MIDLANDS ENGINE
Observatory

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 18: September 2021

Executive Summary

This month's monitor confirms that optimism about the Midlands' economic recovery in June and July has given way to a **much more mixed picture** as we move into Autumn. Reflecting this best at the macro-level, the **West Midlands Business Activity Index decreased from 58.3 in July 2021 to 55.2 in August 2021**, while the **East Midlands Index decreased from 59.7 to 52.1**. While the figures remaining above 50 indicators continued expansion, growth has slowed compared to the late spring and early summer months.

This reflects a period of **sustained uncertainty**, with external issues surrounding the legacy of Covid and EU Exit causing businesses many problems. In recent weeks we have began to see this play out more clearly, particularly:

- The UK's multi-faceted **labour crisis,** especially regarding HGV drivers but other skilled occupations too.
- A continuation of price rises due to a **shortage of key materials**, ranging from food shortages, fertiliser, construction materials, wood, steel and aluminium, through to semiconductors.
- **Shortages of essential goods like fuel, gas and food.** While damaging the confidence and options for the public, this is also causing major issues for many cash strapped Midlands businesses that use a lot of energy and fuel.

Sectors and individual businesses are being impacted differently by these key challenges, as reflected in **Midlands Engine Observatory's sector risk analysis.** Two matrices assess the risk and impact of Covid-19 and Brexit impacts on different sectors of the Midlands Engine economy. The findings include:

- **Three core Midlands Engine sectors** are considered as having a particularly **high risk** to ongoing challenges around the **Covid pandemic**: retail, transport technologies and energy & low carbon.
- **Three Midlands Engine sectors** are considered as having a particularly high risk to challenges around **EU Exit**: advanced manufacturing and engineering, transport technologies and agriculture.

In this monitor we reflect on the broad experience of all key sectors, while providing additional information on manufacturing and retail in particular.

- Despite current challenges, **manufacturers** are still reporting **high levels of output and future confidence, and** according to MakeUK's Q3 Outlook, **both business and economic confidence have achieved a new peak.**
- For the longer-term, the Midlands Engine has outlined its ambitions for future manufacturing in the region through two new reports. They **focus on harnessing our sector capabilities to capitalise on new opportunities.**
- **As for retail, the rate of store closures across the Midlands slowed during the first half of 2021. In total across the Midlands, 601 shops opened, compared to 1,511 closures, creating a net decline of 910** with the number of closures falling from 1,799 in the first half of 2020. This provides a short-term reprieve for the sector.

As well as exploring the live issues and causes surrounding skills and jobs across sectors, the monitor also reports on the **standard labour market statistical updates**. For instance:

- The number of claimants continues to fall in the Midlands: there were **355,620 claimants aged 16 years and over in the Midlands Engine area in August 2021**, a decrease of 5,220 claimants since July 2021. This equates to a decrease of 1.4% for the Midlands Engine area, the UK decreased by 2.1%.
- The **number of employments on furlough in the Midlands Engine was 227,000 on the 31st July 2021**, equating to a **5.3% take-up rate for the scheme, compared to UK-wide of 5.4%.** This number was almost three times higher for July 2020 – reflecting the significant drop in furlough as pandemic restrictions eased – and yet there remains uncertainty of the labour market situation for many post-furlough at the beginning of October.

Furthermore, the **future of education and work** is considered by looking at perspectives related to the impact of international students, and the future of working from home. On the latter, a recent workshop including the Government's Cities and Local Growth Unit and the What Works Centre, suggest that **post-pandemic working from home will increase 22 percentage points over 2019 levels.**

It is crucial that Midlands-level intelligence, including in these monthly monitors, explores the **Midlands impact of major economic shifts and societal trends.** This includes the future of work as above, while being central to the new manufacturing reports. This month's monitor also draws on the importance of **digital and net zero**:

- **Net Zero:** A recent report from the Social Market Foundation explores the scale of opportunity for the transition to a net-zero economy. North Warwickshire (4th), Solihull (5th), Bromsgrove (6th), Coventry (8th), Tamworth (9th), Nuneaton and Bedworth (11th), Redditch (17th) and Wychavon (19th) all rank in the top 20 LAs Net Zero Opportunity Index, meaning that the transition to a net zero economy is a significant opportunity for many of our places.
- **Digital:** Research via the Local Digital Capital Index shows that there is no debate about the need to develop the tech sector across the UK. The WM ranked 5th for adoption, with the EM ranking 10th (out of 12).

1) Economic and Labour Market Impacts

Global and National Outlook

Global

There is currently a **global shortage of new cars**. When the pandemic hit most car production ceased and semiconductor manufacturers diverted their chips to the consumer electrics industry. This has led to **a shortage of microchips needed as production opens back up**. With an under-supply of new cars, second-hand cars have shot up in price.

It does not look like things are set to improve for Christmas as about 70% of the world's toys are made in China. There is **currently a shortage of containers in Asia, shipping prices are 10 times higher than last year and container shipping times have doubled**, meaning there is less time available to get the toys on the shelves.

The US is also having its own HGV driver's crisis. 'Trucking' in the US is the primary source of container transport once the cargo is unloaded at port. A shortage of drivers across the country means much of the **container volume has been sitting idle at capacity-strained facilities**.

There are also issues affecting agriculture and food production globally. The global food eco-system has been hit hard, with some employers having to raise wages at a double-digit pace. This will likely continue to **push food prices up even higher**, prices in August this year were up 33% globally from the same month last year.

Ports across the globe are reporting record levels of backlogs, with **Ocean carriers' reporting delays of up to 30 days** on the worst hit China to EU routes and 22 days on the worst hit China to US routes.

OECD reports one of the major issues being whilst more advanced countries may be rolling out vaccines at a fast rate, poorer countries do not have the same ability to do so. Advanced countries are dependent on developing countries to produce commodities at a cheaper prices, but the **fragility of supply chains and rising demand will likely continue delays and price rises right through until 2022, and potentially until 2023.**

The EU has also been hit by soaring energy prices. Natural gas prices across Europe have risen from €16 megawatt per hour in early January to €75 by mid-September.

In Spring 2021, when a number of EU economies began to reopen, business activity began to intensify rapidly which prompted a **new wave of energy demand**, which was higher than usual in the summer due . Then as economies reopened across most of Asia this summer, there was another spike in demand, with China's demand for gas this year expected to have risen by 8%. It was expected that some of this shortfall could be made up by greater supply from Russia. However Gazprom, Russia state-backed energy company, has refused to increase exports to the EU.

National

The global gas crunch is particularly bad news for the UK, which has become **highly dependent on gas** in recent months following a string of issues with the UK electricity system. Furthermore, even though the UK is highly reliant on gas for home heating cooking, less than 1% of Europe's stored gas is held by the UK. This has forced Britain to **temporarily fire up coal power stations** to plug the shortfall.

Brexit will likely also **cause greater impacts for the UK comparative to the EU**, as the EU's internal energy market allows member states to trade with each other in a way that balances prices out.

So far as a result of the soaring energy prices in the UK, **12 energy firms have collapsed**. This means that over 2 million people across the UK have now lost their energy supplier. The Guardian reports when an energy company has collapsed then customers are moved to a tariff charged at Ofgem's price cap. This is the maximum suppliers can charge customers on their standard variable tariffs and is set to rise by 12% on 1 October. This means that households that pay direct debit will face bills **averaging £1,277 a year for duel fuel**, whilst those on meters typically the most vulnerable, will see average energy bills rise to an average of £1,309 a year.

This is bad news for lower income consumers especially as the **UC £20 weekly up lift ends this month, as well as the Coronavirus Job Retention Scheme (CJRS).** Over the last 18 months the CJRS has covered the wages of roughly 11.6 million people, and has provided 2.3 billion days of furlough at a cost of almost £70 billion (in gross terms). It is anticipated that **around 1 million people will still be on furlough as it ends on 30th September**, with half of those still fully furloughed. Therefore, it is likely that there will be at least a **moderate rise in unemployment**, varying by industry.

All this has put upwards pressure on inflation. ONS' Consumer Price Inflation found:

- **The Consumer Prices Index, including owner occupiers' housing costs (CPIH), rose by 3.0%** in the 12 months to August 2021, up from 2.1% in the 12 months to July 2021. The increase is the largest increase ever recorded in the CPIH National Statistic 12-month inflation rate series (Jan 2006); however, this is likely to be a temporary change.
- **The Consumer Prices Index (CPI) rose by 3.2%** in the 12 months to August 2021, up from 2.0% in July: the increase of 1.2 percentage points is the largest ever recorded increase in the CPI National Statistic 12-month inflation rate series, which began in January 1997; this is likely to be a temporary change.

Policy Considerations

THEME	KEY INSIGHTS
Outlook	The optimism about economic recovery that characterised many indices of business confidence in June and July has given way to a **much more mixed picture** as we move into Autumn. There remain risk factors that could derail prospects for recovery – notably continuing distribution and supply difficulties and growing input price pressures affecting many economic sectors. A period of sustained uncertainty, with external issues surrounding the legacy of Covid and EU Exit is causing businesses many problems. In recent weeks we have began to see this play out more clearly, particularly related to **shortages of fuel, gas and food.** While damaging the confidence and options for the public, this is also causing major issues for many cash strapped businesses that use a lot of energy and fuel. According to one local report from the Greater Birmingham Chamber, **rising prices and supply chain disruption are likely to have a knock-on impact on any projected recovery** and if labour and supply shortages are prolonged there will be a noticeable impact for firms to meet customer demand. With **acute supply and staff shortages, heightened uncertainty still therefore looms over the UK's economic outlook.** As economic growth levels out and firms face key challenges and shortages, business leaders are stressing how **vital it is the Government sets out a clear strategy on how they intend to minimise the prospect of future lockdowns and give businesses the confidence** they need to plan effectively and rebuild over the next few months, mitigating the issues surrounding the above three issue areas. In the short-term, quick and clear policy and action is needed to mitigate the crises.
Labour Market	A key factor of threats is the UK's current multi-faceted labour crisis. As widely reported, the **shortage of HGV drivers** is at the heart of this issue: The impact of the shortage is **already beginning to emerge with daily reports of supply chain interruptions and empty shelves.** This will lead to consumer price inflation as the transportation cost of goods rises. It is also **raising fears of affects to Christmas and on wider services such as patient care.** While a lack of HGV drivers has dominated the headlines, the challenge extends well beyond this to **include other skilled professions**, and along with resulting disruption to supply chains, has led to increasing calls for action in the run-up to Christmas. There is a difficulty across almost all sectors to source the right skills and talent for businesses, making it hard for firms to deliver on existing contract wins. This has led to **some businesses having to turn away orders.** Reflecting the variety of sectors and roles affected, the CBI have identified examples of current shortages. Growth Hubs in the region have heard specific issues from businesses related to: • **Staff Availability** – Further reduction in the availability of permanent staff. Elevated uncertainty surrounding the jobs market made some staff unwilling to move between roles. • **Shortages** – Huge shortages in areas across logistics sector and also IT sector being raised as an issue by regional recruiters and employers. • **Redundancies/End of Furlough** – No large scale redundancies coming through, although some are still expected at end of furlough. • **Permanent Positions** – The number of permanent staff appointments across the region has continued to increase rapidly. • **Increased Pay** – Recruiters across the region have reported an increase hourly pay rates & salaries.
Business Demand	It is anticipated that the region's Growth Hubs will see an **increase of enquiries over the coming month** with the end of furlough, grouped with energy company concerns and logistics concerns causing companies to feel a lot of strain, with more staff taking time off sick as the pressure becomes too much. Particularly **frequent enquiries of late** include: • **Grants** – There continues to be a strong demand for regular business support grant streams • **International Growth** – Pressures on businesses that have viable products and clear international markets seeking assistance from DiT to help with the ongoing issues related to international travel restrictions. **Property Searches** – Increased requests for property searches. Businesses include those involved with Engineering, Heavy Manufacturing, Storage/Warehousing, Catering/Food Production and Photography. • **Net Zero** – Climate change a key consideration for a number of businesses as they, their suppliers and customers seek to engage with energy efficiency initiatives. • **Supply chain and the circular economy** is increasingly coming up in client conversations.

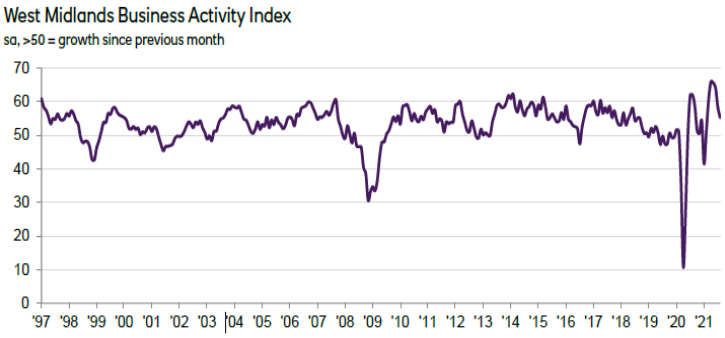
Business Activity

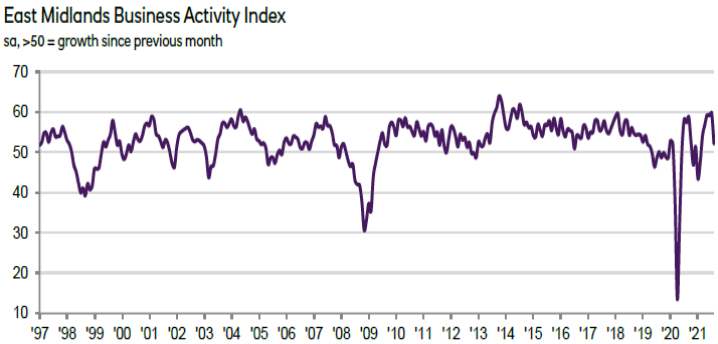
Business Activity Index

The **West Midlands Business Activity Index decreased from 58.3 in July 2021 to 55.2 in August 2021.** Even with the relaxation of COVID-19 restrictions, growth was hindered by firms not being able to appropriate labour to fill job roles and also difficulties in sourcing raw materials.

