



**MIDLANDS  
ENGINE**

**MIDLANDS ENGINE**  
**State of the Region**  
**Executive Summary**

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OCTOBER 2021



"Welcome to State of the Region 2021 - the second annual review of economic performance across the Midlands Engine.

Our State of the Region report has been produced for the Midlands Engine Partnership by our Observatory. It reflects back over the past year on how the Midlands is performing, accounting for the impacts and implications of COVID-19 and the EU Exit. There are also both long-term structural challenges and shorter-term shocks which are preventing us from reaching our economic and community ambitions - ambitions which see every part of our region prosper and our communities strengthened.

Economic forecasts consistently showed through 2020/21 that the Midlands was to be one of the UK regions hit hardest by the economic crisis. This reflects the industrial and demographic mix, with some local economies among the most vulnerable in the UK in terms of their sectoral composition and health vulnerability.

However, the region has demonstrated resilience in the face of the pandemic, through business innovation, redesign, and adoption of technology which have enabled businesses to adapt, pivot and prosper.

Levelling up our region will bring powerful economic benefits and lasting social gains. Midlands Engine partners recognise that positive long-term change, growing opportunities for today's and future generations, can be achieved through collective, planned actions by partners, if enabled alongside long-term investment by Government."

*Sir John Peace, Midlands Engine Chairman*

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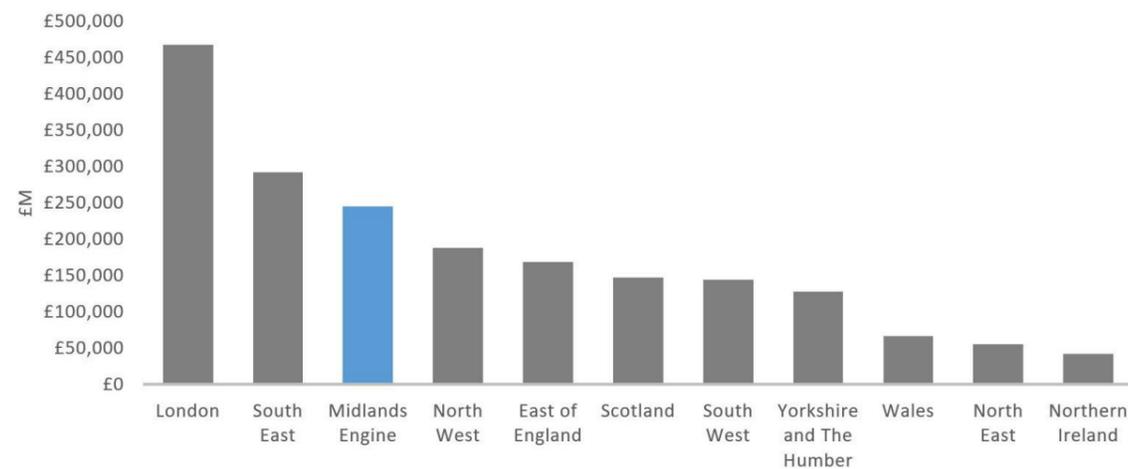
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# 1. Midlands Engine Economy

## 1.1 Macro-Economic Trends

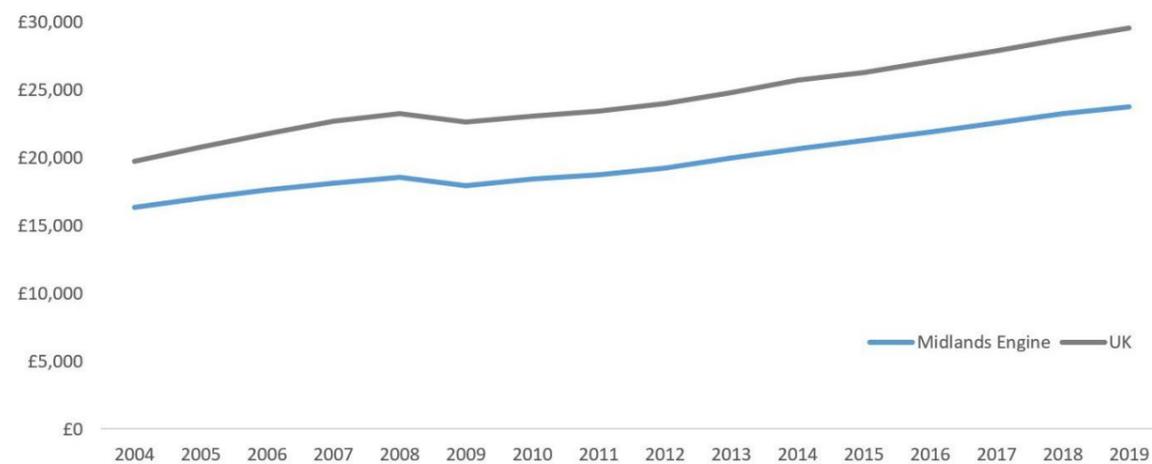
- Prior to COVID-19, the Midlands was among one of the leading areas for a revival in Gross Domestic Product (GDP), with an increase of 44.5% between 2009 and 2019, the highest increase outside of London and the East of England and also above the UK-wide increase.<sup>1</sup>
- In 2019 the Gross Value Added (GVA) produced by the Midlands Engine was higher than any other UK region outside of London and the South East and accounted for 14% of the England total. The latest figures show that in 2019, the Midlands Engine total GVA was £245.8bn. This is an increase of 2.7% (+£6.6bn) compared to an increase of 3.5% UK-wide since 2018.<sup>2</sup>

GVA by UK Region (2019):



- The Midlands Engine GVA per head continues to grow and reached £23,750 in 2019. Since 2018, this has increased by 2.2% with the UK increasing by 2.9%, meaning a gap to the UK persists and there was a shortfall of £5,849 to the UK figure (£29,599).<sup>3</sup>

GVA per Head (2004-2019):



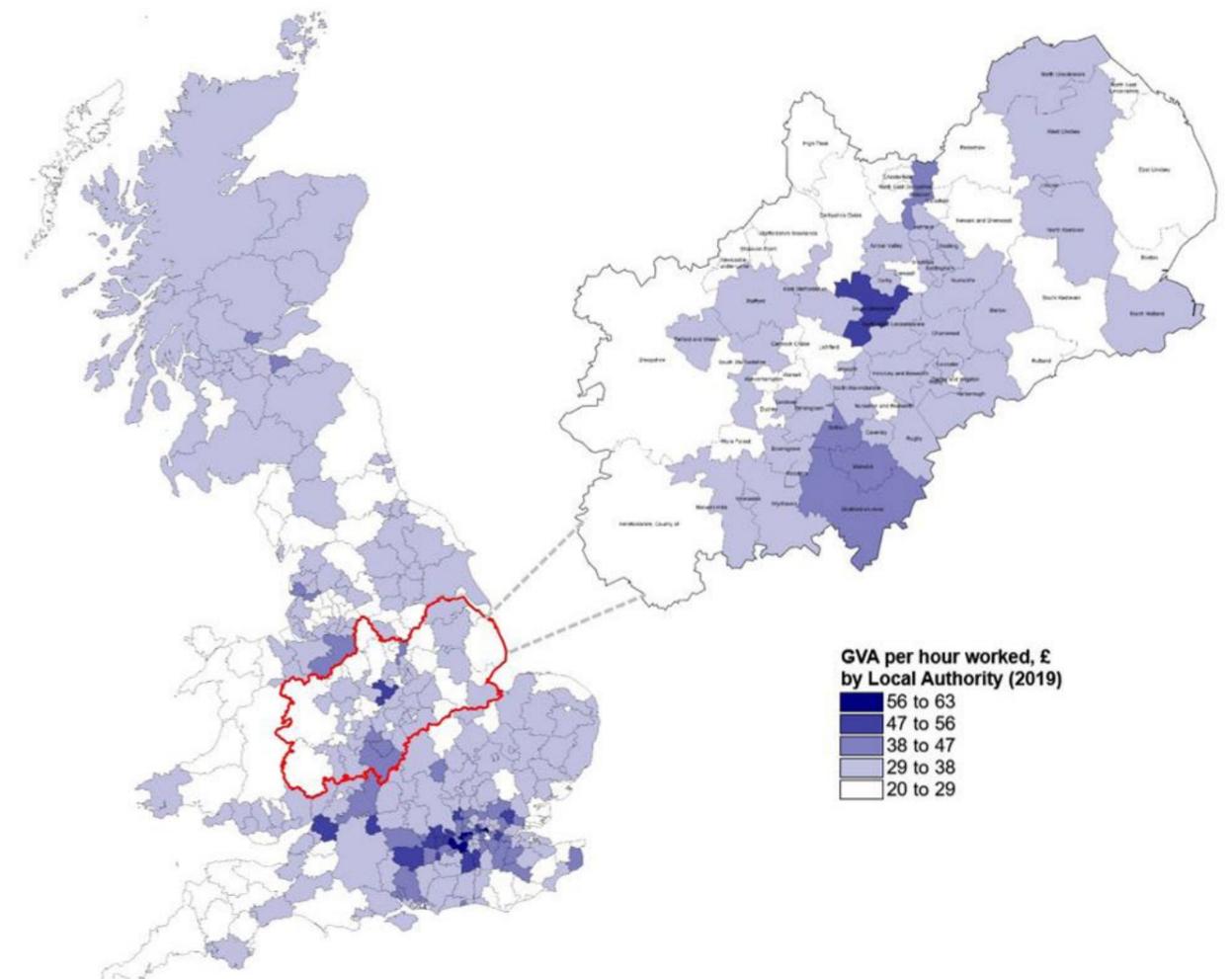
<sup>1</sup> Office for National Statistics (ONS), Regional Gross Domestic Product (GDP): all International Territorial Level (ITL) regions, May 2021

