MIDLANDS ENGINE

OBSERVATORY

MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

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Executive Summary

In this publication, the September edition of the Midlands Engine Economic Impact Monitor, we report during a period of continued turbulence, uncertainty and overall challenge that is currently impacting the economy and society of the Midlands Engine and wider UK. Driven by continued **high inflation and rising interest rates,** the UK's **economic outlook has deteriorated materially**, with confidence in the regional business environment struggling.

- The West Midlands Business Activity Index **decreased from 50.3 in July 2022 to 49.3 in August 2022,** while the East Midlands **decreased further from the 50-growth mark from 48.7 in July 2022 to 45.0 in August 2022**.
- Likewise, the **New Business Indices for the West Midlands and East Midlands both fell further below 50.**
- ICAEW's Business Confidence Index for the East Midlands and West Midlands **continue to fall from their peaks in Q3 2021, and have entered negative territory (-5.1 and -8.1 respectively).**
- MakeUK has slashed its growth forecasts for manufacturing in September 2022, predicting **sector growth of just 0.6% in 2023, down from 1.7% forecast as recently as June.**

In an attempt to reduce current pressures and stimulate growth, the new Chancellor delivered a **"mini-budget"** on 23rd September, following on from **energy price cap announcements made in the days and weeks before**. Key policy announcements from the document, "The Growth Plan 2022", included:

- **The basic rate of income tax will be cut to 19p (from 20p),** and the top rate of income tax will be slashed.
- **The National Insurance rise (of 1.25pp in April) will be reversed from 6th November**.
- **Corporation tax rise also to be scrapped:** it was due to rise from 19% to 25% but this will no longer be the case.
- **Cap on bankers bonuses to be removed.**
- There are to be **"investment zones" created across the UK**, providing tax and planning incentives with a number names across the region.

Many announcements in the mini-budget and through the energy cap have been **cautiously welcomed by businesses and industry groups,** deemed necessary for stimulating investment and productive activity as well for **supporting businesses and households through the cost of living crisis**. The commitment to regional investment zones and accelerating infrastructure investment are also seen as a **strong opportunity to help level up the Midlands Engine.**

However, more detail of delivery is required to ensure successes from the announcements, while the fiscal event overall has been described as a "gamble" by many; with the **adverse affects of this already on show in the short-term given recent pressure on the value of sterling and the potential for further interest rate increases.** This reflects that, while the advent of a **new Government and approach in general is a key opportunity** to drive positive change in the Midlands; the **current economic outlook remains uncertain and many future predictions bleak.**

- For example, using two scenarios (a "harsh winter" and a "mild winter"), **PWC expect UK growth to range between -1.3% and 0.2% in 2023, and between -0.3% and 0.6% in 2024.**

Midlands businesses and households will hope the new Growth Plan is a success, especially given the **disproportionate impact of the current cost-of-living and cost of doing business crisis on the Midlands**, including specific places and communities. This edition of the monitor features analysis highlighting these areas of concern:

- Urban places in the Midlands are seeing **some of the highest levels of inflation in the UK** according to Centre for Cities, particularly Leicester (11%), Stoke (10.9%), Mansfield (10.9%), Nottingham (10.8%) and the WMCA (10.8%).
- The Midlands Engine has a **higher proportion of people and households that are disproportionately impacted by the cost-of-living crisis:** low income households, fuel poor households, people from a BAME background, young people and unemployed people in particular.
- There is a **higher concentration of activity in sectors with high energy demand in the Midlands Engine.**
- In the Centre for Progressive Policy's updated Vulnerability Index, **nine Midlands Engine local authorities are in the most vulnerable decile** – with **3 of the top 5 most vulnerable places in the UK located in the West Midlands.** Midlands regions overall are impacted worse than some regions, and less than others – but with major pockets on vulnerability focused on **fuel poverty and low pay in particular.** Parts of the **East Midlands have also become notably "more vulnerable"** to the cost of living crisis since the previous Index release in April 2022.

Lastly, the September monitor also reports on Midlands Engine findings of recent data releases across key indicators:

- A **year-on-year increase in the number of businesses** in the Midlands Engine has been reported; but also more concerning **experimental data suggests business deaths are now consistently higher than business births.**
- **2021 Q3 to Q4 GDP data suggests lower than average growth in the Midlands compared to the UK.**
- **On the labour market and skills, Midlands Engine unemployment has decreased faster than the UK to 4.0% in the year to March 2022, while in the shorter-term claimants increased in the most recent month (+3,015).** GCSE results in the Midlands regions remain below the national average.