The **East Midlands Business Activity Index decreased from 59.7 in July 2021 to 52.1 in August 2021**. The latest figure indicates a moderate rise in business activity (due to output from customer demand and new orders), but growth was the slowest in the last six months.

The following graphs show the West Midlands and East Midlands Business Activity Index trends:





Source: IHS Markit, NatWest PMI, September 2021

Of the UK regions (where the highest is first place), the West Midlands region was sixth and the East Midlands was eleventh out of the twelve regions for the Business Activity Index in August 2021.

Demand

The latest data shows the **West Midlands New Business Index increased from 59 in July 2021 to 59.8 in August 2021.** Companies linked the growth to improved client confidence, better demand conditions, easing of travel restrictions and increased footfall. **The East Midlands New Business Index decreased from 54.4 in July 2021 to 52.9 in August 2021.** The rate of new business growth was the slowest seen in the last six months. However, there was still an increase in expansion which was linked to greater numbers of new orders from sustained client demand.

Source: IHS Markit, NatWest PMI, August 2021.

Exports

The **West Midlands Export Climate Index decreased from 58.1 in July 2021 to 55.4 in August 2021**. Despite falling, the latest figure still shows a robust improvement in export conditions. **The East Midlands Export Climate Index decreased from 57.9 in July 2021 to 55.9 in August 2021**; this still signals a strong improvement in export conditions.

Business Capacity

The **West Midlands Employment Index increased from 57.6 in July 2021 to 58.2 in August 2021**, with the growth linked to job creation and greater output needs due to demand conditions. **The East Midlands Employment Index decreased from 54.6 in July 2021 to 54.5 in August 2021** , the rate of job creation eased to a four-month low as there has been struggles hiring new suitable staff.

The **West Midlands Outstanding Business Index increased from 54.7 in July 2021 to 58.1 in August 2021.** The **East Midlands Outstanding Business Index increased from 53.8 in July 2021 to 55.7 in August 2021.**

Prices

The **West Midlands Input Prices Index increased from 77.9 in July 2021 to 78.3 in August 2021**. The rate of inflation was the second fastest since mid-2008. The **East Midlands Input Prices Index decreased from 79.4 in July 2021 to 77.2 in August 2021**. The pace of increase was the second-fastest on record.

The **West Midlands Prices Charged Index increased from 62.0 in July 2021 to 62.2** in August 2021. **The East Midlands Prices Charged Index decreased from 65.8 in July 2021 to 62.0** in August 2021.

Outlook

The **West Midlands Future Activity Index increased from 74.4 in July 2021 to 77.2 in July 2021,** a three-month high and above the historical average. Approximately 63% of West Midlands companies are forecasting growth in the next 12 months. **The East Midlands Future Activity Index increased from 77.6 in July 2021 to 80.0 in August 2021.** This degree of confidence rose to the highest in almost six years. Optimism was linked to hopes of improved client demand and new product developments.

Out of the twelve UK regions, the East Midlands was the third highest for the Future Business Activity Index, with the West Midlands seventh in August 2021.

Sector Risk – COVID-19

Midlands Engine Observatory analysis, in tandem with intelligence from business groups and trade bodies – has **assessed the risk / impact of the continued COVID-19 pandemic on key sectors and subsectors**.

Black Country Consortium Economic Intelligence Unit	Skills & Labour - % furlough in ME	A2F – diff. between % of loans & economy proportion	Lockdown	Order Books	Insolvency & Debt	Social Distancing	Supply of Product	Testing & Labour Supply	Digital / Home Working	Risk Management Capability	Overall Risk to Future Growth
Advanced Manufacturing & Engineering	8%	-1.4%									MEDIUM
Aerospace											MEDIUM
Metals & Materials											MEDIUM
Food & Drink											HIGH
Automotive											MEDIUM
Rail											MEDIUM
Construction	8%	-0.1%									MEDIUM
Retail	5%	-5.7%									HIGH
Visitor Economy	14%	-3.9%									MEDIUM
Culture											MEDIUM
Hospitality	14%										MEDIUM
BPFS	5%	-1.5%									LOW
Financial Services		0.7%									LOW
Legal & Accountancy Services											LOW
Real Estate, Property & Consultancy		-3.5%									LOW
Energy & Low Carbon	4%	-0.1%									HIGH
Creative, Design and Digital	6%	0.25%									MEDIUM
Creative & Digital	4%	1.8%									LOW
Arts & Entertainment	14%	2.6%									MEDIUM
Healthcare & Life Sciences	2%	2.3%									MEDIUM
Health & Care											HIGH
Life Sciences											LOW
Transport Technologies	7%	0.3%									HIGH
Public Sector inc. Education	1%	3.3%									MEDIUM
Agriculture		-0.2%									MEDIUM

As of September 2021, the results include:

- **Three core Midlands Engine sectors and two sub-sector**s are considered as having a particularly **high risk** to ongoing challenges around the Covid pandemic: **retail, transport technologies, energy & low carbon, health & care and food & drink manufacturing.**

- Seven core Midlands Engine sectors and seven sub-sectors are considered as having a **medium risk,** examples including **advanced manufacturing and engineering, construction, visitor economy and agriculture.**

Sector Risk – EU Exit

Similarly, an analysis of **EU Exit risks has also been undertaken**, distinguishing between "**immediate risks"** (short and medium-term issues that might be expected to wane somewhat over time as businesses adapt) and **"structural risks"** (areas that are expected to be known long-term changes).

Black Country Consortium Economic Intelligence Unit	IMMEDIATE RISKS: SHORT AND MEDIUM-TERM CHANGES							STRUCTURAL RISKS: LONG-TERM CHANGES				ALL
	VAT	Financial Equivalence	Travel	Prices / Costs	Customs Paperwork	Prof. Quals.	R. of Origin	Standards / Regulation	Data Sharing	Skills Shortages	Loss of EUSIF Funding	Overall risk of reduced Competitiveness
Advanced Manufacturing & Engineering												HIGH
Aerospace												MEDIUM
Metals & Materials												HIGH
Food & Drink												HIGH
Automotive												HIGH
Rail												MEDIUM
Construction												MEDIUM
Retail												MEDIUM
Visitor Economy												MEDIUM
Culture												MEDIUM
Hospitality												MEDIUM
Business, Professional and Financial Services												LOW
Financial Services												MEDIUM
Legal & Accountancy Services												LOW
Real Estate, Property & Consultancy												LOW
Energy & Low Carbon												MEDIUM
Creative, Design and Digital												MEDIUM
Creative & Digital												MEDIUM
Arts & Entertainment												HIGH
Healthcare & Life Sciences												MEDIUM
Health & Care												MEDIUM
Life Sciences												MEDIUM
Transport Technologies												HIGH
Public Sector inc. Education												MEDIUM
Agriculture												HIGH

As of September 2021, the results include:

- **Three Midlands sectors and four sub-sectors** are considered as having a particularly **high risk** to challenges around EU Exit**: advanced manufacturing & engineering, transport technologies, agriculture, metals & materials, food & drink, automotive and arts & entertainment.**

- Seven core Midlands Engine sectors and eight sub-sectors are considered as having a **medium risk**, examples including **construction, retail, energy & low carbon and healthcare & life sciences.**

Manufacturing Sector

The Manufacturing Growth Programme published a regional Manufacturing Barometer report for Q1 2021 (covering April-June 2021).

Key Findings for West Midlands Region:

Core Trends

- 54% have seen sales increase this quarter
- 67% are expecting an increase in future sales

Trading Through Current Conditions

Current position when compared to January 2020:

- The percentage 'trading at increased levels' has grown by 26% since October 2020
- 33% of respondents still have staff on furlough

Special Focus: Barriers to Growth Opportunities

- Supply Chain price increases are causing issues for 96% of responding companies

The top three factors believed to be causing this are:

- Availability of raw materials 84%
- Transportation costs 72%
- Lack of capacity to meet demand 57%

- Notably 53% have cited logistics and transport as a barrier to growth The data suggests that this issue is affecting a diverse range of businesses, regardless of their current situation or future growth expectations.

Key Findings for East Midlands Region:

Core Trends

- 53% have seen sales increase this quarter
- 47% are expecting an increase in future sales

Trading Through Current Conditions

Current position when compared to January 2020:

- The percentage 'trading at increased levels' has grown by 16% since October 2020
- 33% of respondents still have staff on furlough

Special Focus: Barriers to Growth Opportunities

- Supply Chain price increases are causing issues for 100% of responding companies

The top three factors believed to be causing this are:

- Availability of raw materials 100%
- Transportation costs 87%
- Lack of capacity to meet demand 60%

- 47% have cited recruitment challenges as a barrier to growth. The data suggests that this issue is affecting a diverse range of businesses, regardless of their current situation or future growth expectations.

Overall Core Trends for the West Midlands and East Midlands:
(A summary of changes over the past six months and expected changes over the next six months)

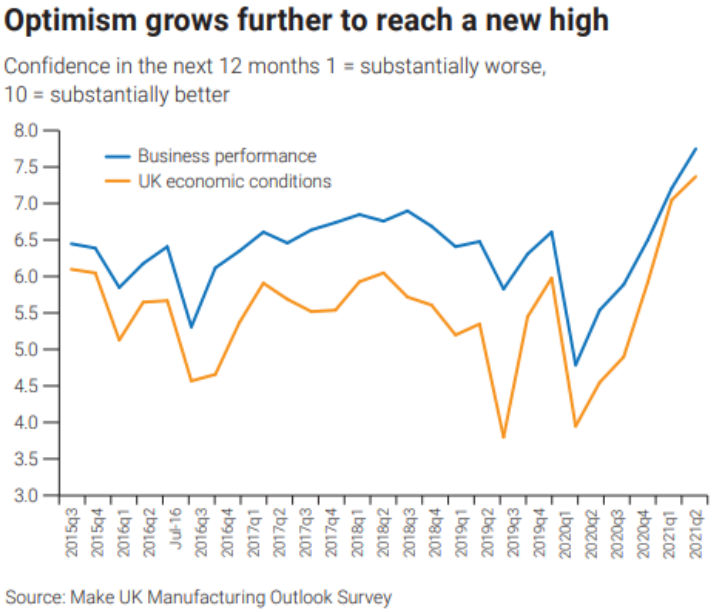
	Much Reduced		Reduced		No Change		Increased		Much Increased	
	WM	EM	WM	EM	WM	EM	WM	EM	WM	EM
Sales turnover: past six months	7%	13%	17%	27%	22%	7%	45%	40%	9%	13%
Sales turnover: next six months	0%	7%	12%	13%	21%	33%	60%	47%	7%	0%
Profit: past six months	9%	7%	29%	40%	31%	40%	31%	13%	0%	0%
Profit: next six months	5%	7%	21%	20%	29%	40%	42%	33%	3%	0%
Staff numbers: past six months	3%	7%	24%	27%	40%	33%	31%	33%	2%	0%
Staff numbers: next six months	0%	0%	7%	0%	41%	47%	52%	53%	0%	0%
Investment: past six months	9%	13%	9%	13%	45%	40%	32%	34%	5%	0%
Investment: next six months	3%	0%	7%	6%	45%	47%	41%	47%	4%	0%

Manufacturing Sector

Despite current challenges, manufacturers are still reporting **high levels of output and future confidence.**

According to MakeUK's Q3 2021 Outlook, both **business and economic confidence have achieved a new peak** since data collection for this metric began in Q3 2014. The result continues to be fuelled by the reopening of the economy and new work returning to manufacturers up and down the UK.

