MIDLANDS ENGINE
Observatory

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 20: November 2021

Executive Summary

The November edition of the Midlands Engine Economic Monitor, and the final edition of 2021, provides insights on **localised data and trends and explores major global societal change**. It's positioned within what has been another whirlwind year for the businesses and people of the Midlands, reflecting the progress made on pandemic recovery but the clear challenges ahead in delivering jobs, driving inclusive growth and protecting the environment.

At the macro-level, UK economic recovery from the historic lows of 2020 continues, but the **pace of this recovery appears to have slowed significantly** during October and November. There remain risk factors that could derail prospects for regional recovery – notably **continuing distribution and supply difficulties** and growing input **price pressures** affecting many economic sectors in the Midlands. The cost of living surged to 4.2 per cent in October.

However, for now the Midlands' **regional performance appears to be holding firm**:

- The West Midlands Business Activity Index increased from 56.3 in September 2021 to 56.9 in October 2021, **the strongest increase in three months.**
- The East Midlands Business Activity Index increased from 52.4 in September 2021 to 52.6 in October 2021. This shows a modest expansion in business activity with upturn in output linked to **greater new order inflows**.
- There were 330,695 claimants aged 16 years and over in the Midlands Engine area in October 2021, a decrease of 4,565 claimants since the previous month. This reflects a continually improving picture in the employment market.

Nevertheless, the **longer-term impacts of Covid-19 on economy and society** are still laid bare in recent releases:

- **Jobs:** in the Midlands Engine area there were nearly 4.4m jobs in 2020. This is a **decrease of 1.5% (-68,000 jobs)** since 2019, and nationally there was a 1.9% decrease. Out of the 65 local authorities within the Midlands Engine, only 7 experienced an increase in the overall number of jobs between 2019 and 2020.
- **Business Births:** There were 50,330 enterprise births in the Midlands Engine in 2020. This represents a **decrease of 9.5% (-5,255 births)** since 2019, with the UK also decreasing by 8.3% over the same period. Enterprise births fell between 2019 and 2020 in all but two LEP areas – Leicester and Leicestershire and the Black Country.
- **High Growth Firms:** the number of high growth enterprises in the Midlands Engine has decreased from 1,690 in 2019 to 1,550 in 2020. This equates to a **decrease of 8.3% (-140 enterprises), more than double the UK decrease.**

Data related to **business demography** shows a slight increase in the number of active enterprises, **growing from 404,670 in 2019 to 410,270 in 2020** – considerably faster growth than the national average. But for the Midlands Engine to reach the national average of 469 per 10,000 population the region requires an **additional 55,485 active enterprises.** Regardless, the last 2 years have been incredibly challenging for many types of business. We explore two types of businesses in the **Midlands business base** this month – **scale-ups** and **social enterprises** – reflecting a crucial evidence base for both that can support policy and action moving forward.

Widely known and confirmed in the data, the Midlands also has a **diverse set of key sector strengths** from manufacturing and construction through to professional services, life sciences and agriculture. Businesses in these sectors have unique challenges caused by a range of factors, particularly the legacy of Covid and EU Exit. For example:

- **Recruitment difficulties**, supply problems and energy prices in manufacturing
- **Shortages in the supply** of semiconductors for automotive remain a major concern that is impacting on production
- **Concerns over food supplies** in the run up to Christmas are largely a function of **labour shortages**

2021 has again focused our minds on major global change, not least the **fight against climate change** and **road to net zero.** This has centred around the COP26 conference in Glasgow which the Midlands contributed to and was represented at in a range of ways, not least through **regional roadshows in the East Midlands and West Midlands**. The topic of net zero is something explored in this Monitor's **Adapting to Future Challenges** section. This presents findings that suggest several Midlands local authorities are at risk during the transition to net zero. We also:

- Show how the Midlands Engine is using a **Natural Capital Monitor** to help drive natural environment solutions
- Explore the changing shape of work through perspectives on the **"The Great Resignation, Reset, & Reshuffle"**

Continuing to understand the real-time evidence and business insight is critical to meeting all of the identified short, medium and long term priorities for the Midlands. In this context, the monitor and wider Midlands Engine Observatory continues to track key metrics and intelligence to help inform decision-making across the region. An important product is the second annual **State of the Region** report. The interactive report encapsulates the impacts and implications of COVID-19 and the EU-Exit and provides insights across thematic areas including **green growth, digital, health, and transport. It will be launched at The Midlands Engine Quarterly Economic Briefing on 10th December 2021; the link to register for the event is here.**

1. Economic and Labour Market Impacts

Global and National Outlook

Global

The pandemic has **severely disrupted labour markets** worldwide. Despite the best efforts to protect employment and support businesses in the majority of countries, **unemployment still reached alarmingly high levels**, leading to erosion of incomes and pushing many households into poverty. Although the majority of economies are starting to recover, the speed of job creation is generally lagging behind and is unable to compensate for earlier employment losses, especially in developing economies. Currently, the UN is predicting the **global unemployment rate will hit 6.3%,** falling to only 5.7% in 2022, above the pre-pandemic level of 5.4%.

There is also another phenomenon taking place in developed countries and most significantly China. In China, the one baby rule is now causing issues. The **independent population may not be able to comfortably support its aging population** as birth rates have been dropping in recent years. In the EU, Baby boomers - the largest generation ever, are reaching retirement age. There will be significantly more economically dependent individuals (those aged 0 to 16 and those over the age of 64) than ever before, which means the **dependency ratio is set to worsen**. There is a mass retirement to be expected over the medium-term, which will also impact certain sectors. For instance, **HGV drivers have a much older demographic,** because of license changes over the years which became stricter on the vehicles that new drivers can drive. The Conference Board has also warned of a decline in the quantitative growth of drivers as populations age worldwide. The growing share of retirees per worker may lead to higher inflation in the years to come. The best way to tackle the impacts of this would be through **increased productivity.**

Speaking to Chief Economists, the World Economic Forum found that, **whilst supply chain issues are still causing more issues than expected, these will likely resolve themselves over time.** However, the **dramatic changes in the labour market will likely remain and therefore pose a greater risk with regards to rising inflation**. Additionally, the rapidly rising demand for energy and the reducing supply of fossil fuels, as well has higher carbon prices, may lead to increasing inflation in years to come. The best way to combat this would be to **decarbonise and diversify renewable energy resources** to secure a more sustainable energy market, both economically and environmentally.

COP26 was held earlier this month, and a number of agreements were made, including a "phase down" rather than "phase out" of coal. World leaders did agree to phase-out subsidies that artificially lower the price of coal, oil, or natural gas, but no targets or dates were set for this.

National

Birmingham based engagement and insights agency for young people, Beatfreeks, has released its new report: 'The Second Dose'. The report shows that 37% of over 2000 Gen Zs surveyed said they felt anxious about either big events, public spaces with lots of people or feeling in close proximity to a large number of others. Those spoken to also reflected on the impact of the pandemic on their future, with **over half believing that COVID has affected their long term plans for the next 3-5 years and nearly half felt they were left with fewer opportunities for work.** When asked about the working arrangements, only 8% said they wanted a fully remote role going forwards, and **1 in 3 felt that the pandemic had made them more productive**.

Research by Employment Hero has found that the desire to travel after the pandemic and Brexit could see UK SMEs face a major workforce shortage, as employees rush to leave the country for permanent overseas residence. **53% of workers in the UK are considering taking a job overseas**, with the main factor being the desire to travel. 51% of the UK's workforce are currently looking at international positions, because they are aware they can earn a **higher salary elsewhere**.

43% of employees across the UK stated a **salary increase would convince them to remain in the UK** and in their current role. 26% said a promotion and 25% said more rewards would be enough for them to remain in the UK. 22% of workers are open to remaining in exchange for greater bonuses or a better bonus structure. 20% stated a change to management would make them reconsider their current international job search.

The main recommendations from this report in order to retain employees is:

- **Demonstrate appreciation for employees**: Through salary increases, performance reviews and management updates
- **Pivot to a global hybrid working model:** By embracing a 'work from anywhere' model, which has become more desirable in the past two years

Staff shortages due to a lack of EU workers has affected the Christmas markets across city centres. They are considerably smaller than usual and less European. This year, Brexit has made it much more complicated to import both goods and people from the continent to the UK. Christmas market traders are mostly SMEs and do not necessarily have the capacity to fill out all the documentation correctly. This has especially impacted alcohol retailers, with many instead opting to go to the Republic or Northern Ireland this year.

Policy Considerations

<table>
<tr><th>THEME</th><th>KEY INSIGHTS</th></tr>
<tr><td>Outlook</td><td>UK economic recovery from the historic lows of 2020 continues, but the pace of this recovery appears to have slowed significantly during October and November. There remain risk factors that could derail prospects for regional recovery – notably continuing distribution and supply difficulties and growing input price pressures affecting many economic sectors in the Midlands.

The cost of living surged to 4.2 per cent in October according to the consumer price index measure of inflation. This is its highest rate in almost 10 years and is due to rising fuel and energy costs. Local firms are still facing substantial price pressures, which local business leaders suspect will lead to even greater levels of inflation as we approach the end of the year.

Businesses are worried about the increasing cost pressures that are hitting their operations at the same time as rising levels of inflation. Additionally, anecdotal evidence suggests that customers are lacking confidence and are reluctant to spend money, and thus businesses are worried about their futures if consumer spending remains low. On the flip side, Barclaycard Payments' data suggests that British SMEs are predicting a strong festive trading period as payments volumes rise.

