlands which is lagging behind (**66%**).

For the UK average skill levels, capability ranges from **78%** (Work EDS) to **88%** (Life EDS). **The West Midlands has the greatest disparity of skills** (a difference of **17%** between EDS for Life at **83%** and EDS for work at **66%**), driven by a considerably lower level of workplace skills. In contrast, this range is far less in the North East of just **5%**.

Hence, the East Midlands has a **82%** Foundation level skills, **91%** Life EDS and **79%** Work EDS. On the other hand, the West Midlands has **76%** Foundation level skills, **82%** Life EDS and **66%** work EDS. The East Midlands comparatively performs much better than the West Midlands in terms of all forms of digital skills.

Essential Digital Skills (Foundation, Life and Work) Across the Regions and Nations:



Source: Lloyds, 2022

Local Digital Capital Index

Tech UK's Local Digital Capital Index 2022 serves as a guide which describes the impact and value technology can bring to a region, showcasing strengths and providing direction for development. It can be used by policy makers to address challenges faced by each nation and region in the UK.

Digital Capital Index Nations and Regions:

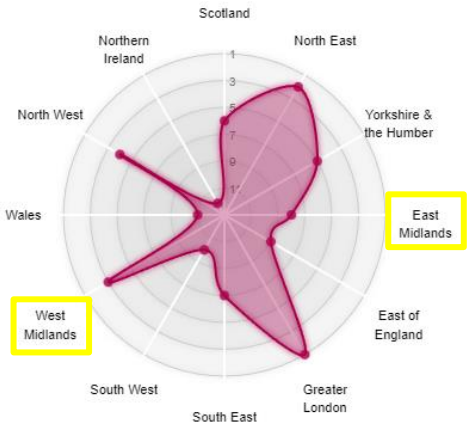
Overall Rank	Nation/Region	Skills Rank	Adoption Rank	Infrastructure Rank	R&D Rank	F&I Rank	Trade Rank
1	Greater London	1	1	1	1	1	1
2	South East	4	2	7	3	2	3
3	East of England	3	4	9	2	6	4
4	South West	2	5	10	6	3	10
5	West Midlands	7	7	3	4	10	8
6	Scotland	6	3	6	8	5	2
7	North West	5	6	4	9	4	7
8	East Midlands	10	8	8	5	7	9
9	Yorkshire & The Humber	9	10	5	11	8	11
10	North East	11	9	2	10	11	5
11	Northern Ireland	12	12	12	7	9	12
12	Wales	8	11	11	12	12	6

The **overall highest scoring region is Greater London** which has the highest rank out of all nations and regions across skills, digital adoption, infrastructure, R&D, finance and investment and trade, whilst **Wales is the lowest performing region**. The **West Midlands is fifth overall** and the **East Midlands falls in the second half of the distribution in eigth place**.

Digital Infrastructure

Digital infrastructure scores better in and around the UK's urban areas, where **Greater London is the best performing region, followed by the North East and the West Midlands. The East Midlands ranked eight**.

Digital Infrastructure Ranked by Region



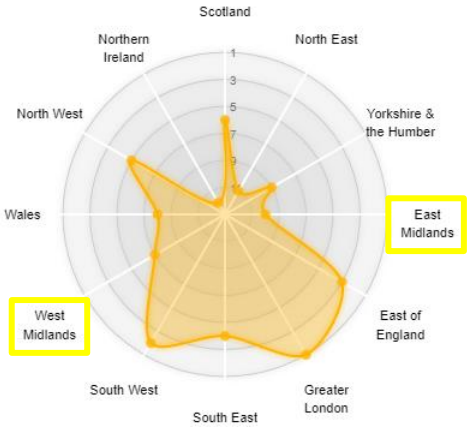
The West Midlands shows the highest Ultrafast (**0.88**) and Gigabit (**0.87**) broadband coverage in the UK, beating London. This is a testament to the work, innovation and priority this has been given in the region – where it's worth noting that in terms of 5G the UK Government has suggested the West Midlands is leading the way.