1. Economic and Labour Market Impacts

Policy Considerations

THEME	KEY INSIGHTS
Outlook and Trading Environment	• **A crisis in the cost of doing business** is continuing to present significant challenges for Midlands businesses across all sectors. This is likely to continue despite the easing of inflation (9.9%) reported in September and as **new government initiatives (including energy price caps and fiscal changes) take shape in the coming weeks and months.** • Despite the challenging environment, there remains **reasons to be optimistic about the Midlands' long-term future** – particularly given its **resilient and dynamic business base and economy.** Despite price hikes, order books and overall activity are still high in many sectors, while some surveys, such as from Lloyds Bank, **suggest business confidence in some parts of the Midlands is holding comparatively stable.** • A new government and approach in general is a **key opportunity to drive positive change in the Midlands and across the UK**; and with this comes ways of realising opportunities and benefits from the current economic shocks. • The newly formed Government is providing a **major intervention on energy markets, capping domestic and non-domestic bills to protect further price rises**. This policy will be crucial in providing business and households with short-term certainty, while easing the cost of living and inflationary pressures. It has been welcomed by **industry and communities, albeit with more assurances and long-term help being required.** • But most short-term, predictions and economic sentiment are bleak**, with major pressure now on the currency, interest rates and the wider market as well as costs.**
Labour Market	• Firms continue to have **difficulty recruiting the skilled talent they need to fill vacancies**, limiting their operational capacity and constricting their growth potential. • Businesses across the region continue to be hit by the **lack of suitable staff, both for skilled/qualified positions and for unskilled and less desirable positions**. Inflated salaries have to be offered for the most sought after candidates. • A significant **problem with staff retention lingers** on as businesses offering inflated salaries continue to poach employees. • There are examples of businesses **struggling to stimulate interest from younger people** and get the next generation involved. • **Flexible working conditions** post Covid-19 continue to be a topic for discussion amongst business owners who are increasingly having to adapt to employee preferences. This issue is not abating as the next generation workforce filters through. • There is concern from businesses **worried about the governments proposed increase in the UK national living wage from the current £9.50 to £10.14** adding to the current strain of increased energy and materials costs.
Business Support Enquiries	Beyond the obvious cost of doing business pressures, **enquiries from Midlands businesses to support organisations recently have included enquiries on:** • **Grants** – Ongoing interest in grant funding. Typical projects include property purchases, new capital equipment and carbon saving initiatives - many of which lead to job creation, upskilling of existing staff and apprenticeships. Businesses also looking for financial support for website development and marketing. • **International Trade** – Mentoring and guidance required to drive business forward with international trade. • **Accreditation/Quality Standards** – ISO, HR/Health & Safety, Import licensing and CE to UKCA marking support. • **ERP/MRP Software** – A number of more traditional manufacturing and engineering businesses seeking support with the implementation and roll out of Enterprise Resource Planning (ERP) and Material Requirement Planning (MRP) software. • **Property Searches** – Growing businesses looking for additional space or larger premises to consolidate multiple sites. • **Energy Efficiency** – A continued increase in companies seeking **energy reduction grants to install solar panels / LED lighting / new boilers**. • **Raising Finance** – Support for businesses looking to raise significant cash to aid future growth plans, particularly in the renewable energy sector.

Global and National Outlook

Global

Cuba was left completely without power after Hurricane Ian pummelled the western end of the island. The hurricane has now been gathering force in the south-eastern Gulf of Mexico after leaving Cuba. The BBC reported that some **2.5 million people in Florida are under evacuation orders.** The hurricane is expected to continue upwards to Georgia once it has left Florida. As a result, both **Florida and Georgia have declared a state of emergency,** with Florida mobilising 5,000 National Guard troops and Georgia 500.

North Korea has been firing short-range ballistic missiles off its east coast, two days before U.S Vice President Kamala Harris is set to arrive in Seoul and two days after South Korea and U.S military forces conducted military drills in the waters of the South's east coast. World leaders have condemned the tests, rebuking North Korea for rising tensions in the region.

Vladimir Putin has ordered the mobilisation of army reservists to support Moscow's failing campaign in Ukraine. This is as a result of Ukraine's success in the last few weeks in taking back massive swathes of its land. **Russia has started mobilising over 300,000 reservists** ahead of heavily stage-managed votes in four occupied regions of Ukraine to join Russia. To put that figure into perspective, at present Western officials have estimated that there are between 150,000 and 190,000 Russian forces on the ground in Ukraine. **An additional 300,000 reservists would equate to between a 158% to 200% rise in the number of Russian forces in the Ukraine. This is the largest mobilisation of an army since the second World War.** The announcement of the mobilisation of reservists has led to protests across Russia, with a reported 1,300 arrests.

At the end of voting on 27th September, Russia announced that 98% of people in Donetsk and Luhansk voted in favour of join Russia, 93% voted in favour in the Zaporizhzhia region and 87% voted in favour in Kherson region. This is to give an air of a fair and free democratic vote, to legitimise the annexation of regions.