<sup>2</sup> ONS, Regional Gross Value Added (balanced by industry: local authorities by ITL1 region, May 2021

<sup>3</sup> ONS, Regional Gross Value Added (balanced by industry: local authorities by ITL1 region, May 2021 and ONS, Population Estimates, June 2021.

- The Midlands Engine had a productivity gap of £82.3bn in 2019. The productivity gap has increased by nearly £6.6bn (+7.3%) since 2018 and just over £9.7bn (13.4%) since 2016.
- The Midlands GVA per hour worked increased from £30.92 in 2018 to £31.61 in 2019 (+2.2%, +£0.69). The UK GVA per hour worked increased from £35 in 2018 to £35.78 in 2019 (+2.2%, +£0.78).<sup>4</sup>
- As seen in the following national map, South Derbyshire was the 16th highest local authority across the UK for GVA per hour at £49.18 in 2019. Rushcliffe had the 4th highest increase in GVA per hour (+£1.75 or 5.0% to £36.72) and Melton had the 8th highest percentage increase at 3.7% (to £33.47) since 2018.

GVA per Hour:

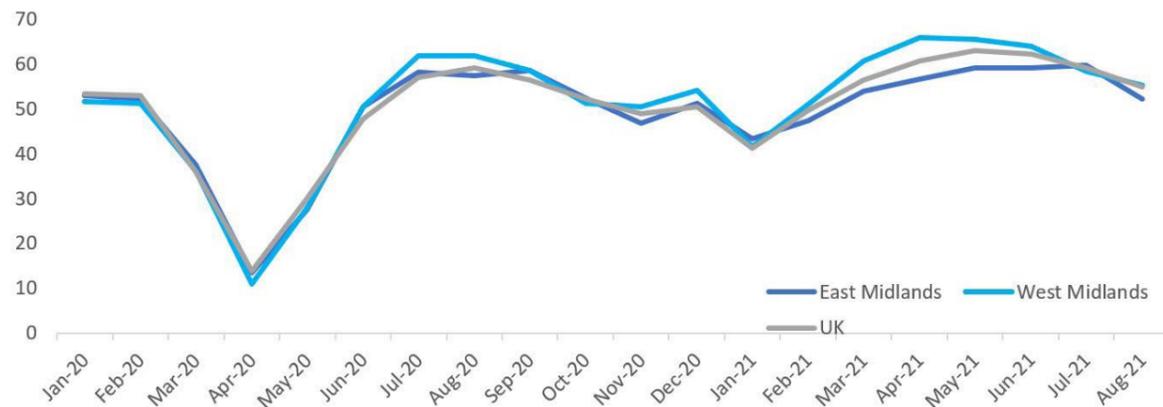


- Average full-time annual earnings for Midlands Engine residents were £29,978 in April 2020. This is an increase of 4.0% (+£1,149) compared to the UK increase of 3.6% since April 2019. In 2020, residents in the Midlands Engine earned £1,483 less than the UK-wide figure (£31,461), meaning resident earnings stood at 95% of the UK average.
- In 2019, there were 404,670 enterprises in the Midlands Engine area. This was an increase of 1.8% (+7,280) compared to an increase of 2.5% UK-wide since 2018. Also in 2019, there were 55,585 enterprise births in the Midlands Engine area. This was an increase of 12.7% (+6,275) compared to an increase of 5.4% UK-wide since 2018.

<sup>4</sup> ONS, Subregional productivity in the UK, July 2021

- The Business Activity Index shows **since the initial drop in the business activity in April 2020** (West Midlands 10.9, East Midlands 13.5 and the UK 13.8), **businesses have been able to bounce back**. However, there has been a further two slight dips (in line with lockdowns) in business activity around October/November 2020 for the Midlands and the UK and then again in January 2021 where it dropped below the 50-growth mark (West Midlands 41.5, East Midlands 43.4, UK 41.2). In the last few months, **business activity growth has steadied** but has remained above the 50-growth mark, although businesses are voicing concerns of filling vacancies with suitable staff and material shortages.<sup>5</sup>

**Business Activity Index**



## 1.2 Impacts and Implications from COVID-19 and Brexit

### 1.2.1 COVID-19

- The Office for Budget Responsibility (OBR) now expects **the UK economy to recover more quickly than it previously thought**. Rather than reaching its pre-crisis level in early 2023, it now predicts the economy will get there by mid-2022. However, the OBR expects that the faster bounce back will not translate into a fuller economic recovery. The OBR still expects that the UK economy will be 3% smaller in 2025 **than it forecast in March 2020**.<sup>6</sup>
- The UK Economic Outlook report published in June 2021 by KPMG reports that the **West Midlands economy is still estimated to have suffered the sharpest contraction (-11.8%)** than anywhere else in the UK in 2020, which has been revised from -10.6%. The **East Midlands was forecasted to see a contraction of 9.9%** in 2020, which is slightly lower than previously forecasted (-10%). The UK is estimated to have contracted by 9.8% in 2020, which is lower than previously forecasted (-10.3%).<sup>7</sup>

**Revised Economic Outlook**

	2020	2021	2022
North East	-9.9%	5.3%	3.9%
North West	-7.9%	5.5%	5.7%
Yorkshire & The Humber	-8.7%	5.8%	5.2%
<b>West Midlands</b>	<b>-11.8%</b>	<b>9.5%</b>	<b>6.4%</b>
<b>East Midlands</b>	<b>-9.9%</b>	<b>6.3%</b>	<b>4.8%</b>
East of England	-9.2%	8.0%	6.8%
South East	-10.4%	7.1%	5.7%
South West	-8.0%	5.6%	5.6%
London	-7.2%	8.8%	5.8%
Wales	-8.2%	3.9%	4.2%
Scotland	-9.6%	6.4%	5.2%
Northern Ireland	-6.2%	0.7%	2.6%
<b>UK</b>	<b>-9.8%</b>	<b>6.6%</b>	<b>5.4%</b>