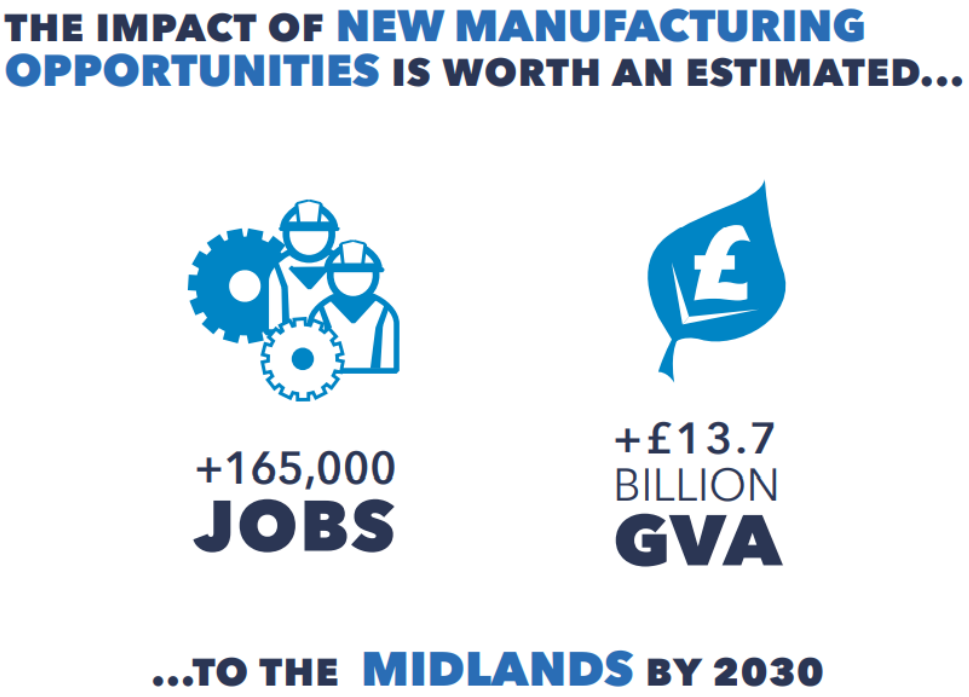
Following a series of sharp declines in output and orders last year, manufacturers have since indicated a **swift bounce back** as new work returned to unparalleled levels for many across the sector. Today, the pandemic appears to almost feel like a trove of the past with many UK manufacturers focused on the future, by **investing in expanding capacity, innovating new products, and upskilling their workforce.**



Also looking forward, The Midlands Engine has published two new manufacturing reports, representing two phases:

- The first report – **"Midlands Engine Makes"** – showcases the unique strengths of manufacturing across the Midlands.
- Phase 2 focuses on "**What Could be Made in the Midlands in Future",** calling on government and industry to capitalise on emerging opportunities within its manufacturing heartland, as it targets **165,000 new jobs in the sector by 2030 to support the shift to net zero and deliver levelling up.**

The report analyses regional strengths across the manufacture of **food and drink, next generation transport, medical and pharmaceuticals, low carbon goods, and advanced metals and materials**, and outlines the economic impact that investment in these key clusters would have on the Midlands and for the UK more broadly. The research highlights that the manufacturing sector **could be worth an additional £13.7 billion Gross Value Added** (GVA) to the Midlands by the end of the decade. In the wake of Brexit and COVID-19, grasping this opportunity will be critical to urgent economic recovery.



Retail – Store Openings and Closures

PWC report that store closures are slowing as government measures give operators temporary respite.

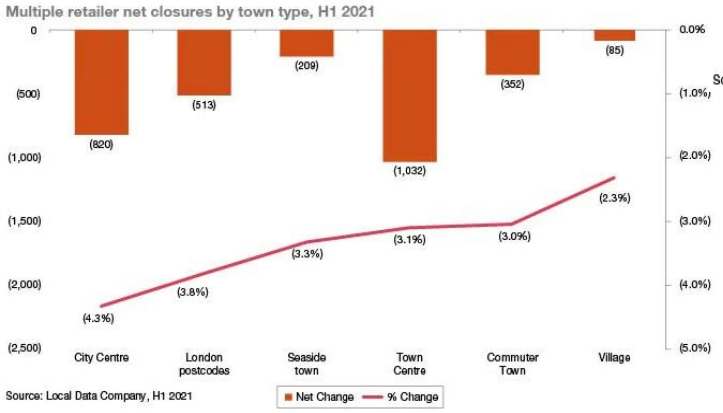
In a reprieve for retailers and leisure operators, PwC's latest store openings and closures survey shows **750 fewer net closures than in 2020**, even despite significant high-profile casualties earlier in the year. The survey, which looks at multiple operators (stores with 5 or more outlets), shows that even with more than 5,251 net closures across Great Britain, businesses are remaining steadfast amid continued challenges. Initiatives such as the **extended furlough scheme, business rates relief and government-underwritten loans have all played a significant role in helping operators stay in business**, as has the impact of the rent moratorium.

These measures have given businesses the breathing room they needed to repurpose and reassess, and continue trading even where sites have been particularly hard hit. With consumer sentiment returning to pre-pandemic levels and pent-up demand converting into better-than-expected retail sales in the first full months of trading post-unlocking, there's reason to be hopeful.

But, even with extended support (such as the rent moratorium, now extended to March 2022) things could get worse in the second half of this year. We will now see the **reinstatement of full business rates for all but the smallest operators from Q3**, **the wind-down of furlough support, and VAT for hospitality returning**. Elsewhere, with no settlement on built-up rent arrears and little government guidance, some landlords and tenants may still be a long way from agreement.

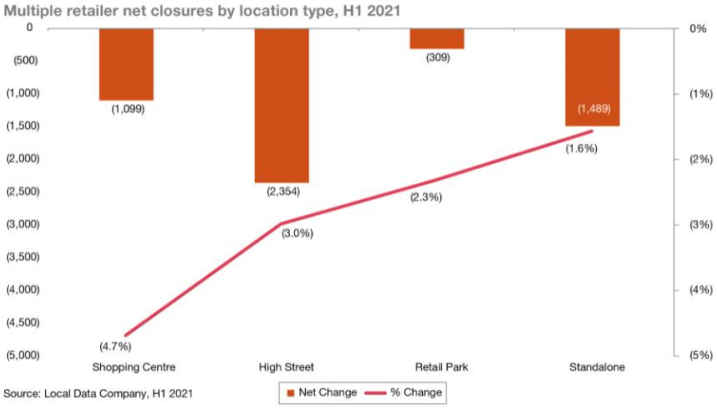
Some themes emerging: the city exodus continues

Consumers are changing location preferences, moving from cities and towards retail parks and standalone locations. This continued flight from cities is being driven by a footfall that has yet to recover as more office workers embrace home working in the short term or move towards a hybrid working model. It's a trend that is reflected across all regions, with city centres now faring worse than commuter towns and villages.



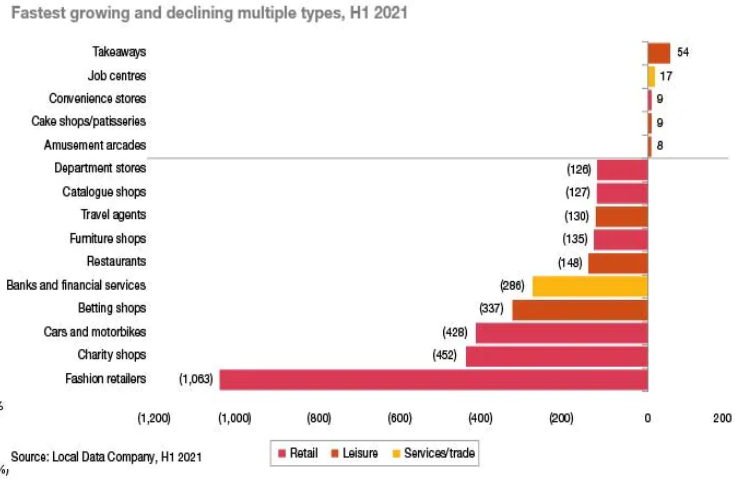
Is out-of-town now the place to be?

Retail parks have seen a smaller number of net closures (634), compared to high streets (3,643) and shopping centres (1,464).



Retail parks have fared better because they are anchored by grocery, DIY and home furnishings retailers, categories that have outperformed others since the start of the pandemic. Most have seen an almost complete recovery in footfall soon after the lifting of restrictions, and never got below -40% in the most recent lockdown, even with non-essential retail closed. As safety remains a key consideration, consumers are more inclined to drive to retail parks to avoid using public transport and larger units allow for better social distancing measures.

Changes in customer behaviours driving category closures:



This year, leisure dominates growth, with takeaway chains buoyed by a rise in delivery as well as walk-in demand. The big net declines in other categories also reveal major shifts in how consumers buy and transact. The shift to online has been the biggest factor in closures across retail and services, accelerated by consumer behaviours in response to COVID-19.

Source: PwC, 2021

Retail – Store Openings and Closures

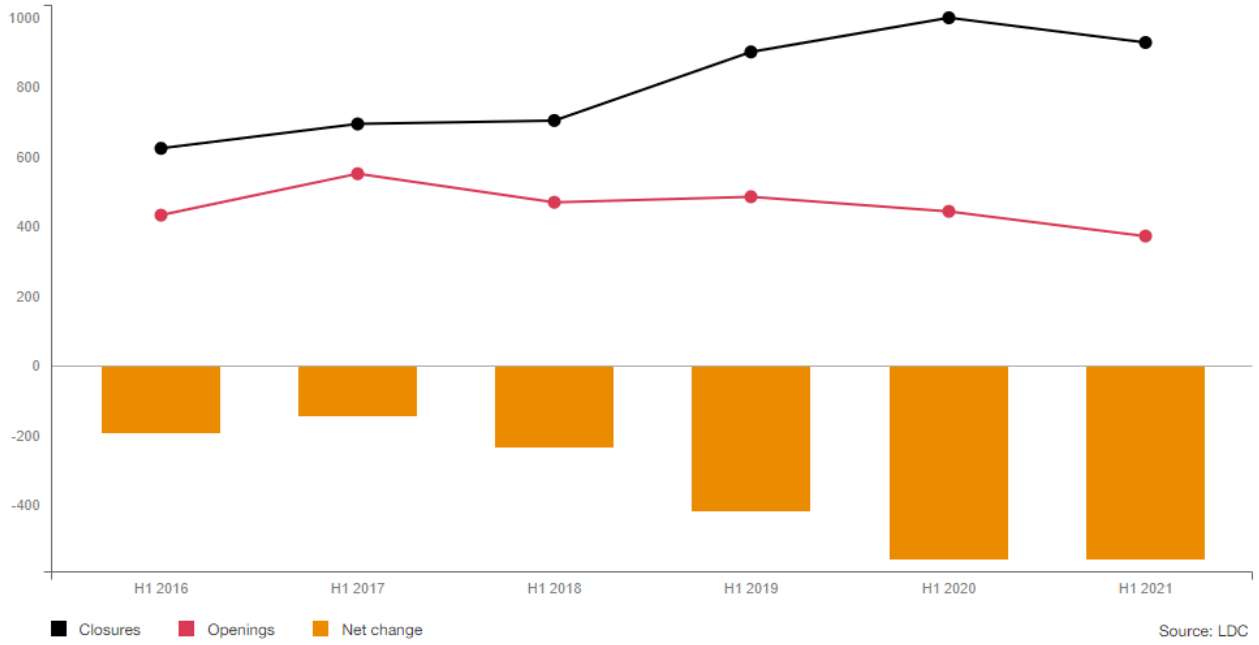
Long-term recovery possible, but the shift to out of town is a concern

In the short term, PWC expect to see the impact of COVID-19 continue to accelerate previous trends and compound the locational shift. Overall, store closures are likely to be driven by a consumer shift to online retail and services, and overcapacity for certain categories of leisure. PWC conclude that because of these trends, it's difficult to see any categories fully recovering long term and the biggest concern might actually be the shifting consumer preference to out-of-town shopping, particularly from an environmental perspective.

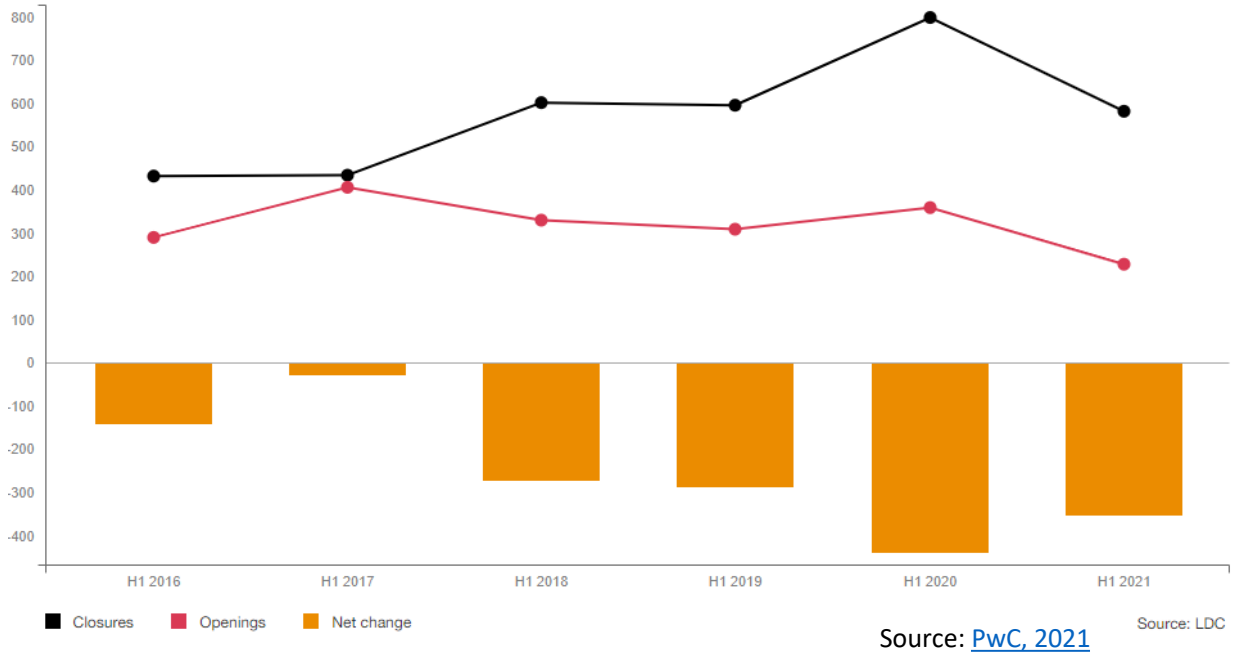
Midlands Trends

The rate of store closures across the Midlands slowed during the first half of 2021**. In total across the Midlands, 601 shops opened, compared to 1,511 closures, creating a net decline of 910,** with the number of closures falling from 1,799 in the first half of 2020. The overall net closure rate for the Midlands fell by 86, eight per cent lower than it was at the same point last year.