Russia has also allegedly sabotaged the Nord Stream 1 pipeline, following the undersea lines sustaining simultaneously "unprecedented" damage in one day, with **3 pipelines rupturing within 18 hours**. It has been estimated that **the damage could take between at least 3 to 6 months to fix**, however similar damage to a previous pipeline took 9 months to fix. Whilst Russia has shut off the transportation of gas through this pipeline there is still gas within the pipes, and leaks will likely last around a week. An investigation has been launched to understand the cause.

National

The announcement of the budget sparked a massive run on the pound on the 23rd September as **investors dropped the pound.** The International Monetary Fund (IMF) has done something rarely seen by a G7 country and has **openly criticised the UK government over its plan for tax cuts, warning that the cuts would likely fuel the cost-of-living crisis.** The Bank of England (BoE) has also had to **intervene** as market volatility was at-risk of causing material risk to UK financial stability. There is a full summary on the mini budget on page six.

The Bank of England (BoE) has now raised interest rates to 2.25%. This is the highest level of interest the UK has seen since before the 2008 financial crisis. Increasing interest rates is to combat 'stagflation' in the economy as putting up interest rates should cool demand and therefore ease pressure on soaring prices.

However, whilst the BoE is trying to slow the economy, the new government wants to boost economic growth to an annual rate of 2.5%. The government has also just committed to substantial borrowing through the energy package, which will see borrowing reach at least **£150bn.**

If inflation continues to rise as forecasted the BoE could increase interest rates even further. **The market is predicting that the BoE could raise interest rates to above 3.5% by the end of 2022 and as high as 4.75% by July 2023.**

Trade association for UK retail businesses BRC, has reported further rises in shopping prices. **This will not be welcome news for households faces rising costs on all sides, mortgages are rising, interest rates are rising, and energy bills will rise in line with the new cap.** Additionally, the value of the pound has seen dramatic falls against the dollar and the euro, this means that there will be a rise in the costs of imported goods in the coming months. This will increase costs not just for households as supermarkets are forced to pass on price increases, but also for businesses which will see the cost of imported goods rise, as the value of the pound falls.

New research from mutual life, pensions and investment provider, Royal London, reveals that **millions of UK workers have had to turn to second or multiple jobs in the face of soaring living costs, while others are working extremely long hours.** These findings come at a time when according to the ONS, **pay awards have failed to match soaring inflation and have led to the fastest fall in the real value of pay on record.** This likely means that people already working full time will be forced to work more, for a pound that is worth even less than it has been historically.

Source: City-REDI University of Birmingham

Mini-Budget

Overview

The Chancellor delivered a **"mini budget" on 23rd September** which included major fiscal changes within what the Government is calling **"The Growth Plan 2022".** The Chancellor's speech and the content in the Growth Plan included:

- A key focus on **economic growth** as a way of driving higher living standards: The Chancellor said this is not as high as it should be – making it harder to pay for public services. The government is "determined to break this cycle" and in the medium term is to reach a **"trend rate of growth" of 2.5%.**
- Stating that **tax reform** is a critical tool being used to help drive growth. **Higher levels of borrowing** will be used to fund these policies, something which Government say is "appropriate" given the needs of families and businesses.
    - **Overall tax cut announced is £45bn – 2% of GDP** – and the biggest tax cut since 1972.
    - To fund the cost of this package, the Debt Management Office Net Financing Requirement (NFR) in 2022-23 has been revised upwards, from £161.7 billion in April 2022 to £234.1 billion in September 2022.
- Five key areas of focus for achieving growth: **investment, skilled employment, infrastructure, home ownership and enterprise.**