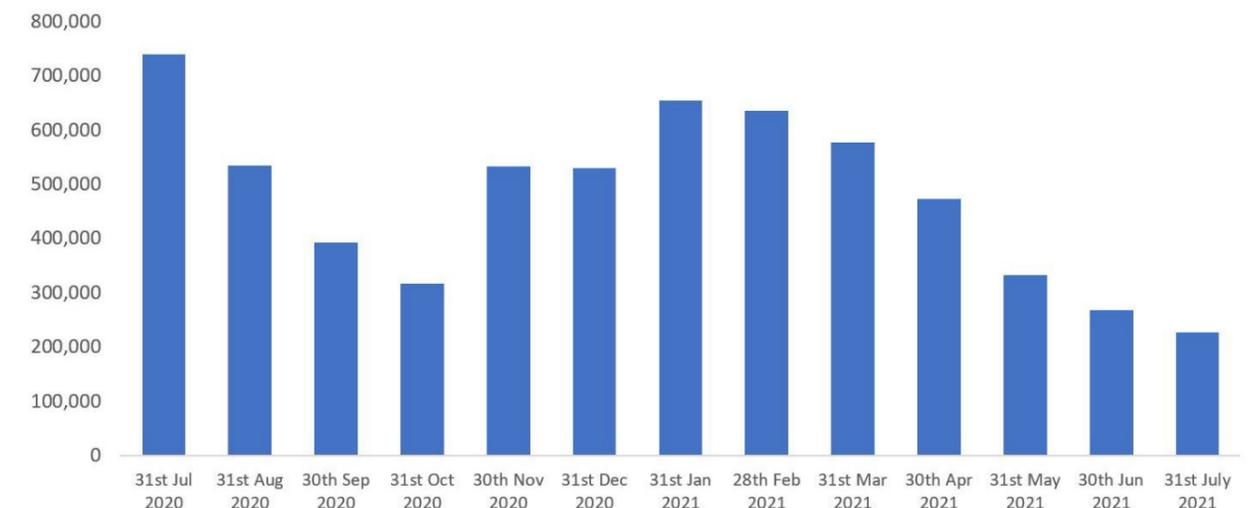
<sup>5</sup> NatWest/HIS, PMI Survey: West Midlands, September 2021

<sup>6</sup> Institute for Government, what is the outlook for the recovery? March 2021; Office for Budget Responsibility (OBR), Fiscal risks reports, July 2021

<sup>7</sup> KPMG, UK Economic Outlook, September 2020 and June 2021

- The number of claimants heavily increased at the start of COVID-19, but despite numbers falling, figures still remain above pre-pandemic levels. The Midlands Engine area had **355,620 claimants in August 2021, 134,080 more claimants since March 2020**.<sup>8</sup> This is an increase of 60.5%, while the UK overall figure has increased by 72.3%. In August 2021, there were 66,680 youth claimants in the Midlands Engine area, 22,485 more youth claimants compared to March 2020. This is an increase of 50.9%, while the UK increased by 60.7%.
- 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**. This equated to a **5.3% take-up rate** for the scheme, compared to UK-wide of 5.4%.<sup>9</sup>
- With the furlough scheme in place until the end of September, the full extent of people that have been made redundant from COVID-19 has yet to be fully seen.

**Furloughed Workers for the Midlands:**



- Across the Midlands Engine area, nearly **225,000 loans worth over £6.7bn have been offered under the Bounce Bank Loan Scheme (BBLs) and over 16,000 loans worth nearly £4bn have been offered under the Coronavirus Business Interruption Loan Scheme (CBILs)**.
- A number of sectors have begun to recover from the paralysing effects of the pandemic and associated lockdowns and restrictions.**
  - Manufacturing and transport technologies have benefited from the easing of restrictions**, but are still witnessing the ongoing effects of COVID-19 in the form of **staff shortages and material price rises, somewhat caused by the global and national economy's reaction to the pandemic**.
  - Service sectors have generally been at less risk while clearly still having major financial difficulties.
  - The region's economic sectors are recovering from COVID-19, but the damage is by no means over. In particular, **the future of retail, visitor economy and the arts are severely under strain after months of no income**, while other sectors will continue to recover from the pandemic over many years.
  - Arts & entertainment is damaged by restrictions to the movement of people**, particularly the inability for music artists and events to tour on the continent as before. This remains unsolved and hence this is a high-risk sector.

<sup>8</sup> ONS/ Department for Work and Pensions, Claimant counts, September 2021

<sup>9</sup> HM Revenue & Customs, Coronavirus Job Retention Scheme Statistics, September 2021

### 1.2.2 Brexit

- There has been less change in sector risk with regard to the UK's **new relationship with the EU**. The reality is that many issues left unresolved and can now be classed as **structural issues**.
  - Manufacturing and most of its sub-sectors, and transport and logistics, are still assessed as high risk.** This is because of barriers to trade experienced by businesses – relating to new customs rules, rules of origin and VAT.
  - A **shortage of HGV drivers and increase in material prices is exacerbating the issue** and resulting in severe supply and delivery problems across the region and the UK. This, partly caused by Brexit amongst other factors, is damaging all sectors particularly retail, food & drink, construction and agriculture, played out in clear reality within the recent fuel crisis.
  - Arts & entertainment is damaged by restrictions to the movement of people**, particularly the inability for music artists and events to tour on the continent as before.
- In September 2021, some businesses in the region still report that Brexit has caused **ongoing disruption at borders**. Reliability of carriers is a problem, as is timeliness, losing shipments and delays of incoming goods.
- Other businesses are **struggling to recruit** for less desirable roles, previously taken by non-UK workers, who have returned home because of our exit from the EU.
- Companies are continuing to work their way through the changes resulting from EU Exit. Whilst some have reached an equilibrium and established new ways of working others **continue to come up against new requirements**.
- 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.

### 1.2.3 Overall Sector Risk

- As problems across sectors continue, and in some cases get worse, there is an increasingly blurred understanding of the root causes. In particular, **acute supply and staff shortages are heightening the uncertainty around the Midlands' economic outlook**, but it's unclear what elements should be attributed to the legacy of the pandemic or to the UK's exit from the EU in January 2021.
- The following sector risk matrix looks at the **major risks and impacts of both COVID-19 and Brexit in the current misaligned market economy**. This reflects the complex interplay and ongoing inability to confidently detach the impacts of both major shocks, something which should reveal itself over time.
- The matrix identified the following sectors / sub-sectors as have an overall **high risk** as of September 2021, considering both COVID-19 and Brexit risks together:
  - Food & Drink Manufacturing
  - Automotive Manufacturing
  - Retail
  - Arts & Entertainment
  - Health & Care
  - Transport Technologies
  - Agriculture
- Additional information, including opportunities, are included in the local business intelligence by sector table on pages 10 and 11.

 Economic Intelligence Unit		Order Books	Insolvency & Debt	Supply of Product	Labour Supply	Prices/Costs	Trading Conditions	Skills Shortages	Risk Management Capability	Overall Risk to Future Growth
Advanced Manufacturing & Engineering										Medium
Aerospace										Medium
Metals & Materials										Medium
Food & Drink										High
Automotive										High
Rail										Medium
Construction										Medium
Retail										High
Visitor Economy										Medium
Culture										Medium
Hospitality										Medium
BPFS										Low
Financial Services										Low
Legal & Accountancy Services										Low
Real Estate, Property & Consultancy										Low
Energy & Low Carbon										Medium
Creative, Design & Digital										Medium
Creative & Digital										Low
Arts & Entertainment										High
Healthcare & Life Sciences										Medium
Health & Care										High
Life Sciences										Low
Transport Technologies										High
Public Sector inc. Education										Medium
Agriculture										High

Local Business Intelligence by Sector:

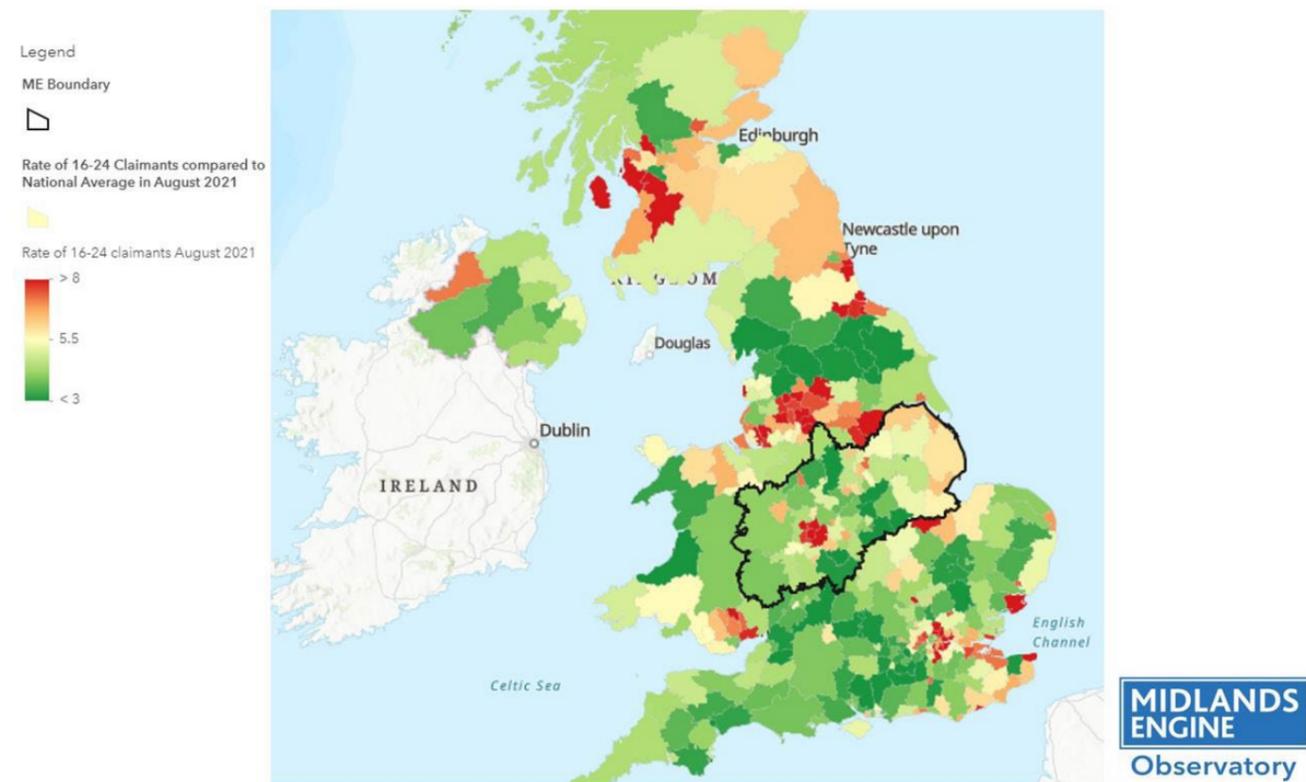
Sector	Key Insights
<b>Manufacturing</b>	<ul style="list-style-type: none"> <li>Shortages of key metal, plastics and electronics are resulting in rising costs for many manufacturers. MakeUK's latest <a href="#">Manufacturing Outlook survey</a> indicates costs have continued to climb upwards impacting manufacturer's ability to produce cost-effectively and protect supplier-customer relationships.</li> <li>A wide range of product and raw material supply problems are being reported, ranging from food, fertiliser, construction materials, wood, steel and aluminium, through to semiconductors.</li> <li>MakeUK have reported that around a third of manufacturers are reporting disruption to supply chains as a result of labour shortages and logistics issues noted above.</li> <li>Despite the challenges sectors like manufacturing are still reporting, there are still high levels of output and future confidence.</li> </ul>
<b>Construction</b>	<ul style="list-style-type: none"> <li>Construction businesses continue to express a critical concern with the availability and cost of materials such as cement and plaster.</li> <li>This has increased enquiries through local construction businesses, as firms tackle inflated pricing and loss of business. This is leaving some businesses unable to deliver projects and putting others in financial vulnerability.</li> </ul>
<b>Food &amp; Drink / Agriculture</b>	<ul style="list-style-type: none"> <li>Exports to the EU are <a href="#">down significantly</a> 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.</li> <li>There are 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 products from the farm gate (NFU).</li> <li>Currently, there are an estimated 500,000 job vacancies across the food and drink sector. This shortage of workers means that in 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.</li> </ul>
<b>Retail</b>	<ul style="list-style-type: none"> <li>According to the research by PWC more than 1,500 shops disappeared from Midlands' retail locations in the first half of 2021 - although the number of closures did fall from the previous year.</li> <li>In total, 601 shops opened across the region, compared to 1,511 closures, creating a net decline of 910. The number of closures fell from 1,799 in H1 of 2020.</li> <li>The overall net closure rate for the Midlands fell by 86 (8 per cent) than it was at the same point last year, despite some well-known high street fashion and department stores exiting the market in early 2021.</li> </ul>

Sector	Key Insights
<b>Logistics &amp; Transport</b>	<ul style="list-style-type: none"> <li>Demand for industrial/warehouse units continues to soar in the region. For example, there are reports of peaks in demand in <a href="#">Derby</a> and the <a href="#">Black Country</a>.</li> <li>According to <a href="#">Knight Frank</a>, the Midlands industrial and logistics market overall is on track for a record-breaking year after take-up surged during the first half of 2021.</li> <li>However, a shortage of HGV drivers continues to blight the industry and reliant services, including major issues with fuel and energy. The <a href="#">Road Haulage Association (RHA)</a> estimates there is a nationwide shortage of around 100,000 HGV drivers, caused by an exodus of European drivers after Brexit and legacy impacts of the pandemic.</li> </ul>
<b>Cross-Cutting</b>	<ul style="list-style-type: none"> <li>According to BDO's latest <a href="#">Rethinking the Economy survey</a> of 500 mid-sized companies, staff shortages may curb the growth of Midlands businesses.</li> <li>The survey showed that 52% of regional businesses are struggling to fill open roles, with 28% stating that they can't find the right people with the appropriate skills.</li> <li>The <a href="#">CBI</a> has suggested that labour supply problems could last for up to two years, identifying a range of shortages across sectors - from entry level front of house workers, scaffolders and carpenters and care workers, through to skilled workers in food and drink, electrical engineering and metal fabrication.</li> </ul>

### 1.3 Labour Market, Young People and Skills

- In the year ending March 2021, the **employment rate in the Midlands Engine area was 73.8%**, compared to 74.7% for the UK overall. When compared to the previous year ending March 2020, the Midlands Engine area has **decreased by 0.8 percentage points (pp)**. The UK employment rate decreased by 1.2pp over the same time period.<sup>10</sup>
- The number of claimants as a percentage of residents aged 16 years and over was 2.7% for the Midlands Engine in March 2020 (UK 2.4%), which had increased to 4.2% (UK 4.0%) in August 2021.<sup>11</sup>
- The number of claimants as percentage of residents aged 16 – 24 years old was 3.8% for the Midlands Engine in March 2020 (UK 3.4%), which had increased to 5.8% (UK 5.5%) in August 2021. As seen in the following national map, there are a selection of areas with high youth claimant rates.