Furthermore, businesses in the region have continued to report that the main challenge they face is recruitment. Finding the right candidate who is the ideal fit and remains in the job is proving time consuming and often appointments do not work out early on, causing a financial and time burden for companies.</td></tr>
<tr><td>Business Demand</td><td>Particularly frequent business support enquiries of late include:
• Exit Strategies – An increase in requests for support from owners of businesses looking to sell and exit. Guidance and support with exit strategies with specialist advisors is ongoing.
• Environmental Policies – Businesses looking to win contracts are being increasingly asked to demonstrate their sustainability and environmental impact strategies and credentials. With climate a key government focus, there is a gap in the market for support for businesses getting to carbon neutrality by 2030 and the policies and practical steps businesses will need to take to achieve this.
• Intellectual Property – Some regional businesses are looking for support with the protection of IP.
• Access to Finance - The greatest financial concern among businesses is cashflow. There is also much nervousness around growth and investment. Confidence is knocked by having a lot of borrowing in place from either CBILS or BBLS. In response, businesses are looking to re-finance debt and equity.
• Return to Office - A number of companies are reporting difficulty in getting employees to return to office working where required. There are mixed approaches and a lack of understanding about what the employers and employees rights are.</td></tr>
<tr><td>COP 26 and Net Zero</td><td>• The Midlands contributed to, and was represented at, COP26 in Glasgow in a range of ways. Not least through regional roadshows in the East Midlands and West Midlands.
• East Midlands Chamber have highlighted 5 outcomes from COP that will affect regional businesses:
  - Large firms will be required to demonstrate how they plan to decarbonise
  - Accelerating the transition to 100% zero-emission cars and vans by 2040
  - All new HGVs weighing more than 26 tonnes will have to be zero-emission by 2040
  - Science and innovation linkages, including via Midlands universities and businesses
  - The UK committed to engaging 75% of farmers in low carbon, sustainable practices by 2030
• But many firms report that they have a lack of in-house skill to implement their environmental / net zero ambitions. Firms often a lack of understanding regarding where to start or how to implement measures which is a significant barrier to them taking further action towards net zero. Several businesses across all sectors reported that they wanted to see the Government give clearer advice about what steps they could take, as well as provide more support in the immediate future.</td></tr>
<tr><td>Integrated Rail Plan</td><td>• Some business leaders, both in the West Midlands and East Midlands have expressed disappointment over the cancellation of HS2's eastern leg from Birmingham to Leeds. The axing of a new East Midlands-Leeds high-speed line, with HS2 trains now to run on existing upgraded routes and a scaling back of the Northern Powerhouse Rail (NPR) project, has drawn strong condemnation amid feelings that the news is a 'missed opportunity'.
• However, others – including Midlands Connect – welcomed the certainty of the announcement and the relief that HS2 will at least be coming to the East Midlands, among other regional services.</td></tr>
</table>

Business Activity

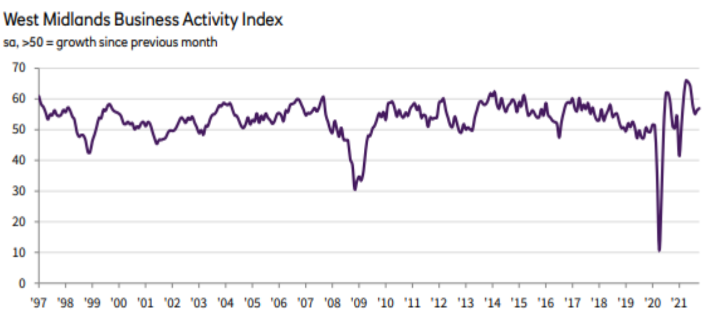
Business Activity Index

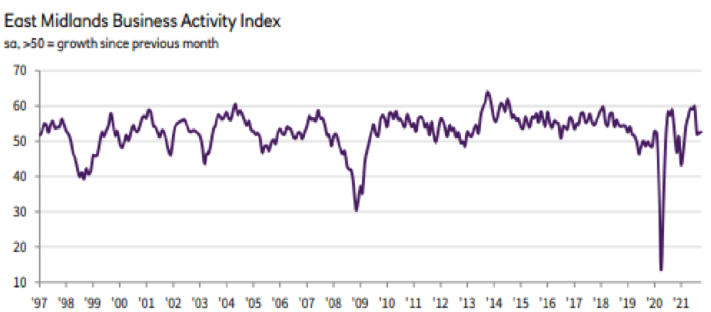
The **West Midlands Business Activity Index increased from 56.3 in September 2021 to 56.9 in October 2021,** the strongest increase in three months. Firms reported that capacity expansion efforts, strengthening demand and rising customer numbers helped boost business activity in October.

The **East Midlands Business Activity Index increased from 52.4 in September 2021 to 52.6 in October 2021**. This shows a modest expansion in business activity with upturn in output linked to greater new order inflows and stronger demand.

The overall UK Business Activity Index increased from 54.9 in September 2021 to 57.8 in October 2021.

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





Source: IHS Markit, NatWest PMI, November 2021

Of the 12 UK regions, the West Midlands region was sixth highest and the East Midlands was third lowest for the Business Activity Index in October 2021.

Demand

The latest data shows the **West Midlands New Business Index decreased from 59.8 in August 2021 to 57.3 in September 2021. The East Midlands New Business Index decreased from 52.9 in August 2021 to 51.7 in September 2021.** For both regions, the rate of new business growth was the slowest seen in the last seven months; however, firms reported an expansion in new orders due to improved demand conditions.

Source: IHS Markit, NatWest PMI, November 2021.

Exports

The **West Midlands Export Climate Index increased from 54.9 in September 2021 to 55.1 in October 2021**. The **East Midlands Export Climate Index remained at 55.1 in October 2021**.

Business Capacity

The **West Midlands Employment Index increased from 56.3 in September 2021 to 58.1 in October 2021** as firms reported the upturn in employment was due to robust rises in new work intakes and a need to expand capacities. The **East Midlands Employment Index increased from 53.1 in September 2021 to 55.4 in October 2021**. The rate of job creation was the fastest for four months due to greater business requirements.

The **West Midlands Outstanding Business Index increased from 55.6 in September 2021 to 56.6 in October 2021**. The **East Midlands Outstanding Business Index increased from 55.4 in September 2021 to 56.0 in October 2021**.

Prices

The **West Midlands Input Prices Index increased from 78.0 in September 2021 to 81.0 in October 2021.** The overall rate of input price inflation was the third strongest seen in the series history. **The East Midlands Input Prices Index increased from 77.6 in September 2021 to 82.4 in October 2021**; the increase in costs was linked to **severe raw material shortages, higher transportation surcharges and increased wage bills**.

The **West Midlands Prices Charged Index increased from 64.7 in September 2021 to 65.1 in October 2021.** The latest rise in output charges was the fastest in the history of the series. The **East Midlands Prices Charged Index increased from 64.8 in September 2021 to 66.3 in October 2021.** The rate of charge inflation was the fastest increase since records began.

Outlook

The **West Midlands Future Activity Index decreased from 76.8 in September 2021 to 76.1 in October 2021.** The **East Midlands Future Activity Index decreased from 77.4 in September 2021 to 73.5 in October 2021.** Firms reported that the demand is expected to strengthen as the pandemic recedes along with securing new clients and intentions to innovate.

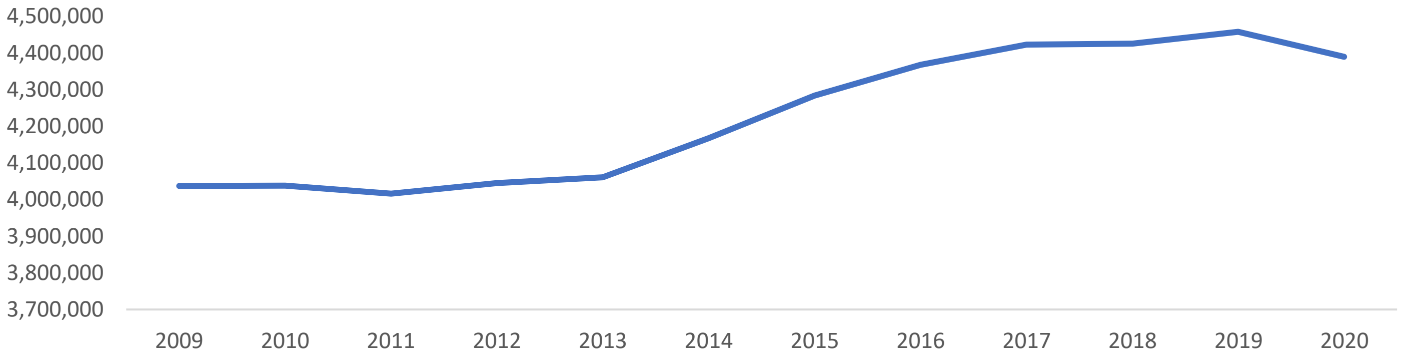
Out of the twelve UK regions, the West Midlands was the fourth highest and the East Midlands was fifth highest for the Future Business Activity Index in October 2021.

Jobs

In the Midlands Engine area there were nearly **4.4m jobs in 2020**. This is a **decrease of 1.5% (-68,000 jobs)** since 2019, whereas nationally there was a 1.9% decrease. In 2020, there were nearly **3m full-time employees and 1.4m part time employees** in the Midlands Engine area. When compared to 2019, full time employee jobs decreased by 0.6% (England -1.8%) and part time jobs decreased by 2.9% (England- 2.0%).

Out of the 65 local authorities within the Midlands Engine, **7 experienced an increase in the overall number of jobs** (with an additional 18 local authorities with no change) between 2019 and 2020.

The total number of jobs in the Midlands Engine, 2009 - 2020:



Jobs by Sector

In 2020, the Midlands Engine area had a **higher proportion of jobs than the national proportion in five sectors.** These were: advanced manufacturing and engineering (11.8% vs 7.7%), healthcare & life sciences (13.7% vs 13.2%), energy & low carbon activities (2.3% vs 1.8%), retail (16.0% vs 15.0%) and transport technologies & logistics (5.9% vs 5.2%). The Midlands Engine also had the same proportions as nationally in one sector; public sector including education (13.2%).

In the Midlands Engine area, the **business, professional and financial services sector accounts for the highest percentage of jobs at 18.9%** (approximately 830,000 jobs), which is also the highest sector nationally at 22.8% in 2020. This sector has decreased since 2019 by 2.0% (-17,000), whereas nationally there was a decrease of 3.3%.

Out of the ten sectors, five have **decreased** in the Midlands Engine area since 2019. **The highest decrease was in visitor economy sector at 13.2%** (-55,000 to approximately 362,000 jobs), with there being a national decrease of 7.7%. In 2020, the visitor economy accounted for 8.2% of jobs in the Midlands Engine area, below the national proportion of 9.4%.