This shows investment outside of London has an effect and should be encouraged.

Digital Skills

Digital skills is an area of deep concern for many individuals and businesses. The UK needs a digitally skilled workforce requiring further national attention as a group identified by FutureDotNow suggests **36%** of the workforce lacks digital skills to thrive in the workplace.

Digital Skills Ranked by Region:

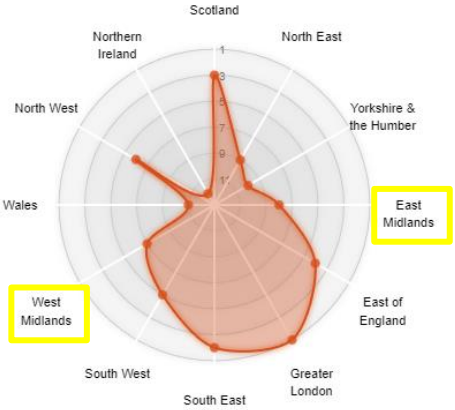


In regards to digital skills, the best performing region is once again **London** with four out of five areas in London making the top four of the Index – suggesting a need for a Levelling Up revolution. This is followed by the **South West and East of England, whilst the West Midlands ranked seventh and the East Midlands ranked tenth**.

Digital Adoption

One of the clearest indicators of a tech enabled economy is digital adoption. Sage's report 'Digital Britain' (2022) revealed that the use of technology by small and medium sized businesses contributes **£216 billion** to the UK economy. The top three sectors leading this digitalisation were **healthcare, hospitality and construction.**

Digital Adoption Ranked by Region:



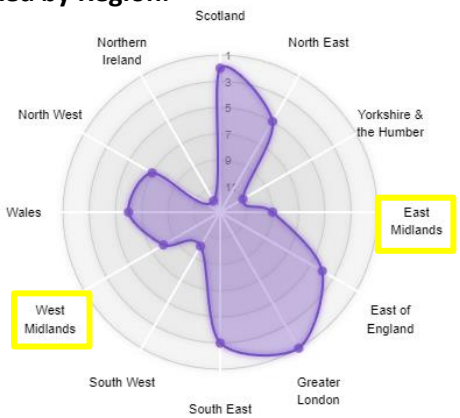
The top three regions for digital adoption included **Greater London, the South East and Scotland**. Meanwhile the West Midlands placed **seventh** whilst the East Midlands placed **eigth**.

Local Digital Capital Index

Trade Support

The Index provides snapshots into strengths of regions with regards to trade. TechUK suggests that in order to further this and improve the available data, the UK should look to some practical steps to coordinate from the centre in order to leverage the digital strengths of different regions across the UK. Hence, the digital chapters within Free Trade Agreements (FTA) are welcome alongside trade relating to Levelling Up and Industrial growth strategies identifying where investment is needed most. Furthermore, there should be further consideration given to FTA awareness-raising programmes. This would dovetail nicely with regional export and foreign investment promotion campaigns to support regions i.e., UK House as the business hub during the 2022 Commonwealth Games.

Trade Ranked by Region:

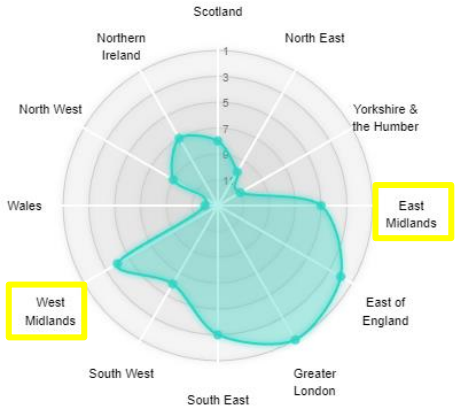


The top regions for digital trade exports include **Greater London, Scotland and the South-East**. In this, **the West Midlands was eigth and the East Midlands was ninth**.