#### National Youth Claimants Rates:

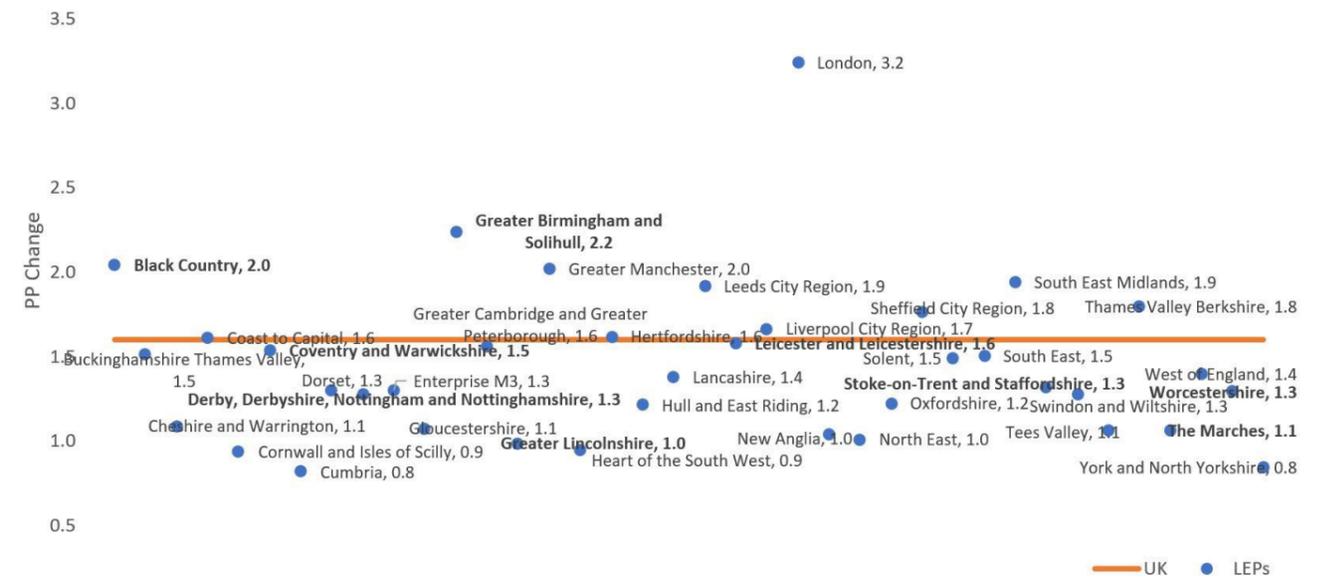


- At LEP level, **Greater Birmingham and Solihull had the 2nd highest percentage point (pp) change nationwide in the number of claimants as a proportion of the population aged 16 years or over** between March 2020 and August 2021 at 2.2pp. The Black Country was 3rd highest with an increase of 2pp. Leicester and Leicestershire LEP matched the UK increase of 1.6pp. Within the Midlands Engine LEPs, Greater Lincolnshire had the smallest increase at 1pp.

<sup>10</sup> ONS, Annual Population Survey, September 2021,

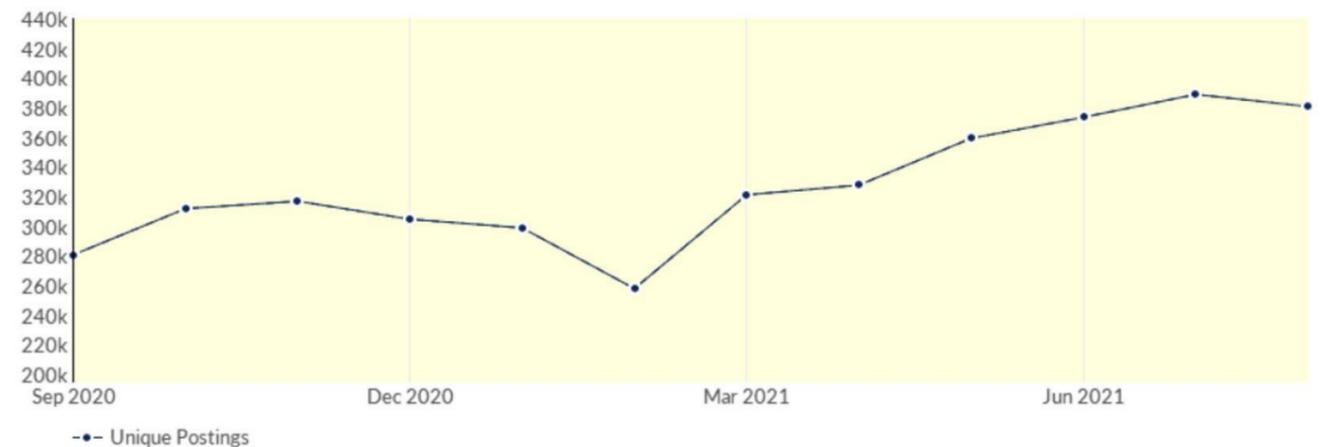
<sup>11</sup> ONS/ Department for Work and Pensions, Claimant counts, September 2021

#### Percentage Point Change in Claimants by LEP, March 2020 - August 2021



- Since the start of the pandemic in March 2020, there have been a total of **10.9m job postings** logged across the Midlands Engine area, of which **2.0m were unique job postings**.
- Unique postings have increased by 20% in the last 12 months**, equating in real terms to an additional 50,000 job postings per month since the nadir of February 2021.<sup>12</sup>

#### Midlands Engine Job Postings, September 2020 - September 2021:



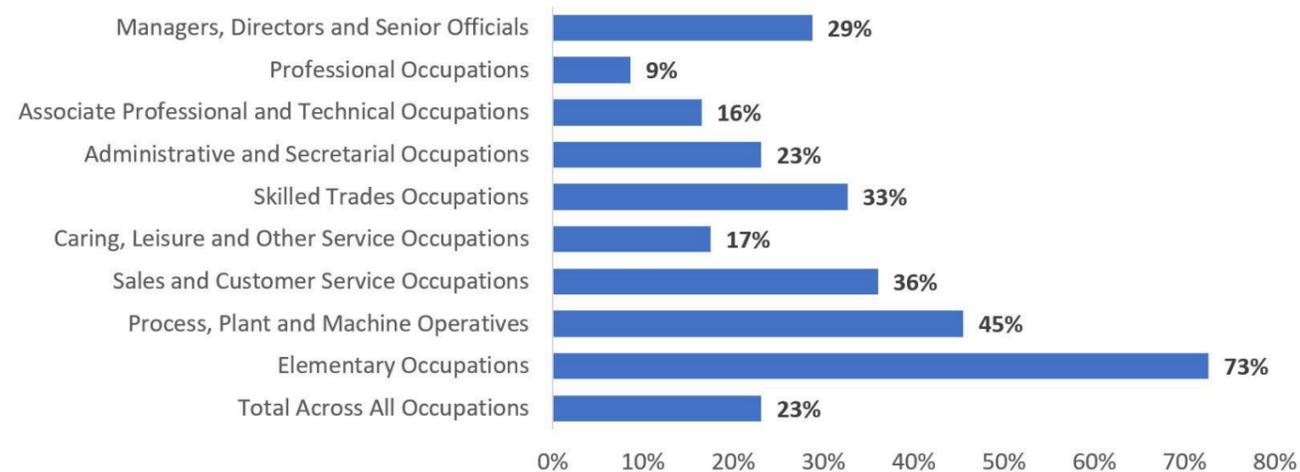
<sup>12</sup> EMSI, Labor Market Analytics & Economic Data, September 2021 (covering job postings, locations, occupations and hard skills)

- The top 5 areas for job postings were Birmingham, Nottingham, Leicester, Coventry and Derby. These areas accounted for just over a third of all unique job postings (34%).



- All major occupational groups across the Midlands Engine have rebounded since March 2020, with particular **heightened demand for Elementary Occupations (+73%)** and Process, Plant and Machine Operatives (+45%).

**Occupational Percentage Changes in the Midlands Engine, March 2020 - August 2021:**



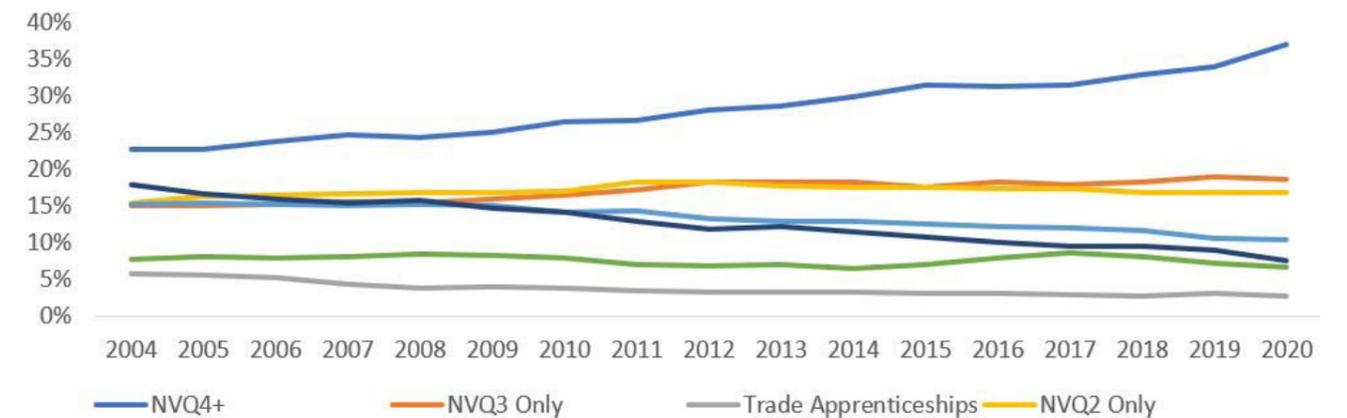
- The most prevalent hard skills or potential skill gaps for the Midlands Engine region are primarily found in the Business and Professional Services sector, specifically around finance and auditing; personal care, nursing and mental health for the Health and Social Care sector and warehousing in the Transport and Logistics sector.