	Midlands Engine 2019	Midlands Engine 2020	Midlands Engine % Change	Midlands Engine Num. Change	Midlands Engine % of 2020 Total	Eng. % Change	Eng. % of 2020 Total
Advanced Manufacturing & Engineering	558,000	520,000	-6.8%	-38,000	11.8%	-4.4%	7.7%
Transport Technologies & Logistics	253,000	261,000	3.2%	8,000	5.9%	1.1%	5.2%
Healthcare & Life Sciences	574,000	601,000	4.7%	27,000	13.7%	1.9%	13.2%
Energy & Low Carbon Technologies	104,000	103,000	-1.0%	-1,000	2.3%	4.2%	1.8%
Business Professional & Financial Services	847,000	830,000	-2.0%	-17,000	18.9%	-3.3%	22.8%
Creative & Digital	111,000	128,000	15.3%	17,000	2.9%	1.1%	4.6%
Construction	304,000	306,000	0.7%	2,000	7.0%	-2.7%	7.1%
Retail	716,000	702,000	-2.0%	-14,000	16.0%	-2.8%	15.0%
Public Sector Inc. Education	575,000	579,000	0.7%	4,000	13.2%	1.6%	13.2%
Visitor Economy	417,000	362,000	-13.2%	-55,000	8.2%	-7.7%	9.4%
Total	4,458,000	4,390,000	-1.5%	-68,000	100%	-1.9%	100%

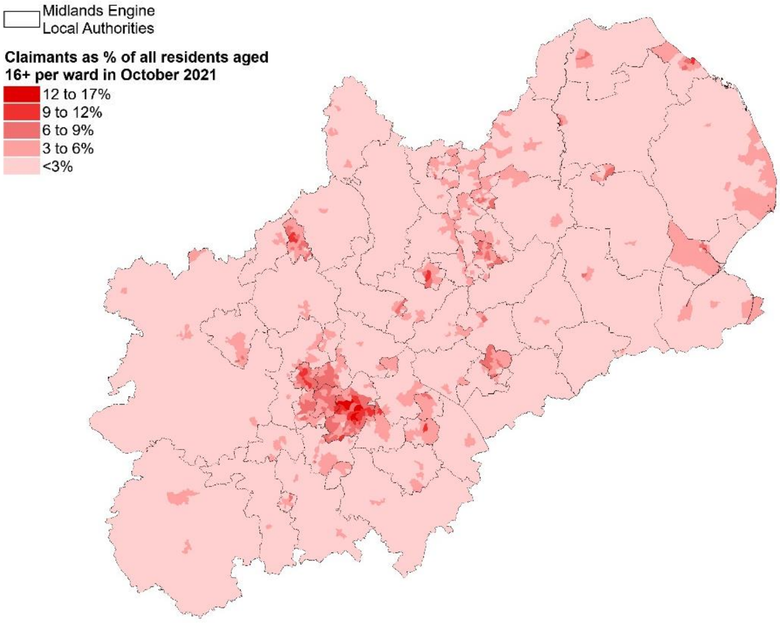
Source: Business Register and Employment Survey: Released November 2021

Labour Market Impacts: Claimants

There were 330,695 claimants aged 16 years and over in the Midlands Engine area in October 2021, which is a **decrease of 4,565 claimants since the previous month**. This equates to a decrease of 1.4% for the Midlands Engine area, compared to a 1.8% decrease across the UK. **There are 109,155 (+49.3%, UK +57.4%) more claimants when compared to March 2020**.

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 3.9% in the Midlands Engine (UK 3.7%) in October 2021.

Claimants as Percentage of Residents Aged 16 Years and Over in October 2021:



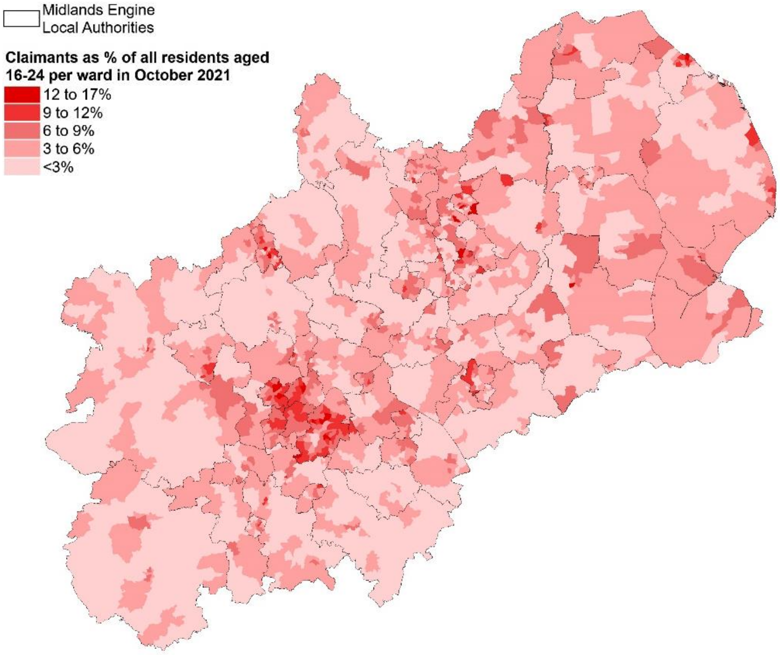
Out of the 1,511 wards within the Midlands Engine, **413 were at or above the UK average of 3.7%** for the number of claimants as a percentage of the population aged 16 years and over in October 2021.

The wards with the highest number of claimants as a percentage of the population aged 16 years and over were based in Birmingham, with Handsworth the highest with 16.3%. This is followed by Birchfield at 16.1% and then Aston at 15.0%.

There were 59,710 youth claimants (16-24 years old) in the Midlands Engine area in October 2021 – a decrease of 2,030 claimants since September 2021. This equates to a decrease of 3.3% with the UK decreasing by 4.3%. Since March 2020 (44,195 claimants), **the number of youth claimants has increased by 15,515** (+35.1%, UK +40.4%).

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 5.2% in the Midlands Engine and 4.8% for the UK in October 2021.

Claimants as Percentage of Residents Aged 16 – 24 Years Old in October 2021:



Out of the 1,511 wards within the Midlands Engine, **579 were at or above the UK average of 4.8%** for the number of claimants as a percentage of the population aged between 16-24 years old in September 2021.

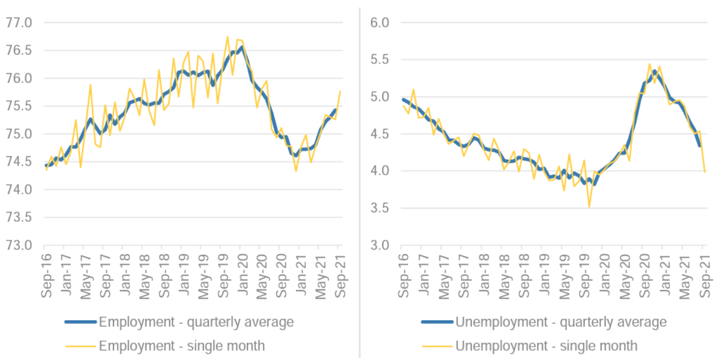
The wards with the highest the number of youth claimants as a percentage of the population was based in Portland (Mansfield) at 16.8%. This is followed by Handsworth (Birmingham) at 14.5%, and then East Marsh (North East Lincolnshire) at 14.0%.

Source: Department for Work and Pensions, November 2021

Labour Market Statistics

The data shows a **continually improving picture in the labour market, with unemployment falling sharply towards pre-crisis levels (currently 4.3%) and employment increasing (currently 75.4%).** New labour market flows data shows that underneath this, nearly **2.2 million people started new jobs** in the summer (July to September) – the highest level and rate (7%) in at least twenty years, driven by record flows into work as well as record levels of job-to-job moves. However despite these trends, **vacancies have continued to grow strongly across all industries which, combined with falling unemployment, has led to the lowest number of unemployed people per vacancy since at least the early 1960s.** Labour supply simply cannot keep up with demand, which in turn is holding back growth and adding to inflation. A key cause of these problems is far lower labour market participation than on pre-crisis trends – with a **participation 'gap'** in our estimates of 950 thousand people. Around half a million of this gap is explained by fewer older people in the labour market, particularly older women. Worryingly, there are also signs today that higher economic inactivity is increasingly being driven by people out of work due to ill health or early retirement, while inactivity is falling among students and for 'other' reasons (like shielding or lockdowns).

Employment and unemployment rates (16-64) – quarterly average with single-month estimates



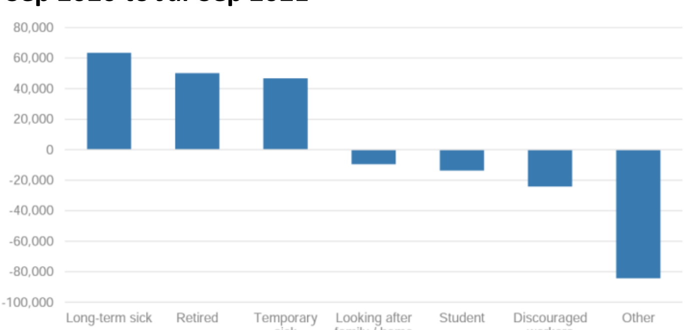
New data on employment for disadvantaged groups also presents a worrying picture, with **employment gaps either growing or remaining stubbornly wide for disabled people, ethnic minorities, those aged over 50 and young people outside education.** Combined with weaker than expected data on long-term unemployment, there are growing signs that the recovery is not being felt by those further from work. This is happening at a time of labour shortages, higher inflation and large cuts to Universal Credit, which the IES **identifying this need as an economic and social priority.**

Looking ahead, with very little sign that the end of furlough will ease labour shortages, the IES view is that the current **recruitment and participation crises will continue** for some months yet. This will mean that unemployment will (as expected) fall back towards pre-crisis levels faster than recent official forecasts have suggested. However, it also makes even clearer the need for action to raise participation and support employment growth. This means doing far more to improve support developments around work and health and to **re-engage older people and disadvantaged young people.** It also means that firms will continue to have to rethink and improve how they recruit, design jobs and support people in work.

Flows into work were driven particularly by flows from unemployment, with a remarkable 38% of all of those unemployed during April to June finding work between July and September. However, **flows from economic inactivity into work were also high** (accounting for just over half of the total flow into employment), but were more than offset by (even higher) flows from employment into inactivity, which drove the slight rise in inactivity levels overall. The flows out of economic inactivity would be consistent with more people coming back to work as furlough payments ended and restrictions eased, but the **flows into inactivity are much more worrying.**

Looking in more detail at what is driving higher economic inactivity, the overall story of the crisis has been a **growth in student numbers and in long-term ill health** while the number of people looking after family or home has fallen. However, considering just the last twelve months, we are now seeing very worrying signs that **economic inactivity is being driven by increasing levels of ill health among those out of work and more people exiting entirely to retirement.** These three categories combined have increased by 160 thousand over the year, while student numbers have edged down and inactivity for 'other' reasons (which will include people shielding or sitting out lockdowns) has fallen.

Change in levels of economic inactivity by reason, Jul-Sep 2020 to Jul-Sep 2021



Source: *Institute for Employment Studies, Labour Market Statistics November 2021*

2. Midlands Business Base

Business Demography

The Office for National Statistics (ONS) released their annual business demography publication on 18th November 2021, providing **data on the number of businesses in the UK for 2020, broken down by district and industry.**

Active Enterprises

For the Midlands Engine area, there were **410,270 active enterprises in 2020**. This has **increased by 1.4% (a net increase of 5,600 enterprises) since 2019, faster than the UK overall rate of 0.4%.** Year-on-year growth was reported in all Midlands Engine LEP areas other than Worcestershire (which experienced a decrease of 0.6%). The LEP with the fastest growth between 2019 and 2020 was Leicester and Leicestershire, reporting a 6.4% increase (+2,905).

There were **394 enterprises per 10,000 population** in the Midlands Engine area in 2020, compared to 448 per 10,000 population for the UK. This represents a **slight narrowing of the gap with the national average**. For the Midlands Engine to reach the national average of 469 per 10,000 population the region requires an **additional 55,485 active enterprises**.