Research and Innovation

This component is about looking at money going towards new ideas, process improvements and building new products and where the regional spend is going as defined by ONS, Innovate UK and HMRC data. This is especially important with the Levelling Up White Paper setting a target of increasing public investment in R&D outside the Greater South-East by at least **40%** by 2030.

Research and Development by Region:



This sits alongside the Government's targets to invest **£100m in three new Innovation Accelerators** in Greater Manchester, the West Midlands and Glasgow.

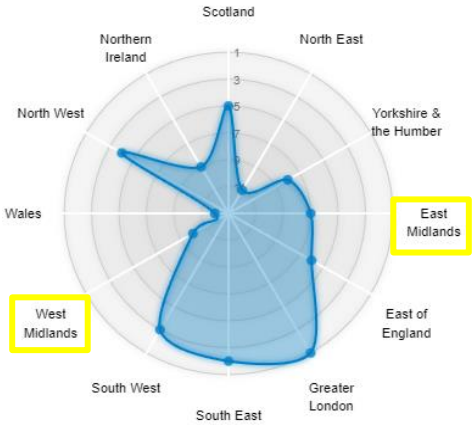
It is no surprise then that **Greater London, East of England** and the **South-East** are amongst the highest scoring regions. Where the **West Midlands scored fourth, and the East Midlands scored fifth**. In order to address the disparities, TechUK has suggested some changes:

1. Expanding the coverage of the R&D tax credit to cover capital expenditure
2. Improving the access to the UK Patent Box to incentivise the exploitation of R&D outputs
3. Reviewing and updating R&D definitions to fit the needs of the modern economy

Finance and Investment

Within this component TechUK wanted to understand the availability of loans, capital and funding to support the sector in different parts of the UK. This comes as more funding in a location helps boost the opportunities for new businesses and companies to scale up.

Finance and Investment Ranked by Region:



The top performing regions included **Greater London, South East and South West**. The **East Midlands was seventh whilst the West Midlands was tenth**. This notably highlighted the concerning disparities in access to funding.

Regional Snapshot

Overall, the West Midlands does well considering the region harnesses strengths such as digital infrastructure as well as R&D. With over **108,000 digital occupations in the sub-region and 385 high growth businesses**, the region compares well against others.

Parts of the East Midlands (Derbyshire and Nottinghamshire) on the other hand do well, **powered by decent mobile coverage, solid figures in digital occupation's and inward investment.** However, it is slowed down by a low R&D score and a rural/urban split.

Immersive Economy

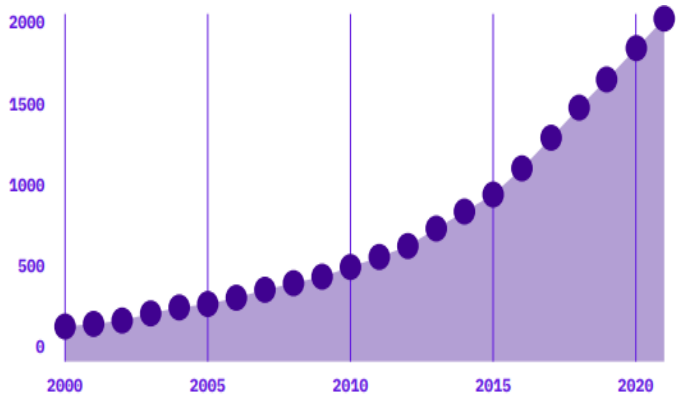
The 2022 Immersive Economy Report, produced by Immerse UK, Oxford Insights and Data City, brings latest insights and data on the immersive tech sector in the UK and the high value global growth areas of the future.