**Top Ten Hard Skills for the Midlands Engine:**



- In 2020, **37.0% (2.3m)** of the working age population in the Midlands Engine area were educated to **NVQ4+ levels**. This is an increase of 9.1% (+195,000) compared to a UK increase of 7.2%. **A further 378,755 of working age residents are required to obtain a NVQ Level 4+ qualification to equal the UK average of 43.0%.**
- 7.6% (478,500)** of the working age population in the Midlands Engine had no qualification in 2020. Compared to 2019, this has decreased by 16.5% (-94,300) while the UK decreased by 16.4%. To eradicate the gap with the UK average (6.6%), **a further 62,799 working age Midlands Engine residents are needed to obtain at least one qualification.**<sup>13</sup>

**Midlands Engine Qualification Levels:**



- The number of **apprenticeship starts were impacted by COVID-19 in 2019/20**. There were **62,940 apprenticeship starts in the Midlands Engine**, a decrease of 20% (-15,760) since 2018/19. Similar patterns were seen nationally where there was a drop of 18%. Early indications show there were 48,060 apprenticeship starts in the Midlands Engine for August 2020 to April 2021.<sup>14</sup>

<sup>13</sup> ONS, Annual Population Survey, April 2021,

<sup>14</sup> Department for Education, January 2021 and July 2021

## 2. Thematic Deep Dives

### 2.1 Green Growth

- In 2019, the Midlands Engine area produced a total of **62,849 Kt CO<sub>2</sub> emissions**. Since 2018, carbon dioxide emissions decreased by 4.4% (-2,878) in the Midlands Engine area compared to a decrease of 3.8% nationally.
- In 2019, **transport accounted for the highest proportion of carbon dioxide emissions** in the Midlands Engine area at 33.4% (20,997 Kt CO<sub>2</sub>) of total emissions.<sup>15</sup> However, the Midlands is **the home of the UK automotive industry which is now accelerating the transition to net zero transport**. Toyota, Jaguar Land Rover and Aston Martin are driving the production of electric vehicles and battery technologies.
- In the Midlands Engine area, there was a total of **8,246,873 mwh of renewable electricity produced** in 2019.<sup>16</sup> The Midlands is leading the way in renewable energy production and is home to the world's biggest off-shore windfarm in Lincolnshire; providing 18% of England's renewables capacity.
- kMatrix analysis shows that one in four energy and low carbon jobs in England are based in the Midlands, there are over 10,500 businesses in the sector and it is worth £26.6 billion to the region.<sup>17</sup>

#### Low Carbon and Environmental Goods Services Sector:



- In July 2021, the Midlands Engine published a **ten-point plan for green growth** which will have a fundamental impact on the people, places and businesses of the Midlands. This will include **jobs and GVA** - providing more than 196,000 new jobs which will bring increased opportunities for our communities, **GVA growth of £24.2 billion** and **carbon reduction**. Collective actions will drive forward sustainable, green solutions, accelerating decarbonisation towards net zero targets, **reducing CO<sub>2</sub> emissions by 36% and achieving Sustainable Development Goals**. Delivery will aid and underpin levelling up through activity aligned to **UNESCO goals**.<sup>18</sup>

#### Ten-Point Delivery:

By 2041 we will achieve:

#### PEOPLE



#### PLACES



#### PROSPERITY



<sup>15</sup> Department for Business, Energy & Industrial Strategy, UK local authority and regional carbon dioxide emissions national statistics: 2005 to 2019, June 2021

<sup>16</sup> Department for Business, Energy & Industrial Strategy, Renewable electricity by local authority, September 2020,

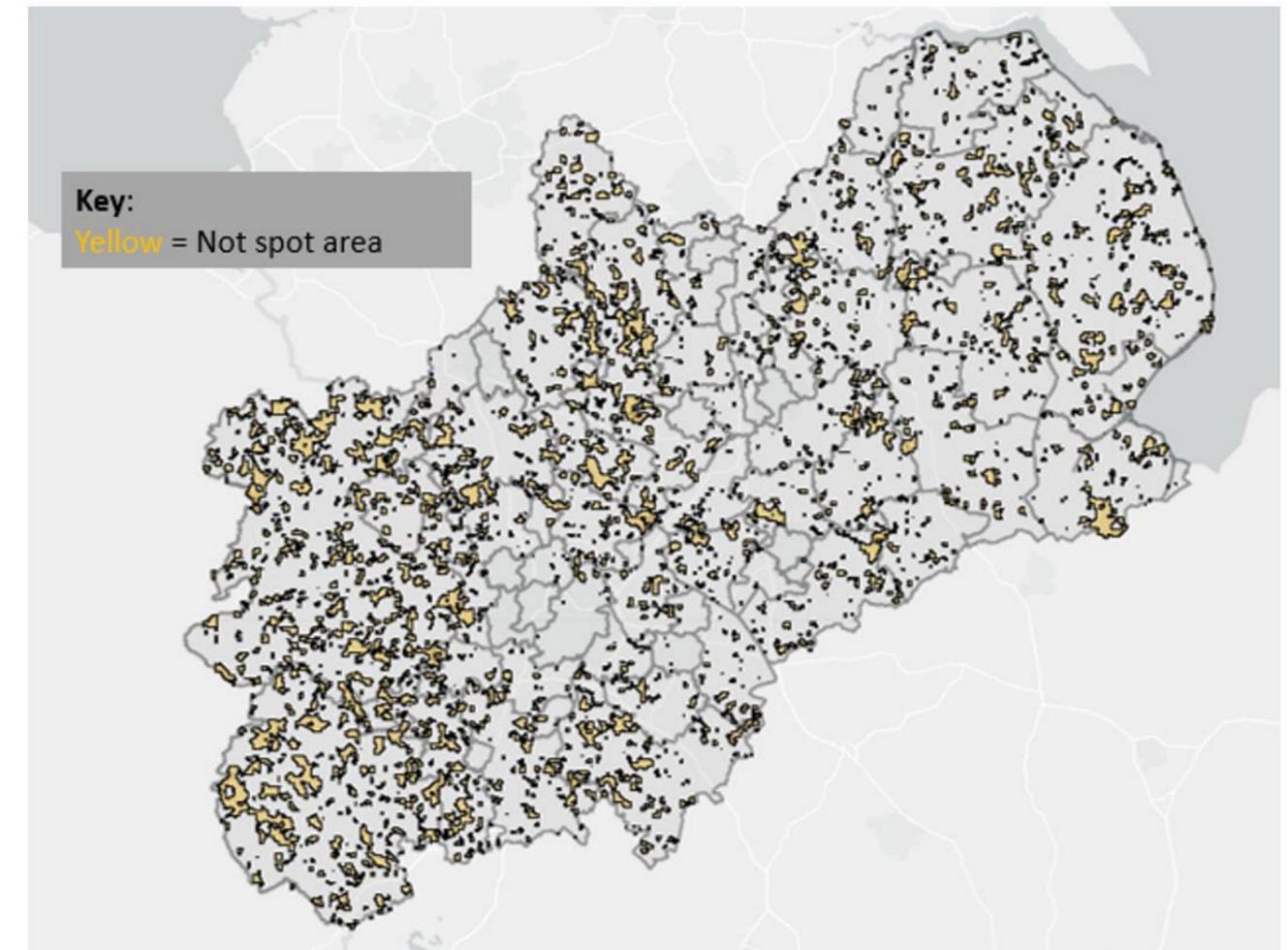
<sup>17</sup> kMatrix, Low Carbon Environmental Goods and Services, March 2021