Within the Midlands Engine geography, active enterprises per 10,000 population **ranges from 583 in Worcestershire** (down from 589 in 2019) **to 336 in the Black Country** (but notably up from 328 in 2019). In addition to Worcestershire, Leicester & Leicestershire (454 per 10,000) and Greater Birmingham & Solihull (448 per 10,000) are either in line or above the UK average.

The following table shows active enterprises for the Midlands Engine and England between 2017 and 2020:

Area	2017	2018	2019	2020	Num. Change 2019-2020	% Change 2019-2020	Enterprises per 10,000 population
Black Country	38,505	38,330	39,345	40,415	1,070	2.7%	336
Coventry & Warwickshire	40,550	41,030	41,725	41,805	80	0.2%	434
Derby, Derbyshire, Nottingham and Nottinghamshire	78,385	77,715	78,470	78,515	45	0.1%	351
Greater Birmingham and Solihull	85,935	90,600	91,805	91,910	105	0.1%	448
Greater Lincolnshire	39,665	39,195	40,045	40,510	465	1.2%	356
Leicester & Leicestershire	45,250	44,790	45,520	48,425	2,905	6.4%	454
Stoke & Staffs Staffordshire	40,110	40,415	40,930	41,015	85	0.2%	360
The Marches	27,460	27,495	28,420	29,125	705	2.5%	416
Worcestershire	30,765	33,060	35,090	34,870	-220	-0.6%	583
Midlands Engine	**393,345**	**397,390**	**404,670**	**410,270**	**5,600**	**1.4%**	**394**
UK	2,917,485	2,915,980	2,990,320	3,003,470	13,150	0.4%	448

Enterprise Births

There were **50,330 enterprise births in the Midlands Engine in 2020**. This represents a decrease of 9.5% (-5,255 births) since 2019, with the UK also decreasing (by 8.3%) over the same period.

Enterprise births fell between 2019 and 2020 in all but two LEP areas – Leicester and Leicestershire and the Black Country. Leicester and Leicestershire reported a large rise in business births between 2019 and 2020, up by 26.1% (+1,575 births). Worcestershire reported the steepest decline in enterprise births: -53.9% between 2019 and 2020, a decrease of 4,810 births. Similarly, Greater Birmingham & Solihull reported a large fall in 2020 with 5,555 less births reported than in 2019.
It should be noted that a key factor in the large-scale decline in Worcestershire and Greater Birmingham and Solihull is likely due to volatility in the figures reported for Bromsgrove.

There were **48 enterprise births per 10,000 population** in the Midlands Engine area in 2020, below the UK figures of 53 births per 10,000 population. **For the Midlands Engine to reach the national average, an additional 5,143 enterprise births are required each year.**

Business Demography

Enterprise Deaths

Enterprise deaths in the Midlands area increased by 3.2% (+1,380 deaths) since 2019 to 44,340 in 2020, contrasting with the UK overall which saw a 2.5% decrease over this period. The **Greater Birmingham and Solihull LEP area reported the largest increase in enterprise deaths** between 2019 and 2020, increasing from 11,110 to 14,010 (+26.1%). Worcestershire's enterprise deaths also increased by over 26% (+1,070 to reach 5,125).

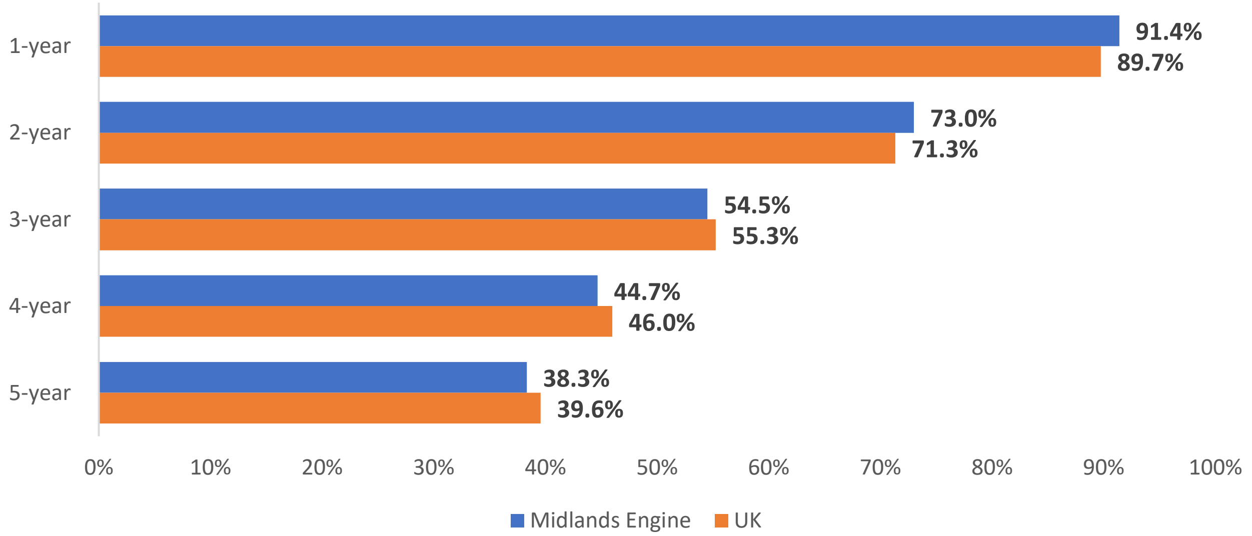
In contrast, **five LEP areas reported a decrease in enterprise deaths:** Black Country (-12.1%), Derby, Derbyshire, Nottingham and Nottinghamshire (-10.1%), Greater Lincolnshire (-9.9%), Stoke-on-Trent and Staffordshire (-0.5%) and the Marches (-4.0%). This was despite the challenges provided by the Covid-19 pandemic, perhaps reflecting **government measures to protect business insolvency and closure.**

Enterprise Survival Rates

Enterprise survival rates show the percentage of businesses that survived in 2020 and over previous years. As with previous years, the findings suggest the **Midlands Engine area performs better on short-term survival** (1–2-year enterprise survival rates are higher in the Midlands Engine than the UK average), but **lag behind when it comes to longer-term survival** (3-5 years enterprise survival rates in UK are higher than in the Midlands Engine).

- Of the 58,500 enterprise births **in 2019** in the Midlands Engine area, **91.0% (53,215) were still active after 1 year.** This is above the UK 1-year survival rate of 88.3%.
- Of the 50,835 enterprise births **in 2017** in the Midlands Engine area, **49.8% (25,325) were still active after 3 years** compared to 53.4% for the UK.
- Of the 52,205 enterprise births **in 2015** in the Midlands Engine area, **38.3% (8,010) were still active in 2020. This** is below the UK survival rate of 39.6%.

The following chart shows from 2015 births the five-year survival rates for the Midlands Engine area and the UK:



High Growth Enterprises

The latest available for 2020 for the Midlands Engine area shows that the number of high growth enterprises has **decreased from 1,690 in 2019 to 1,550 in 2020**. This equates to a **decrease of 8.3% (-140 enterprises), which is more than double the UK decrease of 4.0%.**

The number of high growth enterprises has now decreased in each of the last 2 years, perhaps somewhat expectedly given major economic shocks. **In all Midlands Engine LEP areas other than the Black Country the number of high growth firms was lower in 2020 than in 2019**, with the largest falls experienced in Worcestershire (-16.9% from 1,830 to 1,665) and Greater Birmingham and Solihull (-15.1% from 365 to 310). The Black Country grew slightly from 150 to 155 (+3.3%).

ScaleUps

The ScaleUp Institute recently published their [Annual Review 2021], charting the landscape of scaleup businesses in the UK and illustrating barriers to growth.

Scaleups are defined by the OECD as firms that are **growing their employment numbers and/or turnover by more than 20% a year over a period of three years**, with at least 10 employees at the start of the period. They are described as crucial for driving job creation, generating inward investment for the UK and acting as motors for regional economic growth.

As of 2019, there are **33,445 scaleups in the UK**, 24% up on 2013, **employing 3.2 million people and contributing more than £1 trillion** to the UK economy. 6,720 of UK scaleups are scaling in terms of both employees and turnover.

Regional Data

According to [ScaleUp Institute data], as of 2019 there were **4,785 scaleups across the 9 Midlands Engine LEPs.** The Midlands LEP area with the **highest number of scaleups per 100k of population is Leicester and Leicestershire (55.3**), followed by Worcestershire (52.9). **Derby, Derbyshire, Nottingham and Nottinghamshire (D2N2) has the largest number of scaleups overall (925),** followed by Greater Birmingham and Solihull (905). A **full list of "visible scaleups" by LEP can be viewed here: [Visible Scaleup Companies in England - ScaleUp Institute]**

The growth in scaleups has slowed in recent years – even before Covid – something which appears to be hitting some Midlands LEP areas in particular. **As shown in the below table,** Black Country, Coventry and Warwickshire, Stoke-on-Trent and Staffordshire and Greater Birmingham and Solihull **make up the bottom 6 for growth between 2013 and 2019.**

LEP/Region	Total scaleups	Scaleups per 100k pop 2019	Trends 2013-19
London	7,285	81.3	2.9
Northern Ireland	895	47.3	2.6
Thames Valley Berkshire	640	70	2.5
Oxfordshire	475	68.7	2.4
Gloucestershire	385	60.4	2.4
Greater Cambridge and Greater Peterborough	865	59.6	2.3
York, North Yorkshire and East Riding	605	51.7	2.3
Enterprise M3	1,090	63.6	1.7
Hertfordshire	660	55.5	1.6
Cornwall and Isles of Scilly	260	45.5	1.4
Cheshire and Warrington	545	58.1	1.4
Wales	1,215	38.5	1.4
Coast to Capital	935	45.6	1.4
New Anglia	705	42.2	1.3
Scotland	2,195	40.2	1.2
Heart of the South West	740	42	1.2
North East	770	38.6	1.2
Buckinghamshire Thames Valley	320	58.8	1.1
D2N2	925	41.6	1.1

LEP/Region	Total scaleups	Scaleups per 100k pop 2019	Trends 2013-19
Humber	385	41.3	1
Greater Manchester	1,345	47.4	1
Leeds City Region	1,445	46.6	1
Cumbria	210	42	1
Sheffield City Region	735	39	0.9
West of England	585	50.6	0.9
Greater Lincolnshire	400	36.6	0.9
South East	1,780	41.7	0.8
South East Midlands	1,015	49.5	0.8
Dorset	360	46.5	0.8
Liverpool City Region	550	35.3	0.8
Solent	735	45.3	0.7
Worcestershire	315	52.9	0.7
The Marches	305	43.8	0.6
Leicester and Leicestershire	565	53.3	0.6
Lancashire	675	44.7	0.5
Greater Birmingham and Solihull	905	44.2	0.4
Stoke-on-Trent and Staffordshire	480	42.3	0.3
Swindon and Wiltshire	295	40.8	0.3
Coventry and Warwickshire	450	47.4	0
Tees Valley	220	32.5	-0.1
Black Country	440	36.7	-0.9

Source: 1598_SUI_AR21_Infographic_Summary_Final_Web_Updated.pdf (scaleupinstitute.org.uk)

ScaleUps

Regional Clusters

The ScaleUp Institute's Review also identifies **sectoral clustering** as a driver of scaleup growth across the country. Regional clusters are identified and represented by the sector colour key below.