Jan-June openings and closures by year - West Midlands Region



Jan-June openings and closures by year - East Midlands Region



Source: PwC, 2021

UK Global Entrepreneurship Monitor

The Global Entrepreneurship Monitor (GEM) is the most authoritative annual research into entrepreneurial activity and trends. While the global business landscape has changed since 2020, the new report published is full of insight on entrepreneurship following the impact of the pandemic.

Key Findings

Impact of COVID-19

- In 2020, around **63% of working-age adults looking to set up a business within three years**, indicated that their intentions were influenced by the coronavirus pandemic.
- **56.5% of employees** engaged in entrepreneurial activity on behalf of their employers feel that the **pandemic has caused the business they work for to stop some of its core activities**. Over 60% of owner-managers also indicated a similar response.
- **17.6% indicated that the pandemic was the most important reason for quitting their business.**
- 50.1% of nascent entrepreneurs, 50.1% of owner-manager and 44.9% of employee entrepreneurs conveyed that the **UK government had so far dealt effectively with economic consequences of the pandemic.**

Entrepreneurial Activity

- The 2020 **UK Total early-stage Entrepreneurial Activity (TEA) rate was 7.5%,** statistically significantly lower than the rate in 2019 (9.9%) and dropped back to the level of 2018 (7.9%).
- The **UK nascent entrepreneurship rate was significantly lower in 2020 (4.2%) than in 2019 (6.5%),** while the new business owner-manager rate in 2020 (3.5%) was not statistically significantly different to the rate in 2019 (3.6%).
- Employees can also be engaged in entrepreneurial activity on behalf of their employers; this is measured through the Entrepreneurial Employee Activity (EEA) Rate. In 2020, the UK's rate was 3.2%, which was statistically significantly lower than 2019 rate (5.6%).
- 16.2% of working age adults expected to start a business within the next 3 years in the UK.
- **3.6% of working age people in the UK discontinued a business** (closure or sale) in the past 12 months.

Demographics

- **The UK female to male TEA ratio of 68% in 2020 is higher than in previous years** but was due to the collapse in male early-stage entrepreneurial activity underlining the resilience of female early-stage entrepreneurial activity in the midst of the most severe economic crisis in 300 years.
- Those aged 25-34 in 2020 in the UK were more likely to be involved in early-stage entrepreneurial activity; only 3.2% of 55-64 year olds in the UK were involved in early-stage entrepreneurial activity.
- Similar to previous years, immigrant TEA levels were significantly above that of UK born life-long residents in 2020; the **TEA rate for immigrants was 10.8% compared to 6.1% for life-long residents.**
- Following previous trends, the TEA rate of the white ethnic population in the UK in 2020 was significantly lower than that of the non-white population, at 6.6% compared to 14.1% respectively.

Attitude and Aspirations

- Attitudes of non-entrepreneurial individuals to entrepreneurship slightly declined in 2020. **44.3% felt they had the skills, knowledge and experience to start a business** (47.5% in 2019). The start-up opportunity perception was also statistically significantly lower at 32% than in 2019 at 39.1%. The proportion of those who felt that fear of failure would prevent them starting the business, was statically significantly higher at 53% than in 2019 at 46%.
- **81% of the non-entrepreneurial population believe that those successful at starting a business have a high status in society**, however, there is a 7-percentage point gap between that share and those that believe starting a business is a good career choice. This is a narrowing of the gap since 2019 as significantly more of the non-entrepreneurial population report that starting a new business is a good career choice.
- **Around 1 in 7 UK early-stage entrepreneurs have high job expectations,** a statistically significant decrease from 2019 where 1 in 4 had high job expectations.
- The rate of established business owners with high job expectations in the UK was 9.2% in 2020. The rate of increased in 2020 when compared with 2019 but was not significantly different.

Entrepreneurial Framework Conditions

- The Entrepreneurial Framework Conditions (EFC) that entrepreneurs face as they develop their businesses were examined using the GEM UK National Expert Survey (NES). Among twelve EFCs, seven have values superior to five (out of ten) meaning that, according to experts, these framework conditions may be considered as sufficient although subject to improvement. In contrast**, five EFCs were evaluated as insufficient**. These are government policies to support entrepreneurship; government entrepreneurship programmes; entrepreneurial education at school and post-school age; and R&D transfer.

Labour Market Impacts: Claimants

Between January and August 2021, on average the local authorities in the Midlands Engine area have seen a 15.7% reduction in the Claimant Count (a reduction of 14.6% for the UK over this period). Boston though, has only seen a 4.9% decrease: the lowest decrease of any local authority in the Midlands Engine area. This was followed by Birmingham with a 5.8% reduction and then Stoke-on-Trent with a reduction of 7.3%. In contrast, the largest decreases were in East Lindsey (-30%), Harborough (-27.3%) and Derbyshire Dales (-27.2%).

The latest data shows there were **355,620 claimants aged 16 years and over in the Midlands Engine area in August 2021**, a decrease of 5,220 claimants since July 2021. This equates to a decrease of 1.4% for the Midlands Engine area, the UK decreased by 2.1%. **There are 134,080 (+60.5%, UK +72.3%) more claimants when compared to March 2020** (pre-pandemic levels).

The number of claimants as a percentage of residents aged 16 years and over was 2.7% (UK 2.4%) in March 2020, which has increased to 4.2% in the Midlands Engine (UK 4%) in August 2021. Out of the 1,511 wards within the Midlands Engine, 414 were at or above the UK proportion for the number of claimants as a percentage of the population aged 16 years and over in August 2021.

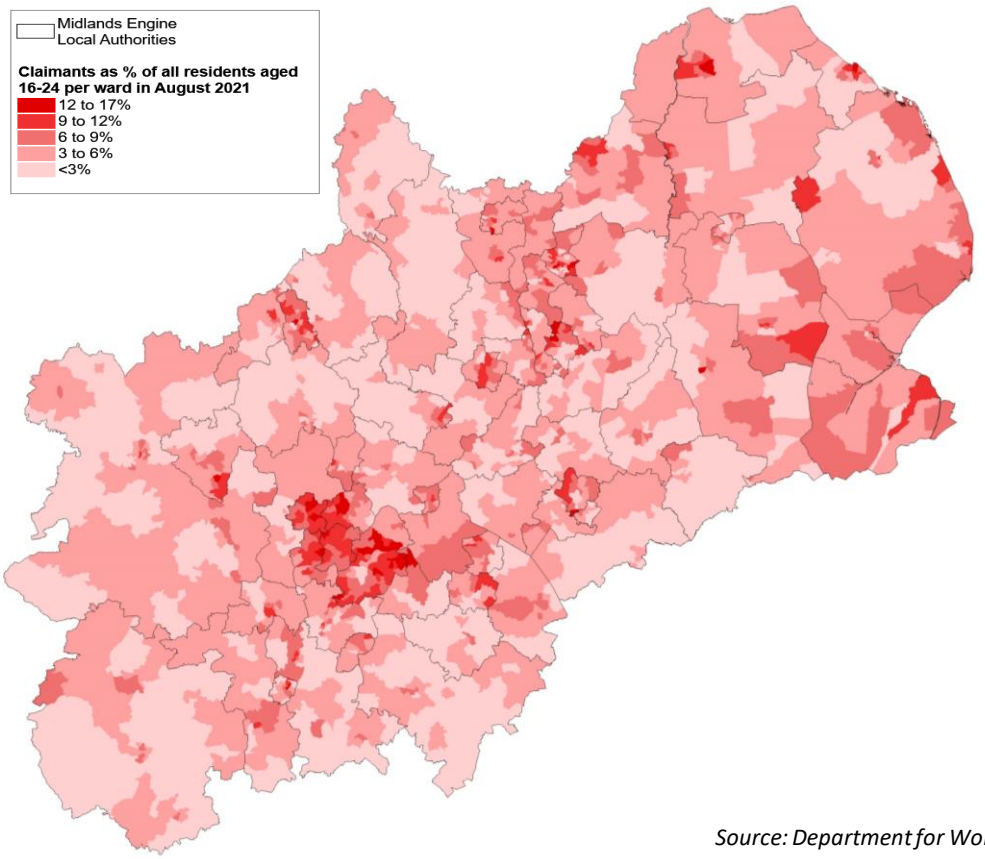
The wards with the highest the number of claimants as a percentage of the population were based in Birmingham, with Handsworth the highest with 16.5%. This is followed by Birchfield at 16.3% and then Lozells at 16%.

Between, January and July 2021, on average the local authorities in the Midlands Engine area have seen a 21.5% reduction in the youth Claimant Count (a reduction of 21.3% for the UK over this period). Broxtowe though, has only seen a 3.6% decrease: the lowest decrease of any local authority in the Midlands Engine area. This was followed by Mansfield with a 8.0% reduction and then Birmingham with a reduction of 9.6%. In contrast, the largest decreases were in Derbyshire Dales (-45.3%), Harborough (-36.1%) and East Lindsey (-35.6%).

There were **66,680 youth claimants (16-24 years old) in the Midlands Engine area in August 2021** – a decrease of 1,625 youth claimants since July 2021. This equates to a decrease of 2.4% with the UK decreasing by 3.3%. Since March 2020 (44,195 claimants), **the number of youth claimants has increased by 22,485** (+50.9%, UK +60.7%).

The number of claimants as a percentage of residents aged between 16 and 24 years old was 3.8% (UK 3.4%) in March 2020, which has increased to 5.8% in the Midlands Engine and 5.5% for the UK in August 2021.

Claimants as Percentage of Residents Aged 16 – 24 years old in August 2021:



Out of the **1,511 wards within the Midlands Engine, 591 were at or above the UK average** of 5.5% for the number of claimants as a percentage of the population aged between 16-24 years old in August 2021.

The wards with the highest number of claimants as a percentage of the population were; Handsworth (16.3%), Portland (15.7%) and East Park (15%).

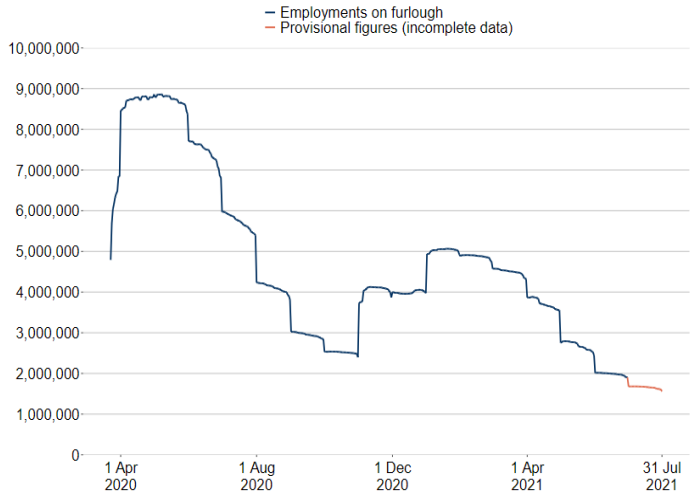
Source: Department for Work and Pensions, September 2021

Labour Market Impacts: Furloughed Workers

UK Summary:

Furlough in the UK peaked at 8.9m workers on 8th May 2020, with the number of workers furloughed steadily dropping through June to October 2020. The number of workers furloughed increased throughout November 2020 to January 2021. The number of employments on furlough has fallen since January and provisional figures show that **the number of employments on furlough was 1.6 million on the 31st July 2021.** Since the start of the scheme a **total of 11.6 million jobs have been put on furlough** for at least part of the duration of the scheme.

The total number of employments furloughed in the UK trend up to 31st July 2021:



Source: HMRC CJRS data

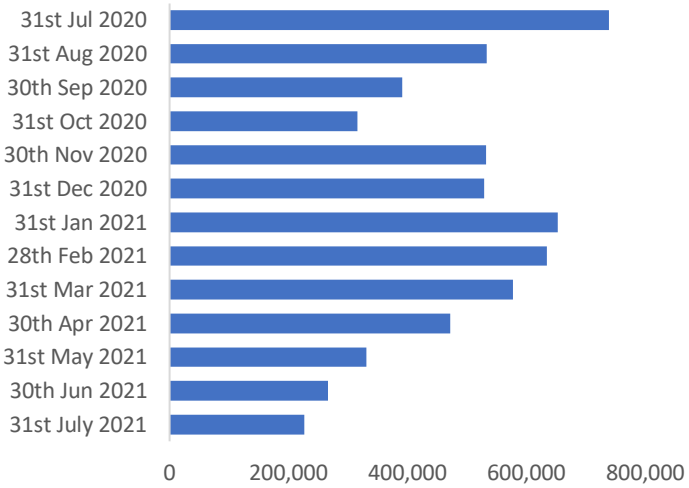
The largest reductions in the number of employments by age on furlough in June and July were for younger employees in the under 18, 18 to 24 and 25 to 34 age bands.