<sup>18</sup> Midlands Engine, [Ten Point Plan for Green Growth](#), July 2021

### 2.2 Digital

- As of May 2021, **97.9% of Midlands Engine premises had access to Next Generation Access (NGA) broadband**, which was above the UK-wide proportion of 97.5%.<sup>19</sup> The Midlands Engine is a **centre of excellence in digital innovation** and is seen as **leading in 5G** and is committed to delivering greater Digital Connectivity to drive the region's productivity.
- A report published in April 2021 by the Centre for Economics and Business Research concluded that a comprehensive full fibre broadband network in the Midlands could **enable 155,000 new people** to enter the region's workforce. **5G alone is worth £5 billion to the economy in the next 5 years**.
- However, there is evidence that the pandemic, as well as accelerating adoption of digital services, is also accelerating the digital divide - increasing the number of people facing digital poverty and highlighting the adverse effects on poor or no digital connections. Both the East and West Midlands have the **3rd highest levels of people with very low digital engagement, at 30%**, compared to the UK average of 29%.<sup>20</sup>
- Also, across the Midlands Engine there are large rural areas where the **4G coverage is poor**; 12.7% of the area, accounting for approximately 280k people.

#### 4G Poor Coverage Areas:



Source: WM5G

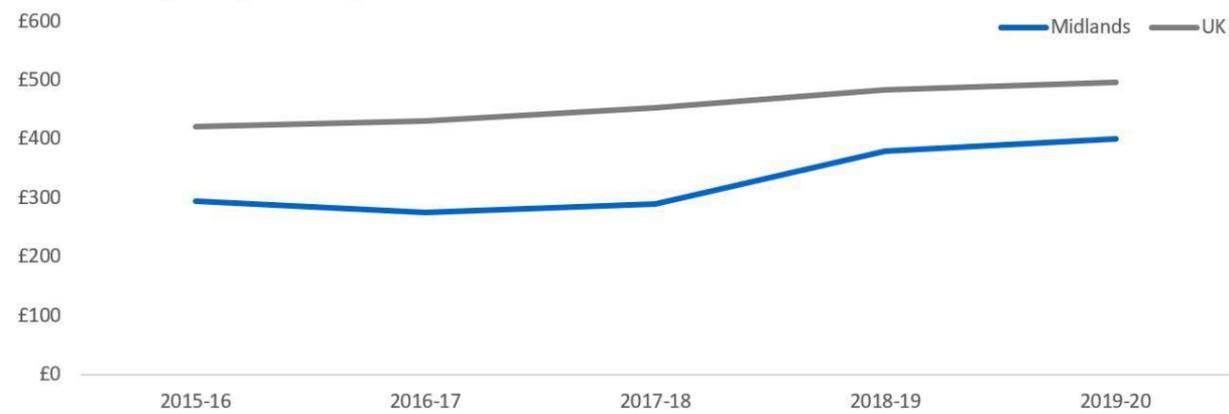
<sup>19</sup> Ofcom, Connected Nations, September 2021

<sup>20</sup> Lloyds Bank, UK Consumer Digital Index, May 2021

### 2.3 Transport

- The Midlands is at the heart of the national transport network with **92% of the UK's population less than 4 hours travel time away**.
- Four of the UK's five primary rail freight routes run through the Midlands and **80% of all UK freight passes** through the region.
- The Trans Midlands (A46) Trade Corridor alone accounts for **25% of automotive sector goods, 20% of agri-food jobs and £115bn economic output** representing 9% of the English economy.
- The A50/A500 plays a central role in the Midlands economy and is home to several renowned national and global brands including **AstraZeneca, Alstom, Bentley, JCB, Nestle and Rolls-Royce**. 41% of the corridor's output comes from manufacturing and distribution.
- Immingham is the UK's largest port by tonnage, handling **46 million tonnes of cargo** every year.
- However, there has been years of **underinvestment into the transport infrastructure**. Expenditure per head on transport was £401 in 2019/20, with the East Midlands having the lowest investment per head at £289. This means expenditure per head was lower than the UK average of £497 per head.<sup>21</sup>

Midlands Transport Expenditure per Head:



- The number of passenger journeys has been heavily impacted due to COVID-19. A total of **388 million rail passenger journeys were made in Great Britain** in the financial year of 2020-21, which is a **decrease of 77.7%** compared to 2019-20 financial year.<sup>22</sup>
- For the **East Midlands Railway**, the number of rail journeys decreased from **25.4m in the financial year of 2019/20 to 5.1m** in the financial year 2020/21. This equates to a decrease of 80% (or only 20.1% of journeys from the previous year).
- For the **West Midlands Trains**, the number of rail journeys decreased from **79.5m in the financial year of 2019/20 to 13.6m** in the financial year 2020/21. This equates to a decrease of 82.9% (or only 17.1% of journeys from the previous year).

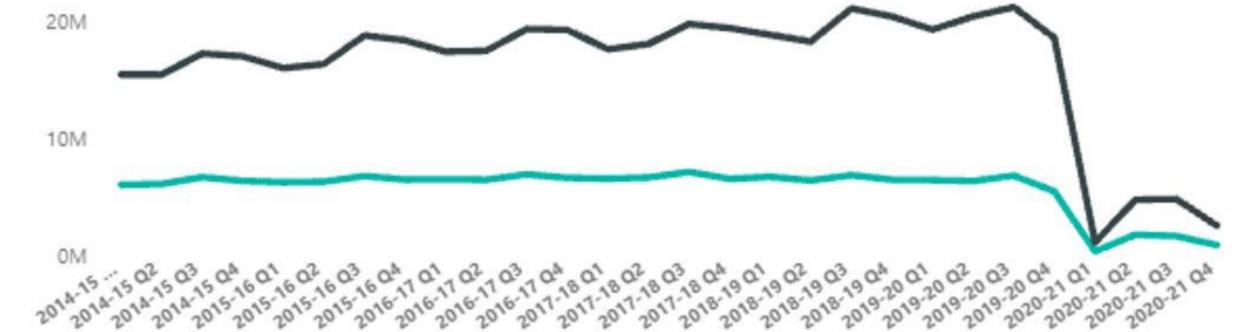
<sup>21</sup> HM Treasury: Public Expenditure Statistical Analyses (PESA), July 2021

<sup>22</sup> Office of Rail and Road, June 2021

Passenger Journeys by Financial Year:



Passenger journeys by financial quarter

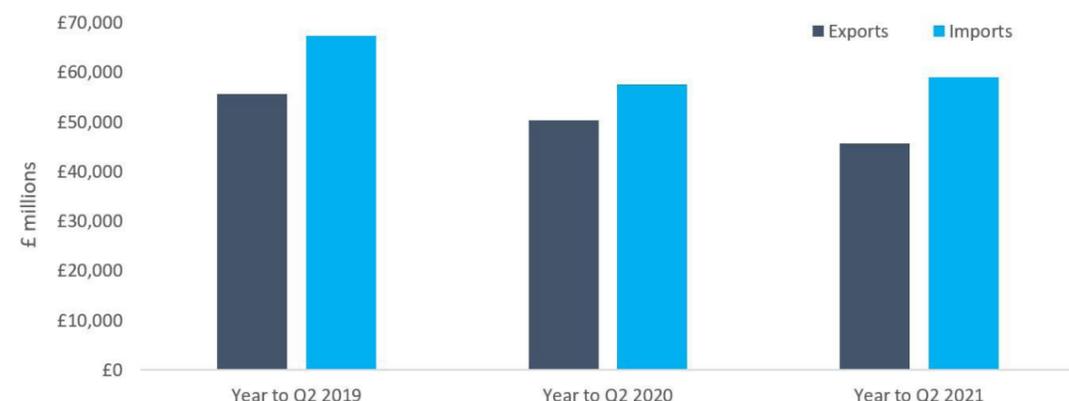


Source: Office of Rail and Road, June 2021

## 2.4 Internationalisation

- In the year ending Q2 2021, the Midlands exported **£45.6bn** worth of goods and imported nearly **£59bn**. This led to a **trade deficit of £13.3bn**, an increase from the trade deficit in the year ending Q2 2020 which was **£7.3bn**.
- The Midlands accounted for **20% of England exports** in the year ending Q2 2021.
- The largest SITC section for exports in the Midlands area **was machinery and transport at £30.1bn - 66% of total**, of which **£17.4bn (57.8%)** went to non-EU locations. 9.8% (£4.5bn) of goods exported from the Midlands area comes from miscellaneous manufactures, (of which 59.4% of the section total or **£2.7bn** went to the EU). This was followed by 9.8% (£4.46bn) for manufactured goods (of which 61.1% or **£2.7bn** went to the EU).<sup>23</sup>