East Midlands **Key** **West Midlands**

The results show that **16.7% of East Midlands scaleups and 16.8% of West Midlands scaleups operate in the wholesale and retail sectors.** Following this as the most common sector is **manufacturing, representing 14.4% of East Midlands scaleups and 13.3% of West Midlands scaleups**. Admin and support services is the third most common sector for scaleups in both the East and West Midlands: 10.6% and 11.8% of scaleups respectively. **Regions such as London, the South East and the North West have higher concentrations of professional, scientific and technology scaleups** than the Midlands' regions.

ScaleUp Public Procurement

Based on data for visible scaleups – those that file full accounts at Companies House – the Annual Review also analyses public procurement of contracts to scaleups across the UK. Overall, visible scaleups won 1.5% of all public procurement awards in 2020, worth £1.9bn. As **shown below**, **local buyers from 9 out of the 12 contracting regions issued the large majority of their procurement contracts to their local scaleups….**

	CONTRACTING AUTHORITY REGION											
SCALEUP REGION	East Midlands	East Of England	London	North East	North West	Northern Ireland	Scotland	South East	South West	Wales	West Midlands	Yorkshire And The Humber
East Midlands	50	11	7	5	13	2	5	4	3	5	25	27
East Of England	8	43	61	10	37	0	7	9	20	1	16	9
London	20	43	238	20	90	4	12	36	38	7	25	25
North East	4	2	9	25	13	0	1	1	0	0	4	4
North West	17	11	23	13	116	1	8	6	5	9	27	23
Northern Ireland	0	0	3	3	10	29	3	3	2	2	3	1
Scotland	6	3	5	1	3	3	79	1	3	2	5	4
South East	10	15	58	3	33	1	9	33	13	3	26	13
South West	7	11	9	1	18	0	4	15	40	1	5	4
Wales	2	0	3	4	2	0	2	0	6	38	7	1
West Midlands	12	16	38	3	33	3	35	3	18	6	24	22
Yorkshire And The Humber	14	9	22	16	23	1	14	5	29	8	8	68

…however, **West Midlands contracting authorities issued an almost equal majority of their procurement contracts to scaleups based in the North West (15%), South East (15%), London (14%), East Midlands (14%) and West Midlands (14%).** East Midlands contracting authorities procured mostly with East Midlands suppliers.

Wider ScaleUp Institute Resources

In addition to the full detailed Annual Review, the ScaleUp Institute have previously produced a [ScaleUp Green Economy Index](), [Social Scaleups Index](), **a** [Scaleup Female Founder Index]() **and full** [Scaleups 2020 Index]().

Social Enterprise

Social enterprises deliver economically, environmentally and socially. They are a **growing** part of the business sector, contributing across all areas of our economy and society. This survey, using the results from Social Enterprise UK 2021 National Survey, explores how social enterprises are **growing financially, delivering economic and social impact, and providing leadership and solutions to social and environmental needs**.

Social enterprise has proved **remarkably resilient** in the face of acute challenges caused by the COVID-19 pandemic.

Social enterprises are defined as businesses with social and/or environmental missions – but as understanding of the climate emergency grows, it is clear that **social justice cannot exist without environmental justice**. And social enterprises are responding to this.

Midlands Engine Social Enterprise Headline Findings:

Economy

45% of social enterprises are under five years old
50% EM 41% WM 47% UK

43% of social enterprises grew their turnover over the last year
40% EM 45% WM 44% UK

78% made a profit or broke even last year
75% EM 80% WM 74% UK

60% of social enterprises introduced a new product or service in the last year
NEW
52% EM 65% WM 66% UK

Society

47% of social enterprises are led by women
29% EM 60% WM 47% UK

67% of social enterprises said that they were a Living Wage Employer
65% EM 68% WM 72% UK

21% of directors are from Black, Asian and Minority Ethnic backgrounds
31% EM 42% WM 31% UK

22% of social enterprises operate in the most deprived parts of the UK
13% EM 29% WM 22% UK

Environmental

87% of social enterprises believe that buying products that are socially responsible and environmentally friendly is as important – or more important – than cost
88% EM 86% WM 84% UK

20% of social enterprises are addressing the climate emergency as part of their core social/environmental mission
27% EM 14% WM 20% UK

82% of social enterprises have or plan to embed tackling climate change/climate emergency into their constitution/articles of association
88% EM 86% WM 67% UK

Source: Midlands Engine Social Enterprise Report 2021, based off National Survey

3. Business Intelligence

Business and Insights and Conditions Survey

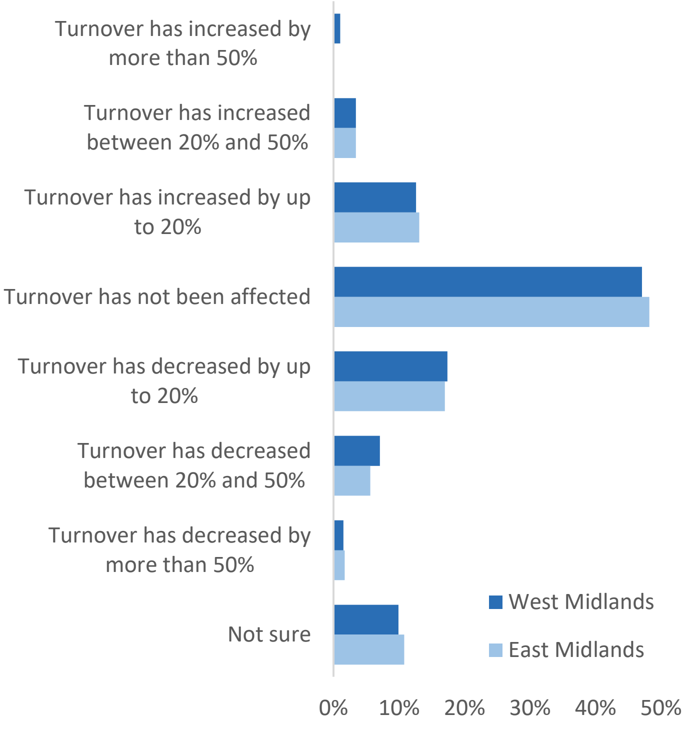
The Office for National Statistics (ONS) have published the final results from [Wave 43 of the Business Insights and Conditions Survey (BICS)](#).

Trading and Financial Performance

98.7% of responding West Midlands businesses and 98.0% of East Midlands businesses reported their business trading status as currently trading.

8.6% of trading businesses in the West Midlands and 7.3% 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:

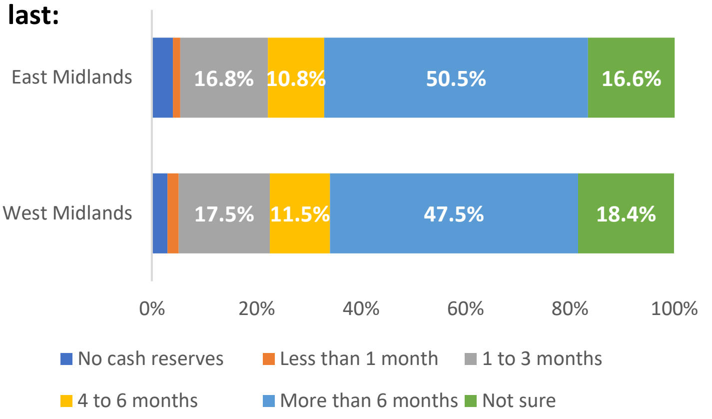


Excluding 'not sure' responses, **39.6% of West Midlands businesses and 39.5% of East Midlands businesses reported the main reason for the change in the business turnover in the last two weeks was due to COVID-19.** 2.3% of West Midlands businesses and 3.0% of East Midlands businesses reported the main reason as the end of the EU transition period. 17.3% of West Midlands businesses and 16.4% of East Midlands businesses reported that it was due to both COVID-19 and the end of the EU transition period and 24.6% of West Midlands businesses and 23.1% of East Midlands businesses reported 'other' as the main reason for the change in turnover.

Cash Reserves

3.0% of West Midlands businesses and 4.0% 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

2.1% of West Midlands and 1.6% of East Midlands businesses had not been able to export within the last two weeks.

26.2% of exporting businesses in the West Midlands and 25.2% for the East Midlands reported their businesses were still exporting but less than normal. 16.9% in the West Midlands and 16.1% in the East Midlands were importing less than normal.

58.5% of West Midlands businesses and 62.6% of East Midlands businesses who were exporting reported that they had not been affected and 66.4% of West Midlands importers and 67.1% of East Midlands importers said that importing had not been affected.

4.1% of businesses in the West Midlands and 2.5% of East Midlands businesses were exporting more than normal. The figures for importing more than usual are 6.2% for the West Midlands and 7.1% for the East Midlands.

Business Confidence, Debts and Insolvency

76.4% of West Midlands businesses and 77.7% of East Midlands businesses had high confidence of business survival for the next three months.

23.3% of West Midlands businesses and 22.0% of East Midlands businesses reported debt repayments were up to 20% of turnover. Approximately 6.5% of West Midlands businesses and 5.5% of East Midlands businesses reported debt repayments were over 20% of turnover. Although, 41.5% of West Midlands businesses and 43.5% of East Midlands businesses reported no debt obligations.

6.2% of West Midlands businesses and 5.0% of East Midlands businesses reported they were at moderate risk from insolvency.