State of the Nation

Currently, there is an estimated **2,106** immersive companies in the UK. Collectively, the report estimates that there are **12,609** full-time employees working for these immersive technology companies. The business models of the surveyed companies were: **69% product-based** (up **10%** from **59%** in 2019), **65% consultancy based** (up **14%** from **51%** in 2019), and **75% were service-based** (up **5%** from **70%** in 2019). Furthermore, out of these companies **85%** identified as content providers, **74%** as technology developers, **62%** as users of immersive technology, **60%** service and **34%** buyers of immersive technology.

The story of the industry over the last five years has been of steady growth. Between 2016 and 2021, the number of immersive companies has **grown by 83%.** Out of these, **68% of organisations export** their immersive-related products, services, or content. Representing an increase of **6%** from **62%** in 2019.

Cumulative number of Immersive Companies in the UK:



Source: The Data City, 2022

Economic value is another big feature of the sector, with **80%** of immersive companies with available data having **between one and nine employees.** Further estimates suggest that the **total industry turnover is over £1.4bn**, with **40% of companies currently being at a pre-revenue phase.** This indicates that many parts of the immersive economy are still at an early R&D phase, and not yet at high enough technology readiness to commercialise output – suggesting high margin for growth.

Drivers for growth include businesses that focus on their audience/market; availability of public funding from a range of sources; scalability; and enabling institutions.

On the other hand, **barriers to growth** include access to talent with **79%** of respondents stating it more than any other factor – an increase from **45%** surveyed in 2019.

Quoted skills gaps included technical and commercial skills. Other barriers included accessibility of devices within their customer base; access to finance; short-term mindsets; a lack of understanding of the potential of immersive technology; and underdeveloped industry standards.

Covid-19 Impacts

Surprisingly, **43% of respondents stated Covid-19 had an overall positive impact, as opposed to 23% who found it had an overall negative impact**.

Significant negative impacts included:

- **Hygiene** – many businesses faced increases costs from cleaning including headsets, as well as the trend of people not wanting to share public devices.
- **Funding** – Several interviewees feared funding may be re-prioritised away from immersive technologies.
- **Project cancellations** – due to disruptions and cash flow disruptions.

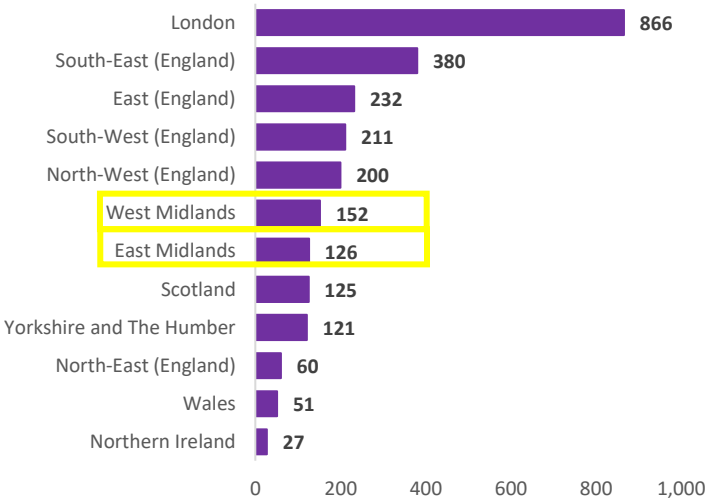
Significant positive impacts included:

- **Increased demand for online, virtual experiences**.
- **Culture shift** – remote work leading to new ways of collaboration, and more experimentation.
- **Recruitment** – businesses were able to attract international talent working remotely.

Immersive Geographies

The report found that London was dominant when it came to immersive businesses, this came as London boasts **half of the total immersive company turnover**, **41%** of all companies and **55%** of companies in the industry. This signalled regional innovations efforts to rebalance the economy.