### Midlands Imports and Exports:



- There were **217 FDI projects creating 6,592 new jobs** in the Midlands in 2020/21. When compared to 2019/20 there was a decrease of 10.3% (-25) projects but an increase of 4.5% (+284) new jobs, while the UK decreased by 17% and 1.4% respectively.<sup>24</sup>
- The Midlands accounts for **nearly 20% of England's new jobs from FDI projects** in 2020/21.

### FDI Projects and New Jobs by Region:

	FDI Projects			New Jobs		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
Multiple UK sites	52	58	49	12,288	8,916	14,855
North East	59	73	51	2,188	2,979	1,373
North West	142	154	139	4,663	5,013	4,309
Yorkshire and The Humber	98	104	86	2,244	2,264	1,412
<b>East Midlands</b>	<b>69</b>	<b>85</b>	<b>72</b>	<b>1,823</b>	<b>2,425</b>	<b>2,149</b>
<b>West Midlands</b>	<b>155</b>	<b>157</b>	<b>145</b>	<b>5,044</b>	<b>3,883</b>	<b>4,443</b>
East of England	87	79	72	1,513	1,709	2,066
London	627	638	492	14,875	12,989	13,832
South East	202	211	163	3,905	6,434	2,538
South West	79	70	76	1,945	1,472	2,242
Scotland	126	121	92	3,348	2,946	3,245
Wales	51	62	72	2,314	2,736	1,529
Northern Ireland	35	40	29	1,475	2,351	1,326
<b>Midlands</b>	<b>224</b>	<b>242</b>	<b>217</b>	<b>6,867</b>	<b>6,308</b>	<b>6,592</b>
-Total	1,782	1,852	1,538	57,625	56,117	55,319

- Across the Midlands Engine 9 LEP area between 2016 and 2018, an average of **39.1% of businesses were innovation active**, varying from 29.3% in Greater Lincolnshire LEP to 46.3% in Coventry in Warwickshire LEP, with England at 38.4%. The Midlands is a leader in R&D intensive industries such as automotive.<sup>25</sup>

<sup>23</sup> HM Revenue & Customs, UK Regional Trade in Goods Statistics Quarter 2 2021, October 2021

<sup>24</sup> Department for International Trade, Inward Investment Results 2020-21, June 2021

<sup>25</sup> Department for Business, Energy & Industrial Strategy, Innovation activities by UK Businesses, February 2021

## 2.5 Health

- In term of the health of Midlands residents the **average female life expectancy for the Midlands for 2017-19 was 82.8 years**, below the England-wide figure of 83.4 years. **The average male life expectancy for the Midlands for 2017-19 was 79 years**, below the England-wide figure of 79.8 years.
- The average female healthy life expectancy for the Midlands for 2017-19 was 61.6 years**, below the England-wide figure of 63.5 years. This means that 74.5% of life is spent in "good" health in the Midlands compared to 76.2% England-wide. **The average male healthy life expectancy for the Midlands for 2017-19 was 61.4 years**, below the England-wide figure of 63.2 years. This means that 77.6% of life is spent in "good" health in the Midlands compared to 79.2% England-wide.<sup>26</sup>
- The prevalence of diabetes (aged 17 years and over) was recorded at 7.8%** for the Midlands in 2019/20 above the England-wide proportion of 7.1%. This was also the highest proportion when compared to other STPs. There are particular hotspots in Birmingham and Solihull (8.7%) and the Black Country (9.0%), leading to regionally the West Midlands having the highest prevalence of diabetes at 8.0%. The East Midlands was the third highest (with North West and the Yorkshire and Humber regions being hotspots) at 7.4%.<sup>27</sup>

### Healthy Life Expectancy:



- The Midlands has many strengths and opportunities in the health and care sector, such as;** distinctive UK centre for clinical trials, 7 Schools of Medicine, UK's centre for Trauma & Defence Medicine, 80 private hospitals and 130 NHS Hospitals including 14 Specialist Hospitals, key specialisms in med-tech and biopharma service and supply and developed the world's first COVID-19 vaccine.
- The health and care sector accounts for **£20.6bn of GVA, over 577k jobs and over 15k enterprises** in the Midlands Engine.<sup>28</sup>

### Health and Care Sector in the Midlands:



<sup>26</sup> ONS: Health state life expectancies, UK: 2017 to 2019, January 2021.

<sup>27</sup> Public Health England, 2021

<sup>28</sup> ONS, Regional Gross Value Added (balanced by industry: local authorities by ITL1 region, May 2021, Business Register and Employment Survey, November 2020 and UK Business Counts, September 2020

### 3. Analysis and Recommendations

- Following on from the Independent Economic Review (IER) published in 2020, the Midlands still have barriers to growth:

Barrier	Intervention and Rationale	Impact Sought
GVA Gap	Closing the GVA gap is worth £82.3bn per annum to the UK economy	Increased GVA
Barrier to Growth: Skills	Businesses need a skilled workforce to drive growth and productivity	Increase in skills
Barrier to Growth: Infrastructure	Decades of under-investment in transportation infrastructure	Increased connectivity, transportation, digital, energy
Barrier to Growth: Access to finance	Access to growth & innovation finance, business loans and high value capital investment difficult	More investment in Midlands businesses
Barrier to Growth: R&D	Under performance in R&D intensity - low public sector investment in R&D per head	Increased and targeted R&D spend

- A long-term commitment to levelling up the Midlands Engine is now needed, to overcome stubborn, structural barriers within our economy. Levelling up our region means support from Government in 2021 and beyond for every part of our region, a commitment for the long term to power recovery and address barriers to growth.
  - As a national hub for manufacturing, regional partners can work with Government to increase domestic production capacity and domestic supply security, grow supply chain resilience through onshoring and grow UK manufacturing capability.
  - The ongoing shortages of essential goods, highlighted at the start of the pandemic, necessitates recognition of the urgent need to bolster the security of national supply chains. Addressing these gaps presents opportunities to drive recovery and deliver on the levelling up agenda in the Midlands. Manufacturing growth will bring more high-quality jobs to our region, powering levelling up through sustainable economic growth.
  - The Midlands is ideally placed to become a national, and indeed global, centre for net zero and green innovation. With innovation strengths including advanced materials and manufacturing, electronics, photonics, energy and environment technologies, our region is central to the success of the government's ambitions to drive technological innovation.
  - Building back better also means tackling health inequalities in every part of our region. Regional health and wellbeing underpins our inclusive growth agenda linked to community prosperity, health and economic opportunities for everyone, with opportunities not undermined by poor health outcomes.
  - The 'digital divide' would appear to be acting as an anchor on productivity growth in some areas of the Midlands Engine and without intervention, it is likely to become more of an inhibitor to the region's long-term competitiveness.



# MIDLANDS ENGINE

The Midlands Engine Observatory is an alliance of leading academic researchers, and economic and industry experts, working together to deliver the regionally focused research and analysis our partners need, for every part of the Midlands.



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