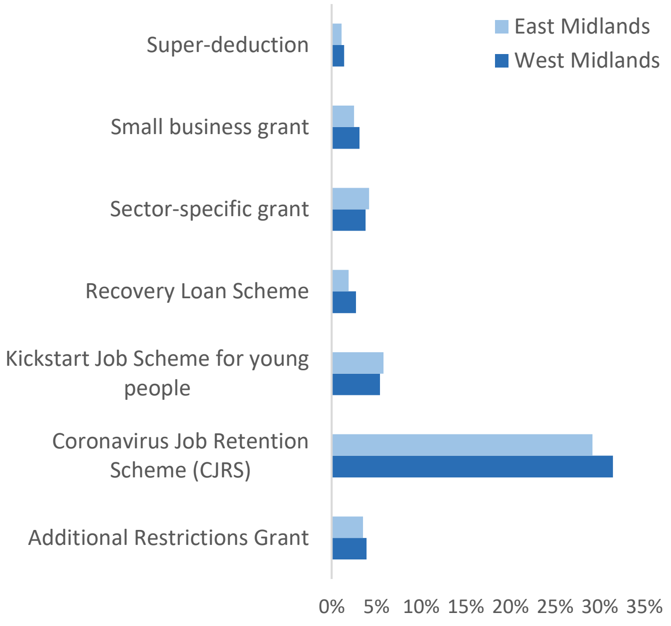
Return to the Workplace

Excluding 'not sure' or 'not applicable' responses, **57.9% of West Midlands businesses and 57.1% of East Midlands businesses reported the workforce had already returned to the normal place of work.** 13.2% of West Midlands businesses and 14.8% of East Midlands businesses expected the workforce to return in less than six months. 2.2% of West Midlands businesses and 1.3% of East Midlands businesses expected the workforce to return in over six months time. 8.6% of West Midlands businesses and 7.6% of East Midlands businesses reported there was no expectations of the workforce returning to the normal place of work.

Grant Payments

In the last month, 31.5% of West Midlands businesses and 29.2% of East Midlands businesses have received payment from the Coronavirus Job Retention Scheme.

The following graph shows (if known or applicable) what grant or scheme businesses have received payment in the last month:

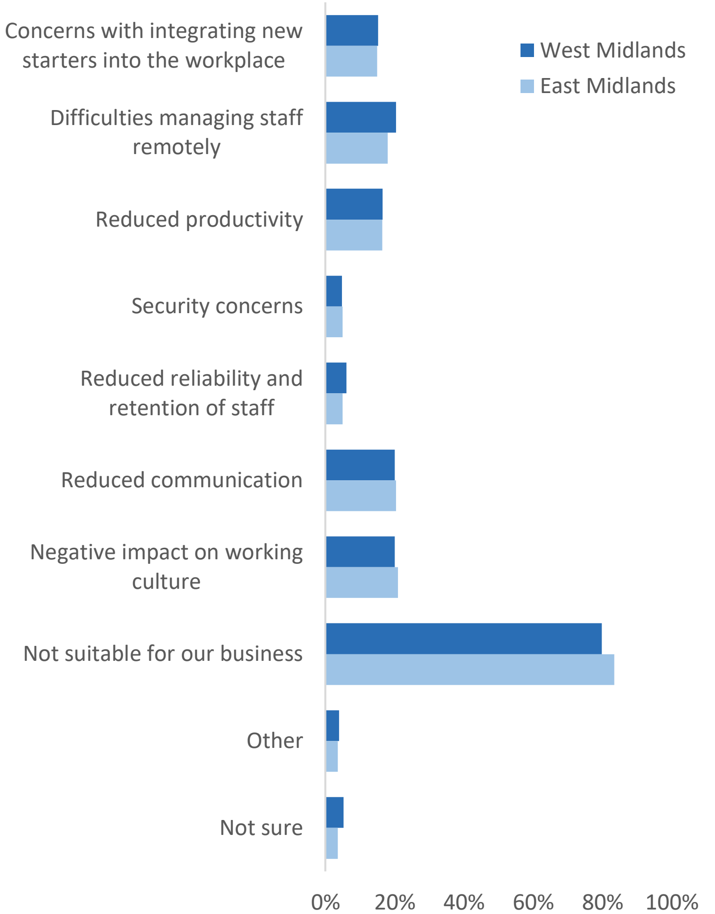


Homeworking

31.3% of West Midlands businesses and 31.9% of East Midlands businesses reported their business intended to use increased homeworking as a permanent business model going forward. The favoured response as to why the business intend to use increased homeworking going forward at 86.4% of West Midlands businesses and 85.2% of East Midlands businesses was improved staff wellbeing.

38.5% of West Midlands businesses and 39.8% of East Midlands businesses reported that they did not intend to increase homeworking as a permanent business model. The favoured response as to why businesses do not intend to use increased homeworking going forward at 79.8% of West Midlands businesses and 83.4% of East Midlands businesses was that it was not suitable for the business.

The following chart shows the Midlands regions why businesses do not intend to use increased homeworking:



Expansion Plans

When asked whether the pandemic affected businesses plans to expand, 5.7% of West Midlands businesses and 5.9% of East Midlands businesses reported their **expansion plans are now more ambitious**. 9.6% West Midlands and 8.5% East Midlands businesses have less ambitious plans, and 8.6% West Midlands and 8.5% East Midlands businesses have cancelled or postponed plans.

In the West Midlands there was a response rate of 23.8% and in the East Midlands there was a response rate of 24.8% where businesses have a presence in the region. There was a response rate of 22.5% for the West Midlands and 24.6% of East Midlands where businesses are headquartered in the region. Businesses were asked for their experiences for the reference period 18th October to 14th November 2021. However, for questions regarding the last two weeks, businesses may respond from the point of completion of the questionnaire (1st to 14th November 2021). The data is unweighted and should be treated with caution.

Local Business Intelligence

Executive Summary

- Recovery from the historic low of Q2 2020 continues, but the pace of this recovery appears to have slowed significantly during October and November.
- 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.
- **Softening business confidence coupled with growing concerns about input price inflation are now feeding through to affect future investment intentions in many sectors**.
- Nevertheless, manufacturing in the Midlands (and particularly the East Midlands) is looking more positive than has been the case for some time.
- Evidence is growing of **upward pressure on materials costs and availability** – particularly for manufacturers and the construction sector. Commodities affected include steel, timber polypropylene, glass and cardboard (for packaging), and semi-conductors.
- The consequences of the post-Brexit trade deal with the EU continues to cause problems for many exporters and importers - although the focus of concern appears to be shifting towards the practicalities of international travel and the prospect of full implementation of rules of origin checks at the end of the year.
- **Uncertainty** over the future of the Northern Ireland protocol is being cited as a concern in manufacturing and farming.
- A number of business sources continue to highlight challenges relating to the **recruitment and retention of staff.**
- Recruitment problems are being reported in many sectors and at all skill levels.
- The widely reported loss of some 100,000 lorry drivers as a result of the combination of Brexit and the pandemic continues to cause concern.

East Midlands Overview – EMC

- At the time of writing the Q4 Quarterly Economic Survey was still open to respondents, however the early pattern of responses suggests the following:
- The softening of business confidence reported in the last ME Monitor has continued – a majority of indicators appear to have deteriorated – albeit that net balances on most indicators remain positive for the time being.
- **Domestic markets that seemed to be fairly buoyant over the summer have clearly now lost momentum.** This is evident in relation both to sales and orders.
- In common with feedback from other business organisations, **rising input price inflation is reported to be a growing concern**. This is affecting business margins and firms are reporting that these **costs will have to be passed on to customers.**
- Chamber members now report weakening cashflow – particularly in the manufacturing sector.
- Expectations of future turnover and profitability are also reported to have weakened. This in turn is now expected to impact on future investment in plant and machinery and training.
- The region has seen a number of recent insolvencies – particularly in the construction sector. Insolvency practitioners in the Chamber membership report increasing enquiries from firms facing the threat of closure. **Concerns are being voiced about the prospect of firms repaying debt based support received during the pandemic.**
- Chamber members in many sectors are now reporting labour and product supply problems.
- Full report on the EMC Q4 QES will be found here when the survey is complete.

Manufacturing - Make UK

- Manufacturing in the Midlands is reported to be continuing its recovery towards pre-pandemic levels however, the mood is said to be markedly more downbeat than was the case in late Summer.
- Recruitment difficulties, supply problems and energy prices continue to be causing what are described as 'growing pains'.
- Food and drink manufacturers are said to experiencing particular problems in relation to **availability of process workers and drivers.**
- In the strategically significant automotive sector, continuing (global) shortages in the supply of semiconductors remain a major concern that is impacting on production levels. As a result, engine production was reported to be down by some 40% in September.
- Major clouds on the horizon that are likely to affect future performance within the sector include inflation, continuing supply chain problems, skills availability and the continuing uncertainty over the Northern Ireland protocol.

Source: East Midlands Chamber, Make UK, the NFU, FSB and Universities across the region (sourced from Midlands Innovation and Midlands Enterprise Universities networks).

Local Business Intelligence

Small Business – FSB

- In November, FSB published its latest, quarterly Small Business Index, which is a barometer of small business sentiment across the nation and regions. The Index is based upon comprehensive research and responses from thousands of small firms regarding their recent performance, current circumstances, and future aspirations.
- In the Midlands region, **confidence levels in the third quarter of 2021 (July – September) showed a decline over the previous quarter,** with the East Midlands showing a more significant decline. Almost a third of the region's small businesses said that they are less confident about their prospects in the coming months.
- Like most other regions in the UK, the West Midlands also saw a decline in confidence, but the dip was **less pronounced** compared to the East Midlands. Net staffing levels have remained broadly stable (West Midlands) or dipped only slightly (East Midlands), and wage growth had stabilised (EM) or grown marginally (WM).
- However, **the drop in confidence appears to be hampering growth intentions across both the East and West Midlands.** The survey shows 38 per cent of small businesses in the East Midlands and 54 per cent in the West Midlands were aspiring to grow either rapidly (increase turnover/sales by more than 20%) or moderately (up to 20%). In both regions, this represents a fall from Q2 aspirations.
- **Plans for capital investment is one area where small businesses in the West Midlands currently lag significantly behind the UK average**. While 20 per cent of respondents expected to increase investment, 17 per cent anticipate a reduction. The resulting net figure of three per cent is well behind the UK (net) average of 15 per cent and also trails the East Midlands figure of 13 per cent.

Recent FSB Research & Reports

- The FSB published a number of evidence-based reports since the last ME Monitor. These include:
- 'Ready to Launch' - looking at how the **Government's Export Strategy** can work for small businesses;
- 'A Duty to Reform' – setting out **tax reforms** needed to support smaller enterprises; and
- 'Accelerating Progress' - highlighting the progress made by many small businesses in their **net zero journey** and where policy makers must do their part to enable even more to reach net zero.

Farming – NFU

- **The NFU indicate concerns over food supplies in the run up to Christmas are largely a function of labour shortages in the down-stream food supply chain**.
- The most obvious example of this is the problem faced by pig farmers as a result of shortages of abattoir workers and skilled butchers to work in meat processing. This is reported to be causing significant volumes of wastage as animals are culled on farms.
- The NFU President, Minette Batters, recently highlighted the growing problem of 'rocketing input costs' which are both **squeezing margins** and will have to be passed on in contract prices that farmers charge to retailers and food processors/manufacturers.
- Rising costs and timescales in construction are reported to be impacting on diversified farm businesses seeking to invest in non-agricultural development activities.
- Concerns remain within the sector about the **impact that the UK's new immigration system** is having on the availability of labour – particularly for seasonal roles on farms and in the supply chain. A degree of scepticism is reported relating to the attractiveness of short-term seasonal employment to UK workers at a time of rising demand for labour in other sectors. The sector is reported to require long term solutions to these problem rather than short-term fixes that will see these problems recurring on a regular basis.
- The **loss of lorry drivers** as a result of the combination of Brexit and the pandemic continues to cause problems – particularly in relation to the frequency of collections from farms producing perishable food products and deliveries to supermarkets.
- Ongoing uncertainty over the resolution of current negotiations relating to the Northern Ireland Protocol remain a significant concern. This is particularly because of the **marked reduction** in the volume of food exports to the EU since the turn of the year.