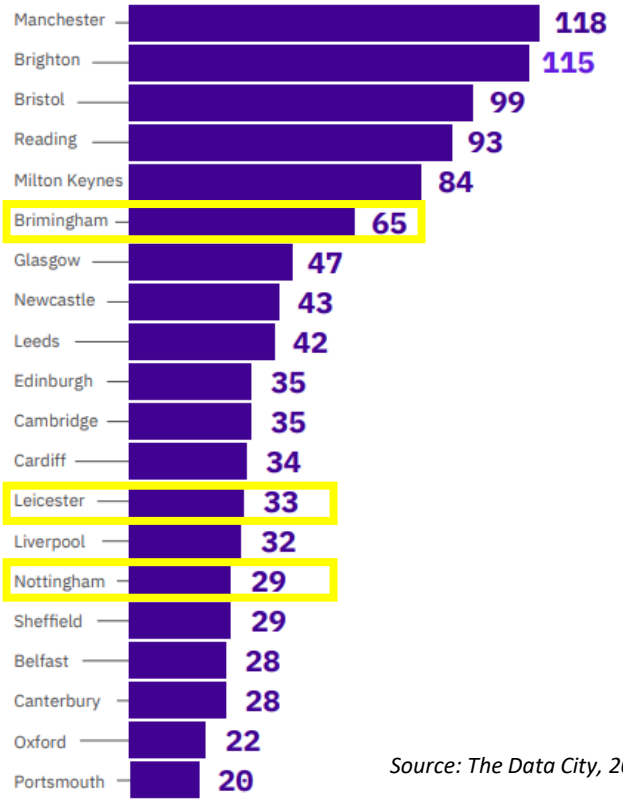
Number of Immersive Companies by Region:



When viewing numbers of immersive companies by region, London has the most with **866** whilst Northern Ireland has the least with **27**. Within this the West Midlands is **6th** with **152** companies East Midlands is **7th** with **126** companies.

Immersive Economy

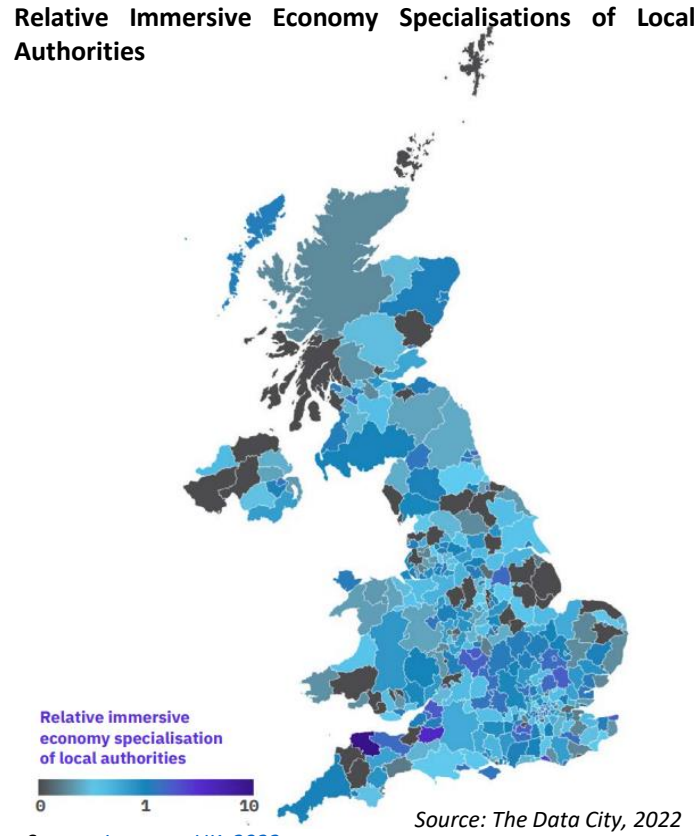
Number of Immersive Companies by City:



Source: The Data City, 2022

At city level, apart from London; Manchester and Brighton hold the most immersive companies, with **118** and **115** respectively. Within the Midlands, **Birmingham, Leicester and Nottingham make the top 20 cities with 65, 33 and 29 companies respectively.**