For all employer sizes, the number of employments on furlough decreased across February to July 2021. . The latest monthly change shows **the largest reduction was for employers with 250 or more employees.**

Midlands Engine Summary:

Analysis over time shows that across the Midlands Engine there were 740k employments furloughed on the 31st July 2020, with the figure decreasing between August and October 2020. There was an increase in the number of employments furloughed between November 2020 to January 2021. The number of employments on furlough has fallen since January and provisional figures show that **the number of employments on furlough was 227k on the 31st July 2021. T**his equated to a **5.3% take-up** rate for the scheme, compared to UK-wide of 5.4%.

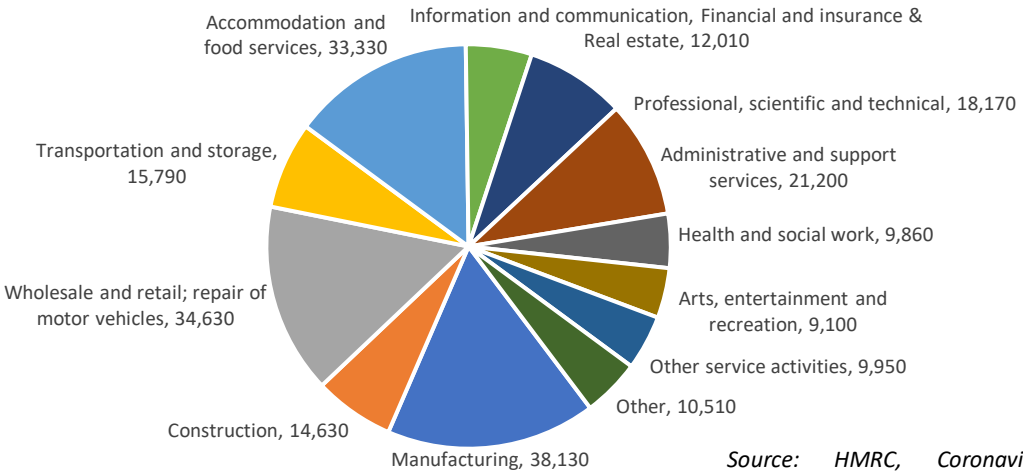
Total number of employments furloughed in the Midlands Engine at the end of each month:



On the 30th June 2021, for the Midlands Engine area there was a higher percentage of **males furloughed at 5.7%** compared to **females at 4.9%**. The figures for UK were 5.7% for males and 5.1% for females.

On the 31st July 2021, the sector with the highest number of employments furloughed was manufacturing **at 38,130.**

Number of employments furloughed by broad sector for the Midlands Engine area on the 31st July 2021:



Source: HMRC, Coronavirus Job Retention Scheme statistics: Sept. 2021

Future of Working from Home

A recent recovery workshop on the Future of Working from Home from the Government's Cities and Local Growth Unit – What Works for Local Economic Growth highlighted the following key points:

- Post-pandemic **working from home will increase 22 percentage points** over 2019 levels.
- Retail and hospitality demand becomes more geographically dispersed. A geographic shift of £3.5bn (2% of total) in annual desired retail and hospitality spending.
- This will have a **disproportionally negative affect on low-paid retail and hospitality workers.** 90,000 jobs will either need to move or be lost.
- Demand for low-paid retail and hospitality workers falls in urban centres and increases in affluent suburbs.
- However, the outcome depends to an extent on **how local authorities anticipate and make provision for shifting work patterns and business spending.**

Working from Home (WFH) and Spending by Occupation

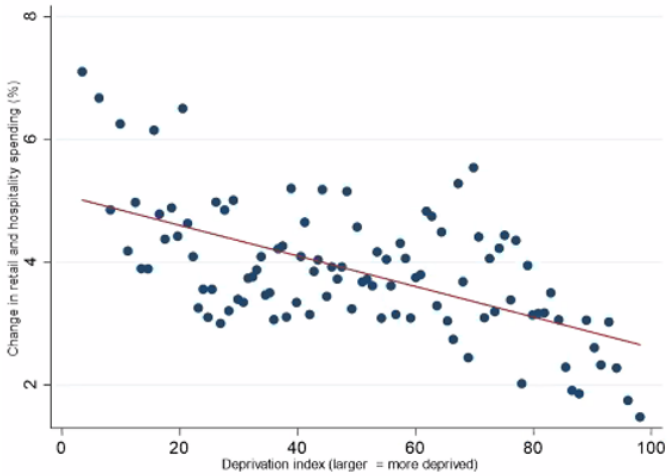
	WFH_o^{2019}	$WFH_o^{2022} - WFH_o^{2019}$	$Spending_o^{2019}$
Transportation and material moving	2.4%	11.6%	£23.12 /week
Construction and extraction	3.3	19.0	35.59
Protective service	3.7	7.2	34.83
Food preparation and serving	4.9	13.2	33.29
Cleaning and building maintenance	5.2	15.2	19.05
Education	6.8	10.6	24.93
Architecture and engineering	7.7	32.6	28.92
Office and administrative support	8.2	29.4	28.49
Personal care and service	9.4	23.0	21.61
Management, business and financial	9.8	37.4	38.52
Healthcare practitioner and technical	9.9	9.6	26.81
Sales and related	10.3	23.2	36.92
Legal	12.6	34.7	40.11
Computer and mathematical	16.6	40.0	33.59
Arts, design, sports, and media	21.3	29.7	33.25

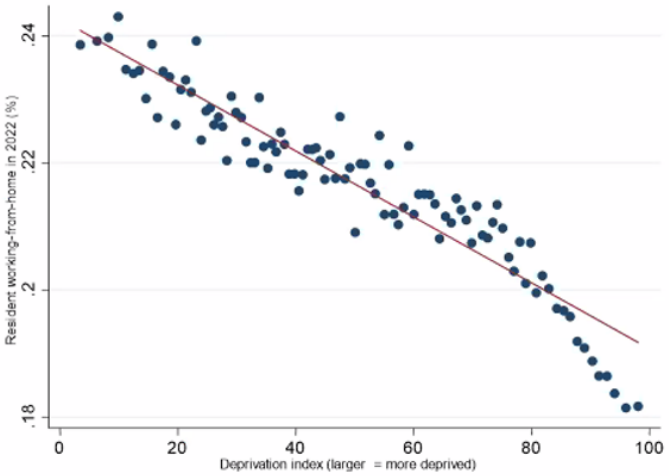
Working from Home (WFH) and Spending by Location of Work (based on postcode of current job's premises)

	WFH^{2019}	$WFH^{2022} - WFH^{2019}$	$Spending^{2019}$
Location of work*			
Other towns and cities	8.1%	16.5%	£25.64/week
Large cities (top 15 by population)	7.3	18.7	32.05
Central London	8.7	25.0	51.18
Outer London	11.5	29.9	41.66

Within the Midlands Engine there **are local demand shocks for Birmingham**, as spending is expected to decrease by 3.8% which equates to £1,582,362 spending per week and a reduction of 2,375 jobs. For Nottingham there is estimated to be a decrease of 2.8%, equating to a reduction of £526,129 in spending per week and 858 fewer jobs.

Demand for Low Pay Retail and Hospitality Workers in Hight Income Neighbourhoods Increases:





The Economic Impact of International Students

The number of international students commencing their studies in the **UK has grown since 2006/7, from 176,955 to 272,920 in 2018/19**. New research from HEFI seeks to understand the economic impact of international students on the national and regional economy. The data **analyses the economic impact of international students** over an average three year course.

Approximately **76% of international first-year students in 2018/19 were domiciled outside the EU** (which is 20% more than 2015/16), with 24% domiciled within the EU (excluding the UK). For non-EU domiciled students, **China** is the dominant nation, sending one in every three international students. Other countries with large cohorts include **India and the United States**. Within the EU, **Germany, France, and Italy** are the most dominant nationalities.

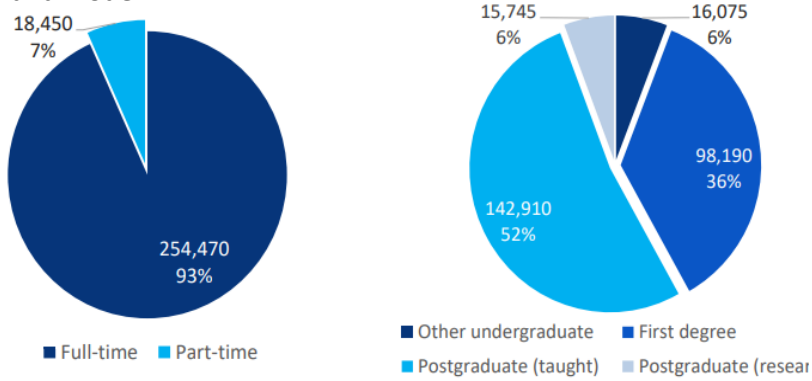
The vast majority of international students **are studying full time (93%) with only 7% studying part time**.

The level of study undertaken is varied. **Around 52% of students were undertaking taught postgraduate degrees**, with 6% doing postgraduate research degrees. Around **42% were engaged in undergraduate qualification**, of which 36% were taking first degrees and 6% were enrolled in other undergraduate qualifications.

The **West Midlands was the third most popular region** for international students, after London and the South East, with 23,545 students. The East Midlands had 17,995.

The total benefit to the UK economy from a typical EU domiciled student is an estimated **£94,000, with a non-EU student standing at around £109,000.** The difference between the two is due to the higher tuition fees for non-EU students. **The aggregate for the 2018/19 cohort is £28.8 billion** for the entire period of their studies, with £6.1 billion of that from EU students and the remaining £22.7 billion from non-EU students.

International first-year students enrolled in UK higher education in 2018/19 by level and mode



Note: All student numbers rounded to the nearest 5.
Source: London Economics' analysis of HESA (2021c)

Average impact associated with the 2018/19 cohort per parliamentary constituency, by region

Region	# of 1st year students	Benefits	Costs	Net impact	Net impact per resident
East of England	300	£33m	£3m	**£29m**	**£290**
East Midlands	390	£43m	£3m	**£40m**	**£390**
London	965	£98m	£11m	**£88m**	**£760**
North East	435	£46m	£4m	**£42m**	**£460**
North West	280	£33m	£3m	**£30m**	**£300**
South East	345	£38m	£4m	**£34m**	**£330**
South West	265	£30m	£3m	**£27m**	**£270**
West Midlands	400	£43m	£4m	**£39m**	**£400**
Yorkshire & the Humber	390	£41m	£3m	**£38m**	**£370**
Wales	310	£31m	£4m	**£27m**	**£340**
Scotland	505	£49m	£7m	**£42m**	**£460**
Northern Ireland	190	£18m	£3m	**£14m**	**£140**
Average	**420**	**£44m**	**£4m**	**£40m**	**£390**

Note: Numbers of students are rounded to the nearest 5; total estimates are rounded to the nearest £1 million; and estimates per resident are rounded to the nearest £10. All estimates are presented in 2018/19 prices and discounted to reflect net present values. Estimates of the total resident population are derived from the 2011 Census (see Office for National Statistics, 2011b). ***Source: London Economics' analysis***

EU students cost the Exchequer £22,000 and non EU students cost £7,000. This means the **net economic impact per EU domiciled student is £71,000 and £102,000 per non-EU student.** This makes the benefit to cost ratio 4:2 and 16:1 for EU and non EU students respectively.

The regional economic impact varies per region, **with an average of an extra £390** per member of the resident region population. The **East Midlands sees the average benefit per resident of £390** with the **West Midlands doing slightly better than average at £400 net impact per resident**.

The **Midlands has three parliamentary constituencies in the top 20 constituencies** with net impact from international students – **Nottingham South (2nd)** with £2,390 per resident, **Birmingham, Ladywood (13th)** with £1,450 per resident and **Coventry South (19th)** with £1,600 per resident.

Source: London Economics, The costs and benefits of international higher education students to the UK economy, September 2021

2) Environmental Impacts

Zeroing In: Net Zero Disruption and Opportunity at a Local Level

A report from the Social Market Foundation explores the relative scale of economic and employment opportunity that LAs may benefit from in the transition to a net zero economy. This level of opportunity will depend on a range of enabling factors related to local infrastructure within an area. **This may include an area's industrial make-up, labour force, research and innovation capacity, education providers, natural capital, housing stock, transport networks, and more. Reflecting time and data constraints, the scope of the report is focused on the opportunities related to a local area's industrial and sectoral make-up; labour force skill level; and, research and innovation capacity.**

Industrial and sectoral make-up

Certain areas of the UK will benefit from a greater concentration of opportunity in specific sectors and industrial clusters, such as **automotive manufacturing in the Midlands**, green finance in the South East, or low-carbon power and CCUS in Merseyside, Humberside, Scotland and South Wales. The scale of relative opportunity for job transition in key areas of EV manufacturing and repair, and low-carbon heat manufacturing and installation reasonably reflects the manufacturing landscape in Britain. **The West Midlands has the highest proportion of jobs in these relevant SIC codes** at 3.2% of total employment in the area.