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. **From a policy perspective, this analysis continues to highlight the importance of spatially sensitive targeting of support to local economies.**

Source: East Midlands Chamber, Make UK, the NFU, FSB and Universities across the region (sourced from Midlands Innovation and Midlands Enterprise Universities networks).

Local Business Intelligence By Sector

SECTOR	KEY INSIGHTS
Manufacturing	• Manufacturing in the Midlands is reported to be continuing its recovery towards pre-pandemic levels, however, the **mood is said to be markedly more downbeat than was the case in late Summer.** • Chiming with this, the **Manufacturing Growth Programme (MGP)** recently released their Q2 report for 2021, with a special focus on **resources and recruitment.** Key findings include: - Generally **positive future predictions** of manufacturers, with the majority of respondents expecting increases over the next six months. - But many are still experiencing **significant supply chain challenges and are taking action to reduce the problems** – e.g. extending lead times, increasing stocks, increasing prices. - Respondents continue to cite **recruitment challenges**. • Overall, manufacturing is recovering, but current supply chain and recruitment issues are **making it hard for businesses to meet heightened demand.**
Automotive	• In the strategically significant automotive sector, continuing (global) **shortages in the supply of semiconductors** remain a major concern that is impacting on production levels. As a result, engine production was reported to be down by some 40% in September. • The **car industry suffered its worst overall October performance since 1991,** figures show. Just 106,265 new cars were registered in the UK last month, representing a **24.6% fall compared with October 2020**, the Society of Motor Manufacturers and Traders (SMMT) said. This made it the fourth consecutive month with a year-on-year decline.
Construction	• The increasing cost of materials continues to hinder construction as higher costs are resulting in the loss of customers, coupled with **ongoing labour and skills problems**. • Furthermore, the UK construction industry has warned that **plans to introduce a new post-Brexit "UKCA" safety and quality mark will cause shortages of key building products and materials** and damage the government's levelling up agenda. In a letter to the business secretary, the Construction Leadership Council said that it wanted to **raise "urgent industry concern" about the scheme**, which is designed to assert the UK's new regulatory independence after leaving the EU.
Culture and Creative	• Covid rates are increasing in Europe which is a real concern for the sector as the possibility of a new variant and **possible lockdown measures may be in order**. Whilst the booster vaccine programme is scrambling to get as many vaccinated as possible, the possibility that we may be impacted is a cause for concern. • Rising costs and increased interest rates are also a cause for concern as **many creative businesses are still in recovery mode** and their growth plans could be dented. • This is causing businesses to **prepare for the worst**, although many have already tried to ensure that they have already mitigated for the possibility of a further lockdown. Rising costs are an issue, especially **energy costs**, as this will mean an increase in charges in what is already a difficult playing field.
Cross-Sector	• Small business owners say the Government's **new Export Strategy brings real opportunities**. The new UK Tradeshow Programme is particularly welcomed. However, there are **calls for a relaunched SME Brexit Support Fund**, designed to help smaller firms access the technical skills and advice they need to succeed internationally. This needs to be available for small firms to use both inside and out of the EU, with a streamlined application process as well as generous funding which will help small firms overcome some of the trade barriers they've recently been faced with. • The Institute of Directors (IoD) has published data showing that the **negative impact of regulation is only exceeded by that of the Coronavirus pandemic and employment taxes**, and has called for the Government to do a better job in shaping a more business-friendly regulatory framework. In a recent IoD survey of over 600 directors, **40% stated that compliance with Government regulation was having a negative impact on their organisation.**

4. Adapting to Future Global Challenges

Leaving no place behind in the race to net zero

The [Centre for Progressive Policy has released a report and index] on the economic vulnerability of places in Great Britain for net zero transition. The report explores the **relative economic vulnerability of different places as high emitting industries shift production methods and some decline.** It develops a series of indicators for assessing the local authorities at highest risk of increased unemployment, lower wages and reduced economic activity. The central premise is that **vulnerability will not just be driven by the immediate industrial make-up of an area, but also other critical economic and demographic characteristics.** It is an important starting point for ensuring a **fair transition** and **avoiding the mistakes of deindustrialisation** in the past.

Understanding economic disruption at the local level

Different places will have different challenges as they try to reduce their GHG emissions. For some places, transport emissions will be the dominant form of pollution, for others it will be commercial property or domestic emissions. All of these represent substantial challenges.

What does disruption mean?

By disruption, it means big changes to an area's economic way of life caused by the push for net zero. At its worst, it could mean a large proportion of the workforce being made redundant as their **key industry declines because of its high reliance on outdated carbon intensive processes and a weak local economy**. The decline of coal mines in the 1980s is a good example of the kind of economic dislocation that must be avoided - with mass unemployment and poverty the result for many communities. But disruption does not have to be so painful. **Some areas will see their industries adapt to new economic and political realities** such as car manufacturers, many of whom are already shifting from petrol to electric vehicles. In these cases, many workers will be **retrained** and continue to work in the same industry but with **new skills**. And even if people do lose their jobs, they may still be able to move into alternative sectors in the local economy thereby sustaining their employment and earnings. It is about both job availability and **skills matching**.

Place based characteristics matter

The **economic and demographic characteristics of an area will determine which of the paths** it takes. Some people and places will be better able to cope with disruption than others:

- **Individuals with relatively high skill levels** will be better able to either transition to a new job within the same industry or alternatively find work outside of it if they are made redundant. Those with low-level skills may struggle to find new work.
- Demographics also matter. Once unemployed, **older workers have a tougher time** accessing (re)training and employment opportunities with those over 50 and unemployed more than twice as likely to stay jobless for over a year than those aged 18-24.
- The ability of a place to **absorb job losses** will also depend on the **structure** of the local economy. If the economy is **very reliant on one or two industries** which are in decline, then it will struggle to offer the newly unemployed alternative work. It will also face a substantial hit to economic output from the loss of a key industry with reduced demand in the local economy impacting on the livelihoods of many of those who live and work in the area.
- Even if those who become unemployed successfully find a job in another industry, if the local area is characterised by low paid precarious work, then those individuals will still lose out. **Transitioning from a decent job with good pay and stability to a bad paid job with insecurity of hours would represent a very poor transition for workers**.

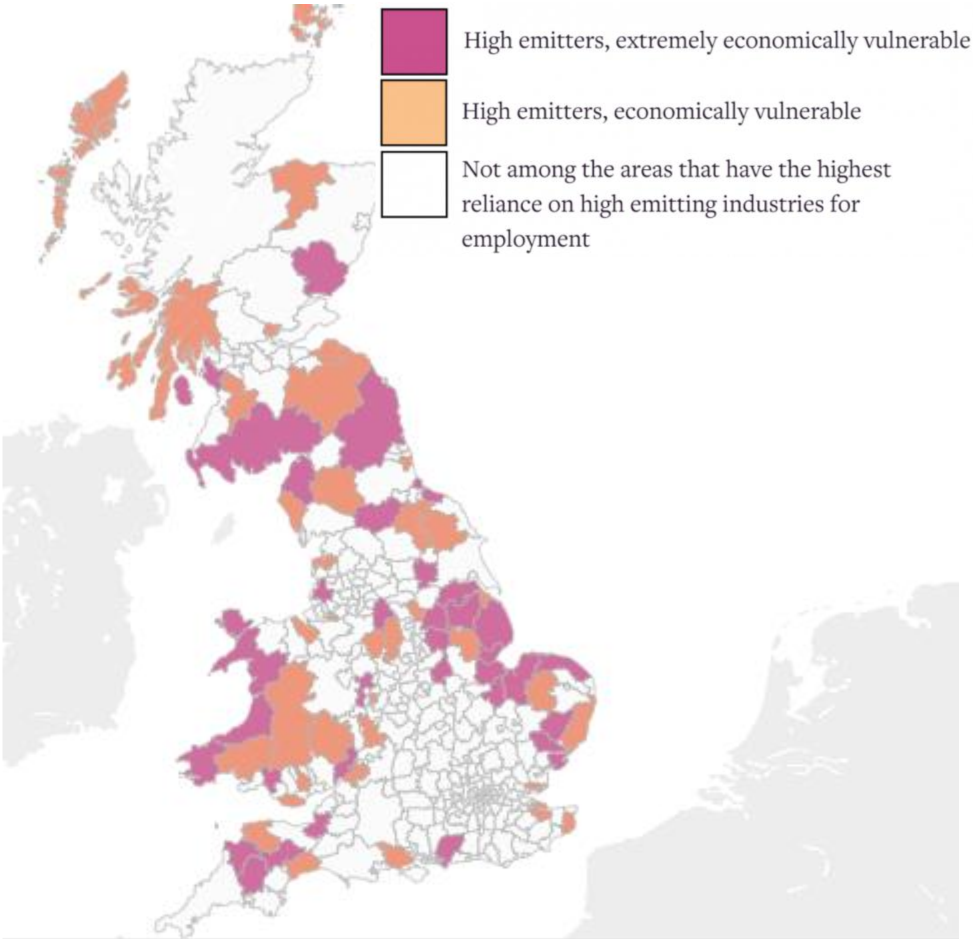
The indicators

- Reliance of local labour markets on high emitting sector
    - **Emissions weighted employment index**:
- Economic vulnerability
    - **Skills**
    - **Age of population**
    - **Economic diversity**
    - **Economic output**
    - **Employment**
    - **Earnings**
    - **Population**

Source: CPP (progressive-policy.net)

Leaving no place behind in the race to net zero

Highly economic vulnerable, high emitting, local authorities
Rank: 1 if it is has the highest level of risk and 354 if it has the lowest



The 37 highest risk local areas – covering a total population size of 4.2 million people - score badly on most if not all of the economic vulnerability measures. There are two broad types of places that can be considered high risk:

- **Rural agricultural communities with older populations and relatively low intermediate level qualifications** such as West Devon and Mid Devon, North Norfolk, Kings Lynn and West Norfolk
- **Heavy manufacturing communities** in Wales such as Neath Port Talbot as well as those in the North East such as Hartlepool and Northumberland.

The vast majority of these local authorities have low median earnings suggesting that even if workers were able to transition out of high emitting industries, they risk falling into low paid work.