Relative Immersive Economy Specialisations of Local Authorities

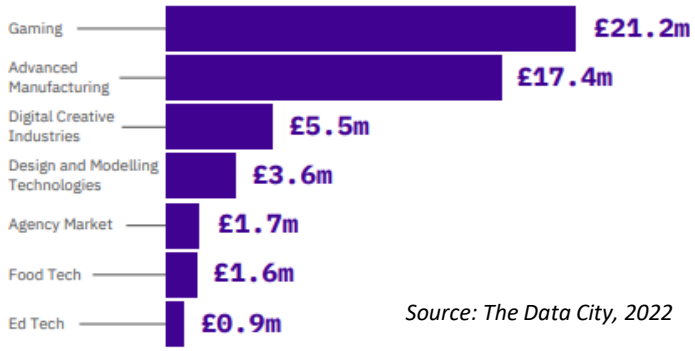


Source: The Data City, 2022

Source: [Immerse UK, 2022]

East Midlands

Turnover by Immersive Sector Application:

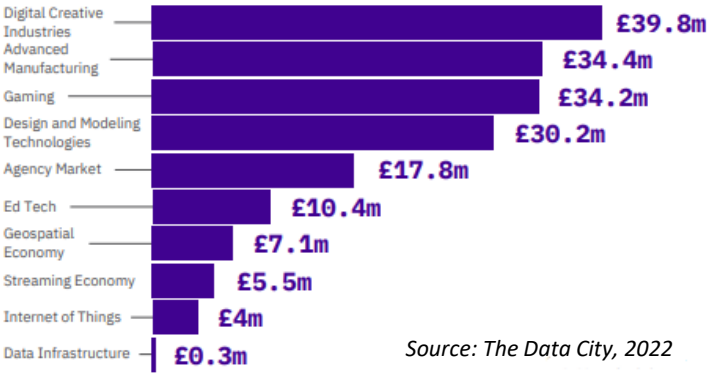


Source: The Data City, 2022

The East Midlands is a region which is home to **126** immersive economy companies, including many leading companies like the industry heavyweight, **Improbable**. The software giant has over **900** employees globally and raise **$600m** to develop its metaverse technologies. **Nottingham** itself has **29** companies in the city. Overall, the region has an estimated **1,296** full-time employees, generates **£116m** in turnover and has had a **63%** growth rate of businesses in the past five years.

West Midlands

Turnover by Immersive Sector Application:



Source: The Data City, 2022

Meanwhile the West Midlands is home to **152** immersive economy companies, with a significant gaming presence in areas such as **Warwick and Stratford**. According to analysis by London Economics and glass.ai, the region is home to the largest emerging technologies cluster outside of London. The Emerging Tech Capabilities in the West Midlands study also found significant R&D power, with **£2.4bn** of investment in R&D made by businesses in the region in 2019. Overall, the region has **1,225** full-time employees, generates **£135m** turnover and has had a **64%** growth rate of businesses in the past five years.

Application Growth Areas

Applications of immersive technologies vary across sectors, with **Gaming (£142m)**, **Media and Entertainment (£164m)** and **training (£156m)** were the sectors with the highest turnovers. A smaller but fast-growing sector was **healthcare**, which saw **88%** growth in the last five years, higher than any other sector.

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NOTTINGHAM BUSINESS SCHOOL NOTTINGHAM TRENT UNIVERSITY

In Partnership:

Black Country LEP

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CITY REDI

Aston University BIRMINGHAM UK

Birmingham City Council

BIRMINGHAM CITY University

Midlands Enterprise Universities

UK Research and Innovation

West Midlands Growth Company

West Midlands Combined Authority

BPS BIRMINGHAM

CWLEP Coventry & Warwickshire Local Enterprise Partnership

Greater Birmingham Chambers of Commerce

Greater Birmingham & Solihull Local Enterprise Partnership

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