Skills of the local labour force

A local area's labour force and skill level will also play a role in their ability to take advantage of the employment opportunities that arise from the transition to a net zero economy. The International Labour Organisation indicates that new green occupations will predominantly be high-skilled (e.g., energy consultants and climate scientists), whereas transitioning occupations will largely be low- and medium-skilled (e.g., retrofit installers, and heating and cooling technicians). The greatest proportion of green jobs is estimated to be concentrated in the latter group of reskilling or upskilling existing occupations for transition. Local labour forces with strong low and medium skills may be better positioned to support the majority of green jobs, including transitioning jobs. **35.9% of people in the East Midlands have NVQ 2 or 3, the West Midlands comes in at 35.4%.**

Scope for research and innovation

Reaching a net zero economy will also require further research and innovation to develop low-carbon technologies at scale and at a lower cost. The University of Nottingham, Loughborough University, University of Warwick and The University of Birmingham were identified as part of the top 20 universities for STEM research.

The following table shows the Net Zero Opportunity sub-index measures, by region (population-weighted average of local authority data):

	Proximity to nearest renewable energy site (KM)	Proximity to nearest decarbonising industrial cluster (KM)	% of jobs in EV and low-carbon heat related SIC codes	% of working age population with NVQ2 or 3	Proximity to nearest top 20 university for STEM research (KM)	Average Opportunity Index rank
North East	32.6	43.6	2.2%	37.5%	21.2	107
North West	21.4	42.6	1.9%	35.0%	25.7	88
Yorkshire and the Humber	45.7	68.4	2.0%	35.2%	22.9	140
East Midlands	21.1	67.9	1.7%	35.9%	26.0	113
West Midlands	31.3	27.8	3.2%	35.4%	23.8	62
East of England	32.3	162.6	1.9%	34.8%	48.5	211
London	32.9	175.1	0.9%	22.5%	9.7	282
South East	60.4	185.4	2.1%	33.2%	38.5	251
South West	35.3	103.9	1.9%	35.5%	68.0	178
Wales	22.8	39.2	2.7%	34.6%	68.1	105
Scotland	27.7	190.1	1.6%	26.8%	36.8	254

North Warwickshire (4th), Solihull (5th), Bromsgrove (6th), Coventry (8th), Tamworth (9th), Nuneaton and Bedworth (11th), Redditch (17th) and Wychavon (19th) all rank in the top 20 LAs Net Zero Opportunity Index, meaning that the transition to a net zero economy will likely bring the highest economic and employment opportunity to the area out of all local authorities in Britain. No East or West Midlands LAs are in the top 20.

Zeroing In: Net Zero Disruption and Opportunity at a Local Level

Disruption from net zero

While net zero will bring with it a host of opportunities – not least aversion of further damaging climate change - it will disrupt all aspects of society, requiring significant behavioural changes on the part of businesses, households and government. This includes through:

- Transport disruption – given the necessary shift to low/no carbon vehicles.
- Disruption to the built environment – for example, with the shift away from gas central heating to greener alternatives such as heat pumps. Building design and urban planning will need to be rethought to aid decarbonisation.
- Disruption to businesses and workers – with job losses in some carbon intensive industries, as well as a need for workers in such industries to reskill and pivot towards different roles (e.g., manufacturing and repairing electric vehicles rather than internal combustion engine vehicles).
- Disruption to government – with net zero implying significant borrowing costs for government, as well as a loss of tax revenues from carbon-intensive sources – such as the circa £30bn per annum raised from fuel duty on petrol and diesel.

Net Zero Disruption Index

The North of England and **Midlands are relatively more likely to face disruption from the transition to net zero** than the South of England. The devolved administrations of Scotland and Wales also face relatively high levels of disruption from the transition. **The East and West Midlands have a relatively high proportion of jobs and businesses in carbon-intensive industries,** suggesting that decarbonisation of industry and workforce reskilling for green jobs will be a particular challenge in these regions.

The following table shows the Net Zero Disruption sub-index measures, by region (population-weighted average of local authority data):

	Transport emissions per capita	Household gas/other fuel emissions per capita	Median employee income (£)	% of jobs in carbon intensive industries	% of businesses in carbon-intensive industries	Average Disruption Index rank
North East	1.7	1.2	£23,314	12%	15%	163
North West	1.9	1.1	£24,395	12%	16%	182
Yorkshire and the Humber	2.0	1.2	£23,914	12%	18%	128
East Midlands	2.1	1.2	£24,243	14%	19%	124
West Midlands	2.1	1.1	£24,646	12%	19%	164
East of England	2.3	1.0	£26,868	10%	18%	197
London	0.9	0.9	£32,629	6%	15%	323
South East	2.1	1.0	£27,954	7%	15%	256
South West	2.1	1.0	£24,112	10%	16%	213
Wales	2.0	1.2	£23,663	13%	16%	128
Scotland	2.0	1.2	£25,925	12%	13%	192

Bolsover ranks first in the Net Zero Disruption Index, meaning that it faces the highest level of disruption. Bolsover faces particular challenges with low incomes in the region – median employee wages are the 15th lowest across local authorities in Britain. Per capita CO2 emissions from gas and other fuels for home heating stand at 1.8 tonnes per annum, more than any other local authority in Britain.

Bolsover (1st), North Lincolnshire (5th), Bassetlaw (7th), North West Leicestershire (8th), North East Derbyshire (9th), Ashfield (12th), Newark and Sherwood (15th) and Wychavon (19th) all score in the top 20 most disrupted LAs. No East or West Midlands LAs rank in the 20 least disrupted LAs.

3) Digital Impacts

Digital Capital Index

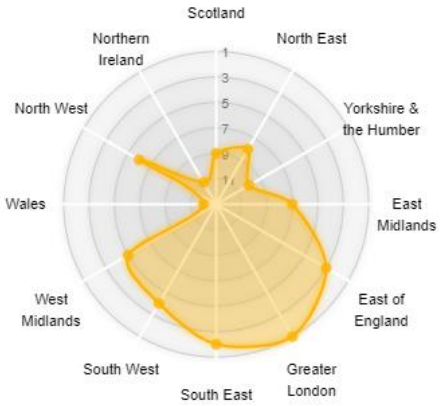
TechUK worked with the tech sector, local and national government and others stakeholders to develop the new Local Digital Capital (LDC) Index as a way to measure the **strength of local digital ecosystems** across the nations and regions of the UK. Local Digital Capital describes the building blocks of strong place-based digital technology ecosystems. It does not just focus on the tech sector itself but looks outwards to **assess the impact that technology is having in a locality.**

The 2021 Index measures six out of the seven components of Local Digital Capital. The data shows that the **East Midlands is ranked 10th out of 12 regions, and the West Midlands is ranked 5th.**

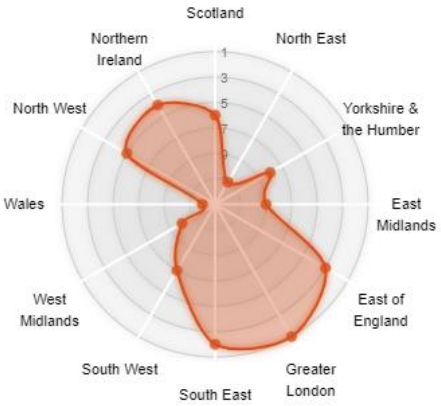
The research has shown that there is no debate about the **need to develop the tech sector across the UK.** If we want to compete, thrive and drive forward innovation and collaboration then we must invest in digital as a route to level-up and develop jobs, businesses and economic growth beyond London and the South East.

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

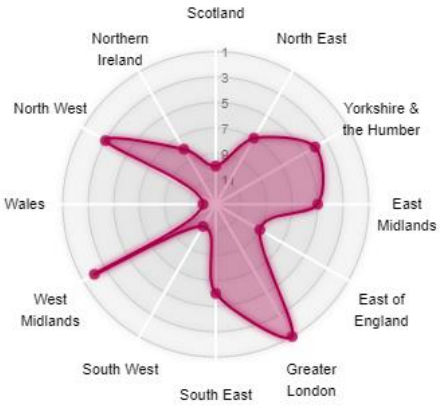
Skills



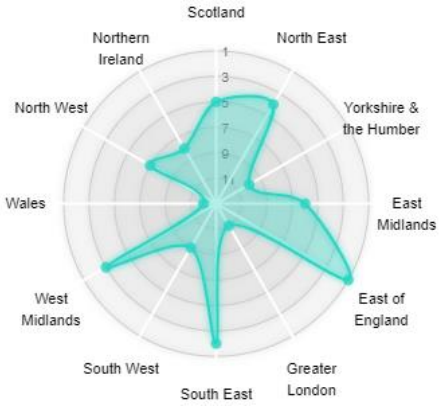
Digital Adoption



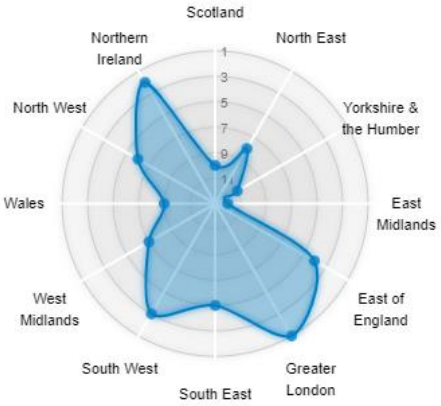
Digital Infrastructure



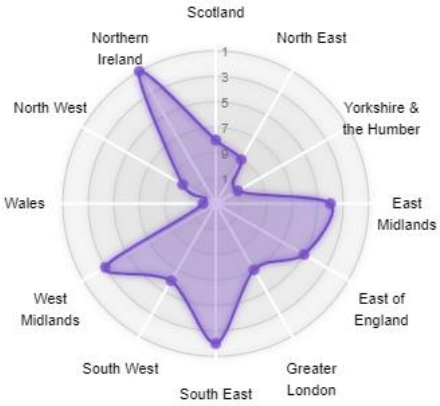
Research & Development



Finance & Investment



Trade



Source: techuk, 2021

4) Business Intelligence

Business and Insights and Conditions Survey

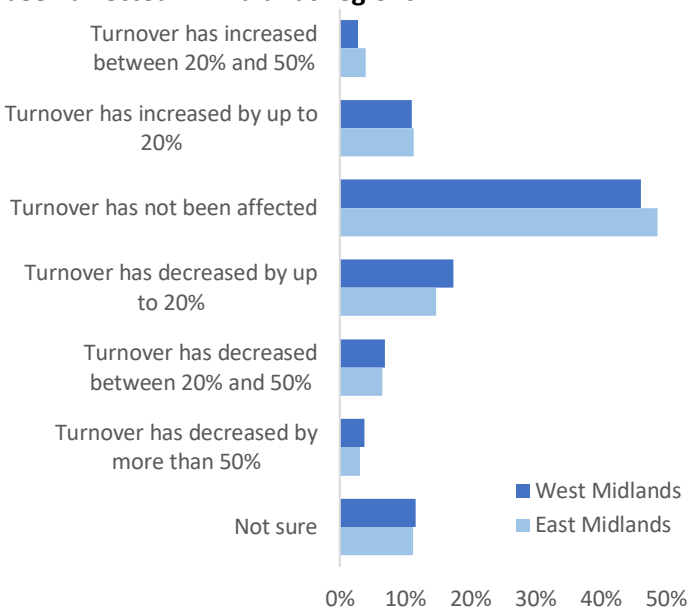
The Office for National Statistics (ONS) have published the final results from **Wave 39 of the Business Insights and Conditions Survey (BICS).**

Trading and Financial Performance

98.4% of responding West Midlands businesses and also 98.4% of East Midlands businesses reported their business trading status as currently trading.

28% of trading businesses in the West Midlands and 24.2% of East Midlands businesses reported their turnover had decreased by at least 20%.

The following chart shows how business turnover has been affected in Midlands regions:



Excluding 'other' and 'not sure' responses, **50.1% of West Midlands businesses and 49.9% of East Midlands businesses reported the main reason for the change in the business turnover in the last two weeks was due to COVID-19,** 3.1% of West Midlands businesses and 2.1% of East Midlands businesses reported the main reason as the end of the EU transition period. 15.3% of West Midlands businesses and 14.8% of East Midlands businesses reported that it was due to both COVID-19 and the end of the EU transition period.

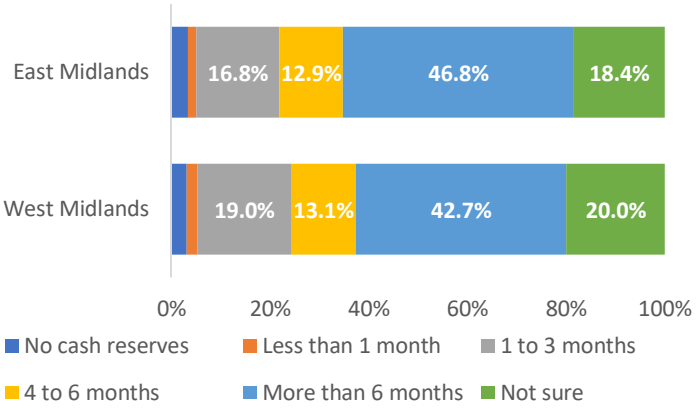
Profits

Businesses were asked in the last two weeks how profits compared with normal expectations for the time of year. **27.9% of businesses in the West Midlands and 25.2% of East Midlands businesses reported profits had decreased by at least 20%.**

Cash Reserves

3.1% of West Midlands businesses and 3.4% of East Midlands businesses have no cash reserves.