The highest risk 37

At risk local authorities in the Midlands Engine	At risk constituencies	Region	Rank
East Lindsey	Louth and Horncastle	East Midlands	4
Boston	Boston and Skegness	East Midlands	14
South Holland	South Holland and The Deepings	East Midlands	29
West Lindsey	Gainsborough	East Midlands	31
Melton	Rutland and Melton	East Midlands	37
High Peak	High Peak	East Midlands	43
Bassetlaw	Bassetlaw	East Midlands	59
Newark and Sherwood	Sherwood Newark	East Midlands	62
North Lincolnshire	Brigg and Goole Scunthorpe	Yorkshire and The Humber	63

Source: CPP (progressive-policy.net)

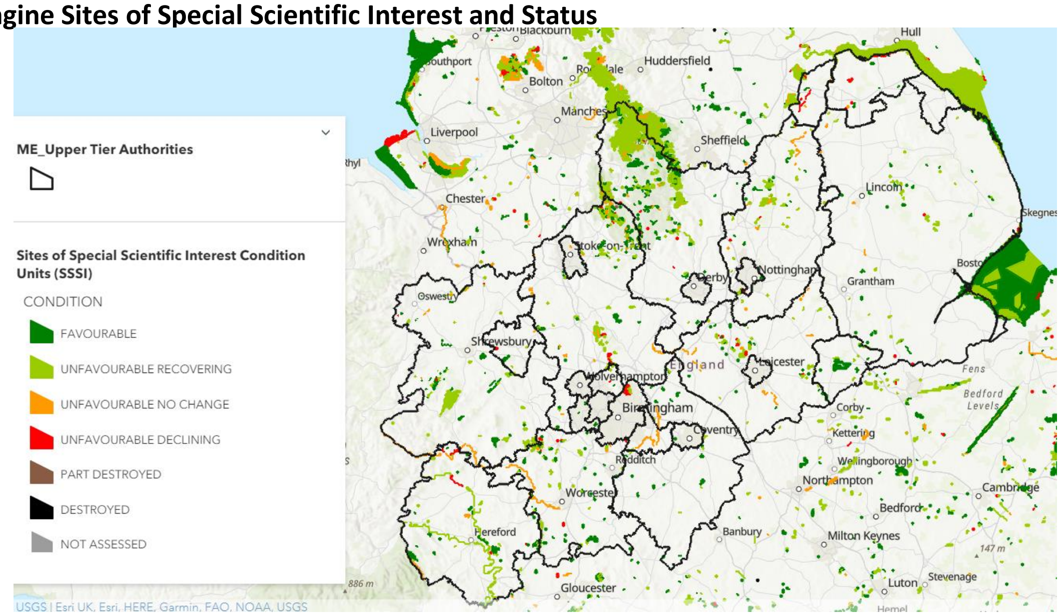
Natural Capital Story Map

The [Midlands Engine Natural Capital Monitor]() provides a single, interactive portal for a wealth of regional data about the Midlands Engine environment, It is a unique tool to **inform readers of the key environmental assets across the pan-region including:**

- Information about protected habitats
- Blue infrastructure and canals
- Ecosystem services these vital resources provide
- Drivers affecting biodiversity loss, and
- A natural capital scorecard

In England, parts of the rural landscape are recognised for their importance for nature and are therefore protected under various types of laws or designation. However, not all high value sites have designations.

Midlands Engine Sites of Special Scientific Interest and Status



Natural capital is described as the **elements of nature that directly or indirectly produce value to people, including ecosystems, species, freshwater, land, minerals, the air and oceans, as well as natural processes and functions**. It is the air we breathe, the water we drink, the food we eat, the environment we enjoy and that underpins the economy that sustains our lives.

Natural Capital Scorecard

Source: [Midlands Engine Natural Capital Storymap, 2021]()

The Great Resignation, The Great Reset, The Great Reshuffle and The Great Retention

A phenomenon which economists are calling the 'great resignation' has taken hold globally. Initially, countries followed the normal pattern: when in high unemployment, 'risk quit' rates are reduced as **people seek security**. But as the economy has opened up, this has **reversed**. A year and a half of stress, anxiety, soul searching and burn out means people have taken a step back and reassessed their lives. Reflecting on roles, whether they are valued and whether their skills are put to good use, people have emerged with a stronger sense of what they want from work and are willing to accept.

In April 2021, the **number of workers who quit their job in a single month broke an all-time U.S. record**, and has continued to break that record every month since. This is happening across all industries, but in some sectors such as **leisure and hospitality it is particularly acute**, where 1 in 14 people quit in one month. In the US, four million people quit their jobs in April – a 20-year high – followed by a record ten million jobs being available by the end of June. In the **UK job vacancies soared to over 1 million for the first time in July**.

According to a recent UK survey, 48% of men and 45% of women intend to quit in the next year; pre-pandemic this was 27.5%. **Reasons for resigning were a desire for flexibility and higher salaries for both men and women. Other reasons included better work culture, not wanting to work for their manager and seeking a better job title**. Two thirds stated they had experienced burnout during their careers and 80% had experienced this in the last 12 months. **Working parents are more likely to quit (52%)** and over a third said this was due to flexibility. A further study shows that a large number of workers globally (53%) want a **hybrid working model** where more than half of their work time is remote. Productivity has not suffered with remote work, with 82% saying they feel as productive as or more productive than before. Wellbeing has taken a hit, however, with 54% of young leaders reporting they have suffered burnout and three in 10 stating their mental and physical health has declined in the last 12 months. Workers want to reduce their hours and be measured based on results. Despite 50% of workers in the UK logging more than 40 hours a week over the past year, only two thirds of those polled believed that such hours are necessary to get the job done. Meanwhile, 73% of workers globally are calling to be measured by outcomes rather than hours.

63% of UK respondents said that they are motivated at work, and 52% said they had generally been happier at work since the pandemic started. However, that does not mean the picture is entirely rosy in the UK, which ranked worse against the global average in several troubling trends.

For example, only 51% of respondents in the UK were satisfied with the performance of senior leaders (below the global average) and only 42% were satisfied with their career prospects.

In many ways the international response to stem the employment effects of the pandemic have given people the chance to rethink and consider how they can do better: the 'great resignation' is a statement of optimism post crisis. **Rent and eviction moratoriums, furlough and benefit support, and loan and mortgage deferments have given people (especially the young) the ability to quit their current jobs and look for other opportunities**.

As highlighted by the Prime Minister, **wages are also growing**, especially for low income groups, and in the UK there is a very tight labour market due to pinch points in particular sectors and occupations (HGV drivers and agriculture) which are driving up wages However, this creates significant issues for business as costs increase and many positions are left vacant for a considerable time. **Britain's employers are struggling to hire staff amid an exodus of overseas workers caused by the Covid pandemic and Brexit as lockdown lifts .**

Globally there is also a 'great reset' of working practices due to flexible and hybrid working; families are working at home, creating a new vision of what work-life balance means. The demands of employees have changed dramatically and there is greater recognition of family and care responsibilities and the need for more balanced lives. As the economy reopens following Covid, **demand for talent is far outstripping supply and it's an employee's market**. A Microsoft study has found that 41 per cent of the global workforce is considering leaving their employer this year. This is a marked difference to last year where there was an unprecedented slow down. The rebound is not just affecting the sectors which were closed, such as hospitality and entertainment but intense growth and flexibility is creating greater opportunity across 'white-collar' workers who now have more choice and about where they deliver their work and how. Women are also leading this change as work life balance and care responsibilities disproportionately affect them.

Bad leadership, poor employee support and stagnant growth opportunities during the pandemic are driving enormous employee churn in the UK workplace. Resignations are highest in mid-career with an average increase of more than 20% between 2020 and 2021, but turnover is highest among younger employees (in line with traditional patterns). Mid-career change could be being driven by employers feeling they need more experienced people, especially when they do not have access to training and guidance, which creates greater demand.

The Great Resignation, The Great Reset, The Great Reshuffle and The Great Retention

Mid-career changes could also be driven by these workers delaying natural transition, so creating and exodus of pent up resignations. Those in mid-career have suffered due to high workloads, hiring freezes and wider life pressures. Resignations are highest in tech and healthcare - sectors which have suffered the most under pandemic conditions.

Many workers had given up on looking for hospitality and retail jobs in favour of more secure work after three lockdowns in the past year. "There are also far fewer foreign workers seeking employment in the UK with **overseas interest in UK jobs more than halving from before the pandemic**, hitting these industries hard," Andrew Hunter, a co-founder of Adzuna, said. Adzuna said 250,000 fewer job-seekers from Western Europe and North America applied for work in the UK per month between February and April 2021 than before pre-pandemic: "**UK employers can no longer rely on overseas workers to plug employment gaps.**" A combination of Brexit and the coronavirus pandemic are believed to have cut the number of foreign workers in Britain.

ONS estimates the number of non-UK nationals employed in the country in the last three months of 2020 fell by 4% from the same period of 2019 to 4.22 million, based on tax data, compared with a 2.6% fall for UK nationals to 24 million.

Alongside this is the **'Great reshuffle': companies are changing their business models**, and where they are based as the geography of activity is rapidly reshaping. E-commerce is having considerable effects on where we buy goods and services but also where we buy skills from. We have proven that you do not need to always live nearby to do a job and this means labour markets are wider than ever before and competition for skills suddenly got much harder.

Businesses which do not offer flexible working are finding it harder to recruit. It is very hard to take away something they have already offered as employers. There is also a backlog of change and demand, supressed for 18 months, is now surging and the labour supply cannot meet demand.

The 'Great Retention' is now the new fight for bosses. Supporting staff and making them feel valued is the biggest factor in keeping good staff in an employee led market. If companies don't do this, they are no longer competing with local markets but are competing with every company in the world. Pre-pandemic approaches will not work now; but the office environment still has importance and the draw of face to face working will be ever present - as recent work on the Business Districts has shown.

A new kind of employer/employee relationship needs to emerge, wages need to keep pace, but more importantly emotional connection, recognition, value and reward for contributions, effective managers and communication are vital to create a successful retention culture that is front and centre in employee decision making processes. There needs to be a relationship where burnout at all levels is taken seriously.

Ensuring existing employees are engaged and satisfied at work will be critical in protecting against a staff exodus for most organisations; talent is a critical asset – but, unfortunately, potentially the biggest risk factor too. The more awareness employers can have about what drives and motivates their team, the better and this crisis can be an opportunity to rethink and plan for the long term.

Critical to the workplace experience is an individual's relationship with their line manager and how they feel they are valued by them. Regular constructive conversations are required to cement this relationship – and a tailored coaching-based approach is the best way to make these conversations feel personal and ensure better retention as the labour force continues to contract and reshape. **Organisations that take time to learn why and act on resignations will have a leading edge on attracting and retaining talent.**

Source: City Redi
McKinsey and Company, 2021

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