The following chart shows for West Midlands and East Midlands businesses how long their cash reserves would last:



International Trading

3.3% of West Midlands and 2.1% of East Midlands businesses within the last two weeks had not been able to export. Meanwhile, less than 1% of business in the West Midlands and less than 1% of East Midlands businesses had not been able to import within the last two weeks.

29% of exporting businesses in the West Midlands and 26.3% for the East Midlands reported their businesses were still exporting but less than normal. 20.8% in the West Midlands and 19.3% in the East Midlands were importing less than normal.

56.1% of West Midlands businesses and 59.2% of East Midlands businesses who were exporting reported that they had not been affected and 63% of West Midlands importers and 63.1% of East Midlands importers said that importing had not been affected.

1.3% of businesses in the West Midlands and 1.2% of East Midlands businesses were exporting more than normal. The figures for importing more than usual are 3.2% for the West Midlands and 3.3% for the East Midlands.

Initiatives/Schemes Helped

62.5% of West Midlands businesses and 63% of East Midlands businesses reported the support received from any of the Government initiatives or schemes helped the business to continue trading.

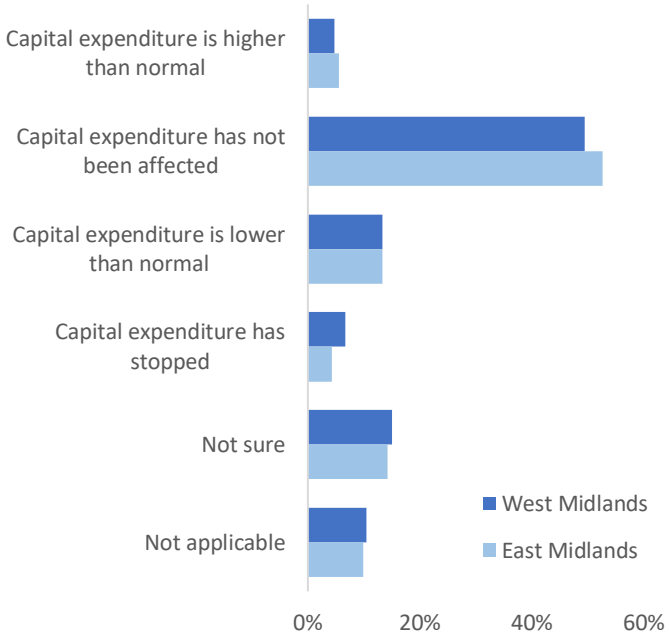
Redundancies

5.3% of West Midlands businesses and 4.8% of East Midlands businesses expect to make redundancies over the next three months, with a further 26.4% of West Midlands businesses and 24.1% of East Midlands businesses reported they were not sure if there will be redundancies over the next three months.

Capital Expenditure

6.7% of West Midlands businesses and 4.3% of East Midlands businesses reported capital expenditure had stopped.

The following chart shows for West Midlands and East Midlands businesses how capital expenditure for the last two weeks compared to normal expectations for the time of year:



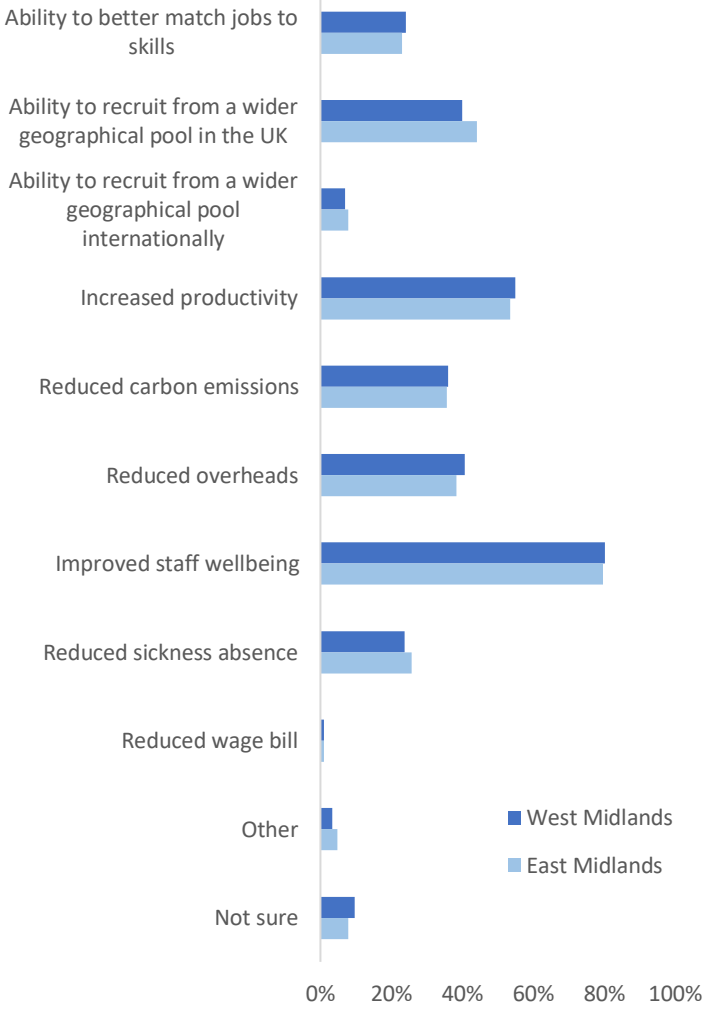
Excluding 'other' and 'not sure' responses, **55.3% of West Midlands businesses and 57.5% of East Midlands businesses reported the main reason for the change in the business capital expenditure was due to COVID-19,** 6.6% of West Midlands businesses and 6% of East Midlands businesses reported the main reason as the end of the EU transition period. 4% of West Midlands businesses and 4% of East Midlands businesses reported that it was due to super-deduction.

Homeworking

31.2% of West Midlands businesses and 33.5% of East Midlands businesses reported their business intended to use increased homeworking as a permanent business model going forward.

Favoured responses as to why the business intend to use increased homeworking included; 80.3% of West Midlands businesses and 79.7% of East Midlands businesses reported improved staff wellbeing, 55% of West Midlands businesses and 53.6% of East Midlands businesses reported due to increased productivity.

The following chart shows the Midlands regions why businesses intend to use increased homeworking:



Return to the Workplace

Excluding 'not sure' or 'not applicable' responses, **36.3% of West Midlands businesses and 36.7% of East Midlands businesses reported the workforce had already returned to the normal place of work.** 28.8% of West Midlands businesses and 28% of East Midlands businesses expected the workforce to return in less than six months. 1.1% of West Midlands businesses and 1.5% of East Midlands businesses expected the workforce to return in over six months time. 6.3% of West Midlands businesses and 6.2% of East Midlands businesses reported there was no expectations of the workforce returning to the normal place of work.

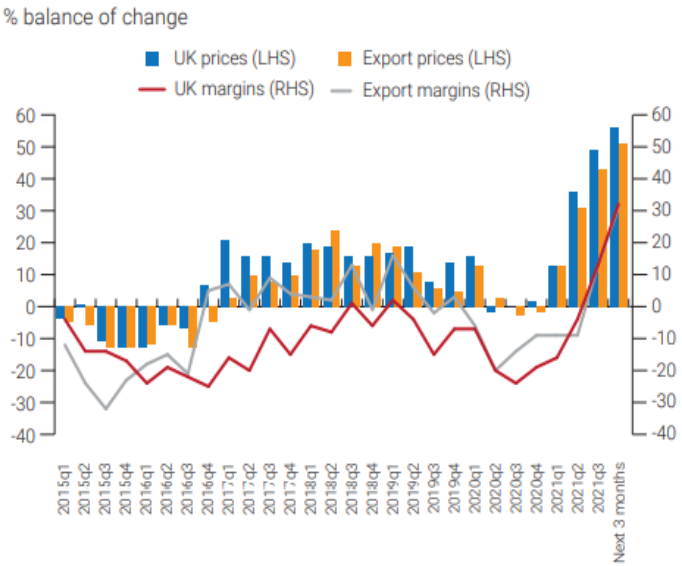
To note: In the West Midlands there was a response rate of 24.1% and in the East Midlands a response rate of 25.3% where businesses have a presence in the region. There was a response rate of 22.6% for the West Midlands and 24.9% of East Midlands businesses are headquartered in. Businesses were asked for their experiences for the reference period 23rd August to 5th September 2021. However, for questions regarding the last two weeks, businesses may respond from the point of completion of the questionnaire (6th to 19th September 2021). The data used is unweighted and should be treated with caution.

Price Rises

With acute supply and staff shortages, heightened **uncertainty still looms** over the Midlands' business base. economic outlook. Price rises are having a severe impact across many sectors, with **shortages of key metals, plastics and electronics** resulting in rising costs for many UK manufacturers in particular. MakeUK's latest Manufacturing Outlook survey indicates **costs have continued to climb upwards**, impacting manufacturer's ability to produce cost-effectively and protect supplier-customer relationships.

For some time now manufacturers took a hit on their own margins to protect those relationships, however, increasing costs can only be absorbed for so long before businesses need to pass it on to customers, and it appears that is what they have had to do for now. The biggest issue to dominate UK manufacturer's agenda in recent months are **supply-chain related issues, which in turn are leading to rising cost pressures and increased selling prices.** Both **UK and Export prices reported at a record high balance of 49% and 43% respectively**, while expectations prices would rise further in Q4.

Both selling prices and margins expand in Q3 2021

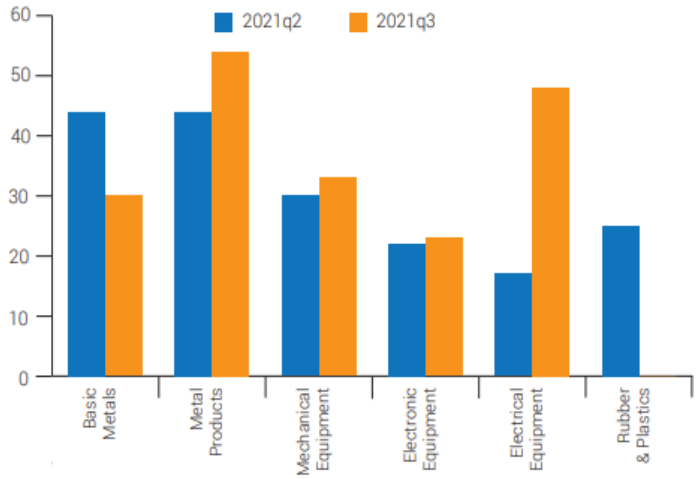


Source: Make UK Manufacturing Outlook Survey

All key intermediate subsectors also indicated widespread increases in average prices for export goods, with the **highest balances reported by Metal Products and Electrical Equipment**. These price increases reflect shortages in critical components such as electronic chips and various precious metals from these subsectors, which in turn filter into the costs of businesses that rely on components from those subsectors.

Manufacturers expect prices and margins will grow again in Q4 2021.

Export prices of intermediate goods increasing



A report by West Midlands Chambers of Commerce found that **40% of respondents had experienced increased costs due to Brexit**. Nearly four in five manufacturers (76%) cited increased costs; contrasting sharply with the 30% of services sector firms that had seen their costs increase.

It is not just manufacturing that is majorly affected though. Construction businesses continue to express a **critical concern with the availability and cost for materials such as cement and plaster.**

This has increased enquiries through local construction businesses, as **firms tackle inflated pricing and loss of business.**

This is causing some businesses unable to deliver projects and putting others in financial vulnerability. **Material costs, which have risen by more than 10% in the past year, has been blamed for the collapse of Midlands-based contractor AM Griffiths.**

The cost of building materials and labour "went through the roof" in August as global supply shortages of equipment and staff curtailed expansion in the UK construction sector.

Input cost inflation accelerated at its second-fastest rate since the IHS Markit/Cips construction survey began in 1997, surpassed only by a rise in June.

Additionally, the recent crisis in energy markets is threatening crippling rises in the standard of living for millions of people.

Product and Staff Shortages

Another key threat is the UK's current **multi-faceted labour crisis.** As widely reported, the **shortage of HGV drivers** is at the heart of this issue:

- Each year 10,000 HGV drivers retire and a further 20,000 drivers leave the UK pool to pursue other careers. These would normally be replaced by the 43,000 new drivers passing their HGV tests each year. However, in the 12 months to March 2021 **only some 15,000 HGV test passes were achieved due to the 8-month suspension of testing** during the pandemic which has resulted in a **shortfall of 27,000 new drivers.**
- On top of this, it is estimated that the **number of EU nationals working as drivers in the UK had fallen by 15,000** in 2020-21 partly due to Brexit and partly to COVID-19. There is also an unquantified impact of the new **IR35 regulations**, which has greatly cut take-home pay for many drivers. All **together and on top of a pre-pandemic driver shortage of 59,000, current driver shortage could be as much as 100,000.**

The impact of the shortage is already beginning to emerge with daily reports of **supply chain interruptions and empty shelves / petrol stations.** This will lead to consumer price inflation as the transportation cost of goods rises. It is also raising fears of **affects to Christmas and on wider services such as patient care.**

Linked to a lack of HGV drivers, a wide range of product and raw material supply problems are being reported across **multiple sectors, ranging from food shortages, fertiliser, construction materials, wood, steel and aluminium, through to semiconductors.** At best this is resulting in supply delays, at worst significant price increases or even lack of supply resulting in halted production. This is now **impacting cashflow** for many businesses in the supply chain, leading to businesses closing as a result.

The **manufacturing sector** is being particularly affected by these issues, and with rumours of Jaguar Land Rover temporarily shutting factories, the implications for the supply chain are clear.

In the construction sector this is being **compounded by HS2 and some of the major builders stockpiling mater**ials, resulting in short supplies and price increases.

While a lack of HGV drivers has dominated the headlines, the challenge **extends well beyond this to include other skilled professions,** and along with resulting disruption to supply chains, has led to increasing calls for action in the run-up to Christmas.

There is a difficulty across almost all sectors to source the right skills and talent for businesses, making it hard for firms to deliver on existing contract wins. This has led to **some businesses having to turn away orders.**

Reportedly, employees do not want to return to the office and people are resigning rather than return because they want to continue working from home. Several businesses have reported that they are **having to offer higher pay packets** to improve recruitment of new staff. Businesses that require **care assistants, warehouse operatives, hospitality workers and Welding specialists** (manufacturing) have all had particular difficulties recruiting.

Reflecting the variety of sectors and roles affected, the CBI have identified examples of current shortages:

Annex – examples of shortages identified by CBI members

	RQF level 1, or equivalent	RQF level 2	RQF level 3+
Logistics		Forklift drivers LGV drivers HGV driver	
Food & Drink	Food & meat processing operatives Livestock & arable workers Fruit & flower pickers		Butchers
Retail & hospitality	Front of house Retail shop floor Warehouse operatives Laundry operatives Cleaners & housekeeping	Chefs	Administration
Construction		Scaffolders Carpenters	Welders Electrical engineers
Manufacturing	Fabricators Production operatives Factory assembly workers	Machine operatives	Mechanical engineers

CBI suggest the following to alleviate short-term pressures:

- **marrying skills policies to roles with the highest unfilled vacancies**
- **adding greater flexibility to the Apprenticeship Levy**
- **using the Government's own skill-focused immigration levers**

This is to tackle what is considered a **long-term problem that threatens the growth of the Midlands**. Evidence of this is provided by both British Chambers and through BDO's Rethinking the Economy survey. The latter found that **staffing is the biggest concern amongst regional business leaders**, with more than a quarter (28%) citing recruitment as the most significant barrier to growth.

Local Business Intelligence

This section draws on contributions from the East Midlands Chamber, Make UK, the NFU, FSB and Universities across the region (sourced from Midlands Innovation and Midlands Enterprise Universities networks).

East Midlands Overview (East Midlands Chamber)

The top-level results from the Quarterly Economic Survey for the third quarter of 2021 show a mixed picture that hides a number of variables at play in the East Midlands economy.

Firstly, the positives. **Growth continues across most indicators,** with domestic markets again being the strongest performer.

Cashflow continues to improve for more businesses than not, training investment intentions are positive and overall confidence in future turnover continues its upward trajectory. As the economy continues its reopening after a successful vaccine rollout, **the pent-up demand that characterised much of the summer remains a positive factor.**

But there are also a few of areas of concern. Price pressures continue to come from increased raw material costs, **pay settlements and, increasingly, energy costs.**

This has knock-on effects with investment in machinery and equipment growth – an important ingredient in fuelling a recovery – falling back slightly on the previous quarter.

Performance in overseas markets remains volatile and, while turnover confidence has grown from Q2, confidence in increased profitability has fallen back, a result of squeezed margins.

Recruitment is also a growing problem, with over 7 in 10 struggling to fill vacancies across all skills levels.

Considerable uncertainty remains

There are many factors at play in shaping current challenges for businesses – the impact of policy responses to the pandemic on the recovery, changes in individual approaches to work expectations, **structural changes to supply chain operations and immigration rules as a result of Brexit,** and global shortages as the whole world looks to bounce back. The balance of influence of these different factors, some which are temporary and others that may be longer term, is still being unpicked. Full report on the EMC QES can be found here.

Manufacturing - Make UK

The outlook for manufacturing in the Midlands (and particularly the East Midlands) remains more positive than has been the case for some time – this is reflected in **order books and planned investment**. Most manufacturers in the Midlands now report that they are **operating at or near to pre-pandemic levels.**

Problems reported across the sector have been described as 'growing pains' and a sign of businesses looking to return to pre-pandemic levels of output or expand. Nevertheless, **there remains the possibility that continuing input price pressures, logistical problems and labour supply challenges will act as a brake on this key Midlands sector.**

Usage of the Furlough Scheme by manufacturers is now reported to be very low.

Midlands manufacturers continue to **report disruption to their operations as a result of EU exit.** Indeed, three quarters of manufacturers are reporting that their supply chains are being disrupted by international trade issues. Evidence is growing that this reflects a structural problem and the nature of trade barriers/regulations now extant as **distinct from any kind of 'teething problem'.**

Shipping charges have risen markedly in recent months as have costs associated with the administration of border checks/associated paperwork on goods for export. Competitors based in Europe are actively seeking to take market share from UK manufacturers where border friction has resulted in interrupted or delayed supply to European customers.

Upward pressure on materials costs is now widespread – particularly for manufacturers reliant on international supply chains for raw materials and/or components. Concerns about supply of raw materials is also notable. Specific concerns have been raised in relation to supplies of energy, steel, timber, polypropylene and glass.

On balance, while the general outlook for the sector as a whole can be described as positive. **Concerns remain about the future of the strategically important aerospace and automotive sectors and their associated supply chains.**

In relation to finance, many manufacturers still report cash-flow concerns and there is growing evidence of a hardening of payment terms/timescales causing problems for firms in the manufacturing supply chain.

Local Business Intelligence

Small Business – FSB

In August the Federation of Small Businesses (FSB) published its latest, quarterly analysis of Small Business Confidence. The FSB Small Business Index is based upon an extensive survey of sole traders, micro businesses and small and Medium Sized Enterprises. It shows that in the Midlands during the second quarter of this year, **small businesses had strong growth and hiring aspirations.**

Half of small business owners predicted that their business performance will improve in Q3 and confidence is positive.

Around 20% of small firms in the region expect to increase their staff numbers during Q3, but a small portion predict a decrease (c 5%).

64% of small businesses surveyed said that operating costs had increased in the past quarter compared to last year, up 20 percentage points from Q1 2021. 42% cite inputs, such as raw materials and components, as a main contributor to this increase, up 12 percentage points on the previous quarter. Labour costs (36%), utilities (28%), and fuel (26%) are also frequently flagged as sources of rising outgoings as inflationary pressure takes hold.

The share of firms citing **lack of access to appropriately skilled staff as a barrier to growth has soared to its highest level on record (37%),** with the proportion of respondents citing it as a barrier up 18 percentage points compared to Q2 2019. Input costs are cited as a barrier to growth by a 25% of respondents, up from 16% in Q1 2021 and just 11% in Q2 2020.

Amid mounting evidence that **lockdowns have exacerbated the UK's late payment crisis**, 54% of respondents who successfully applied for credit in Q2 2021 did so in order to manage cash flow, up 9 percentage points compared to Q2 2019. With emergency loan schemes now closed, 32% of those who applied for credit last quarter were rejected, the highest proportion since Q4 2015. 37% of small businesses with debt now view their level of borrowing as unmanageable.

Elsewhere, **new trading rules continue to be a source of pain** for firms that do business internationally. Close to a quarter (23%) of exporters have stopped selling into the EU either temporarily or permanently. The overwhelming majority (92%) of importers and exporters have experienced shipping delays since April.

During September, FSB expressed grave concerns about the increase in National Insurance Contributions and the Dividend Tax, suggesting that the changes could cause.

Outside of the NICs increase, directors will be impacted by a planned 1.25% increase in dividend taxation, even though they were excluded from income support measures throughout the pandemic lockdowns and restrictions.

FSB is calling on the Government to protect more small business owners, directors and sole traders from these increases – starting with an **increase in the Employment Allowance.**

Farming – NFU

Concerns remain within the sector about the impact that the UK's new immigration system is having on the availability of seasonal labour. Specific concerns are being raised about the **exclusion of the ornamentals sector from the Seasonal Worker Pilot.** In its current form, the scheme only applies to edibles. Irrespective of this scheme, vegetable and fruit pickers have been in short supply during harvest.

In addition to impacts on seasonal labour, the widely reported loss of some 100,000 lorry drivers as a result of the combination of Brexit and the pandemic is now causing concerns. It has been reported that **some fruit and vegetable farmers accustomed to daily farm gate collections of perishables are instead being offered weekly collections** – clearly inadequate for products with short shelf-lives of perhaps five days or less.

The impact of the well documented **interruption to the supply of CO_2** is reported as a significant problem for both pig and poultry suppliers because of its use in stunning livestock prior to slaughter.

New local authority estimates for impacts on private sector employment, sales and investment

Researchers at NTU and the D2N2 LEP have updated their estimates of the impact of pandemic on local economies. One product of this work is a simple dashboard that combines monthly Bank of England DMP data with that from the ONS BRES to **estimate historic and expected impacts on private sector employment, sales and investment for every UK local authority** – see here.

The pattern of spatial variation evident in this visualisation of the data is interesting – a function of differences in the sectoral composition of local economies. From a policy perspective, this analysis continues to highlight the **importance of spatially sensitive targeting of support to local economies**. Also the likelihood that different areas may experience recovery over differing timescales – again with implications for the duration of support required.

Local Business Intelligence By Sector

SECTOR	KEY INSIGHTS
Manufacturing	• Despite current challenges sectors, manufacturing is still **reporting high levels of output and future confidence.** According to MakeUK's Q3 2021 Outlook, both business and economic confidence have achieved a new peak since data collection for this metric began in Q3 2014. The result continues to be fuelled by the reopening of the economy and new work returning to manufacturers up and down the UK. • In addition the Manufacturing Growth Programme (MGP) have released their latest Manufacturing Barometer, revealing that major supply **chain issues and recruitment challenges are suppressing the recovery of the UK's SME manufactures.** Nearly all of the 260 respondents (96%) are struggling with price changes within their supply chain, Firms believe that rising costs are being driven by lack of availability of raw materials (94%), rising transport costs (82%), and reduced capacity in the market to meet demand (63%). • Also looking forward, The Midlands Engine has published two new manufacturing reports, representing two phases: - The first report – **"Midlands Engine Makes"** – showcases the **unique strengths of manufacturing across the Midlands.** - Phase 2 focuses on "**What Could be Made in the Midlands in Future**", calling on **government and industry to capitalise on emerging opportunities within its manufacturing heartland**, as it targets 165,000 new jobs in the sector by 2030 to support the shift to net zero and deliver levelling up.
Food & Drink / Agriculture	• **Exports to the EU are down significantly** in the first half of this year, with food producers in the region blaming in part the UK government's **failure to sign-up to the EU's sanitary and phytosanitary certification regime.** • Growing logistical challenges for supply chains associated with rising costs for international shipments (containers) and critical labour shortages for HGV drivers. The latter have also caused issues for farmers needing daily collection of perishable product from the farm gate (NFU). • Currently, there are an estimated **500,000 job vacancies across the food and drink sector**. This shortage of workers means that for the horticultural sector, some crops remain unpicked, or are being picked later than planned, and some produce is being left longer in storage. For the poultry sector, it means that production has had to be cut back, with a real chance Christmas supply will be affected.
Business and Professional Services	• The **Services** sector are reporting several challenges with HMRC, that include- **port delays, increase in volumes in Trade Finance division**. Finding it very confusing with no clear guidance. Brexit is causing **delays in goods getting through**, additional costs, lack of good skills/staff available. After the pandemic, it has put a strain on many of our services sector businesses. • There is an overwhelming lack of confidence in the market, **increasing shipping line costs,** material cost increases, final sales prices low though due to COVID effect globally. • Some Services SMEs that supply goods to educational institutions, making seasonal sales once a year. All are **still waiting for the restrictions to be over globally** to create more efficiencies. Red listed countries are affecting trade for some and consistently losing their market share. Some are reporting a continued impact due to contractors being unable to source materials, forcing difficult decisions and delays.
Tourism	• The sector is reporting that Brexit has **created serious labour and skills shortage.** Increased supply prices and their shortage. Also, forcing increases in wages to attract labour. • With businesses **unable to absorb these costs and customer orders falling.** • Price inflations affecting raw ingredients, packaging and services price inflation as well as supply issue; **putting businesses back in survival mode.**
Creative and Cultural	• The sector is **demanding clarity on what the trading environment is and to adopt a positive stance towards Europe** (contacts and customers abroad reflect that UK has become inward looking and insular and not interested in trading globally). Many businesses have lost trade overseas and finding it challenging to gain work domestically.

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MIDLANDS ENGINE Observatory

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West Midlands Growth Company

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BPS BIRMINGHAM

CWLEP Coventry & Warwickshire Local Enterprise Partnership

Greater Birmingham Chambers of Commerce

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