Key Policy Announcements

- **Basic rate of income tax will be cut to 19p (from 20p),** and the Chancellor is also abolishing the top rate of income tax (currently 45% for earners over £150,000)
- **National Insurance rise (of 1.25pp in April) will be reversed from 6th November**. Funding of health and social care (the original use of the NI rise) will now come from general taxation.
- **Corporation tax rise scrapped:** it was due to rise from 19% to 25% but this will no longer be the case.
- **VAT-free shopping for overseas visitors is to be introduced.**
- **Cap on bankers bonuses scrapped.**
- Re-affirming the **action being taken on energy bills** (price cap at £2,500) for domestic and businesses (at least for 6 months for business).
    - The Chancellor claimed that the government's **energy plan could reduce peak inflation by around 5 percentage points.** The energy package will cost £60bn for the six months from October (£31bn on domestic guarantee; £39bn for Energy Bill Relief Scheme for businesses).
- **Streamlining Local Growth Funds** over the next two years to reduce inefficiency and bureaucracy.
- There are to be **"investment zones" created across the UK**. The zones will be allowed to relax planning rules and reduce business taxes to encourage investment. Areas with Investment Zones will benefit from **tax incentives, planning liberalisation, and wider support for the local economy.**
- 38 local authorities have already been engaged with government on the creation of IZ's, including **councils in the West Midlands Combined Authority, Derbyshire, North Lincolnshire, North East Lincolnshire, Leicestershire, Staffordshire, Stoke-on-Trent, Nottinghamshire and Warwickshire.**
- Additional "interested areas" are cited in the document, including **sites in the Black Country, HS2 Interchange (Solihull), Gigafactory Coventry site, Charnwood campus (Leicestershire) and Ceramic Valley Stoke-on-Trent.**
- Plans to **accelerate priority infrastructure project**s as listed in the budget document, including more than 20 across the Midlands Engine – from **road** (such as M54-M6 Link Road and A511 Growth Corridor Scheme), to **rail** (such as Midlands Main Line Phase 3), and **local transport** (such as Wednesbury to Brierley Hill Metro Extension and the East Coast Hydrogen Cluster).

Reaction

Many announcements made in the mini-budget have been **cautiously welcomed by** businesses and industry groups, in particular the ambition for growth and reductions in National Insurance, Income Tax and Corporation Tax, which are deemed **necessary for stimulating investment and productive activity as well for supporting businesses through the cost of living crisis**. The commitment to regional investment zones and accelerating infrastructure investment are also seen as a strong opportunity in principle **for the Midlands Engine**, and a way of "levelling up" areas of the country outside of London and the South East.

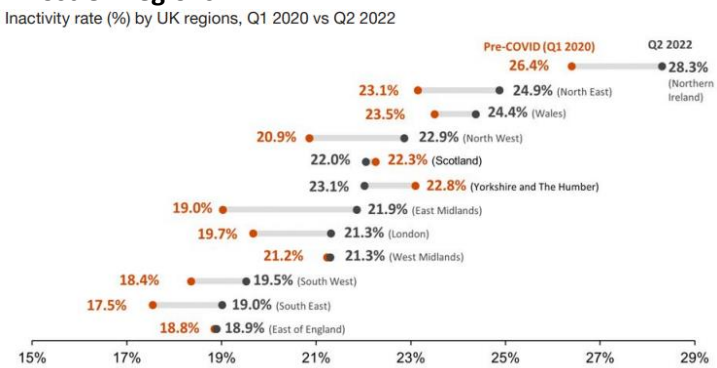
However, more detail of delivery is required to ensure successes from the announcements, while the **fiscal event overall has been described as a "gamble" by many**; with the adverse affects of this already on show in the short-term given recent **pressure on the value of sterling and the potential for further costly interest rate increases.**

PWC UK Economic Outlook

Recent Performance of the Economy

The UK economy shrank by 0.6% in June, with polarised growth recorded at regional levels. Economic output in June 2022 stood at **0.9%** above its pre-pandemic level in February 2022, however some regions have struggled to break beyond their pre-pandemic levels, deepening regional growth imbalance. London grew at the fastest rate of **2.3%** in Q3 2021 and is now **1.3%** above the crisis level. Most regions, such as the North East, the Midlands and Wales, however, contracted between **1.2%** and **0.3%**, and remain around **3.3%** smaller than pre-pandemic levels. Unemployment data additionally shows a mixed picture at regional levels, with the North West and East Midlands experiencing the largest falls of **0.2** ppts respectively.

Economic inactivity rate pre-COVID has increased in most UK regions:



Sources: PWC analysis, ONS

Economic inactivity rates in the three months to June were unchanged compared to the previous three-month period, meaning they still mostly stand above pre-pandemic levels. Overall, UK economic inactivity was **21.4%** in Q2 2022, when it reached its all-time low. The East Midlands and Northern Ireland experienced the largest relative increases, with inactivity increasing by **2.9** ppts and **1.9** ppts respectively. In the same time, the West Midlands increased by **0.1** ppts.

UK Growth Outlook: Scenarios for the Future

PWC's outlook suggests two scenarios; **a mild winter scenario** where there is some recovery in Russian natural gas exports and the UK government provides sufficient support, and **a harsh winter scenario** where Russian gas supply is highly disrupted and the governments support is more considerable than the mild winter scenario.

Projected annual average real UK GDP growth, by scenario

Annual average real UK GDP growth	2022	2023	2024
Mild winter scenario	3.6%	0.2%	0.6%
Harsh winter scenario	3.1%	-1.3%	-0.3%

Source: PWC analysis, ONS

Source: PWC, 2022

Based on analysis, there are expectations that UK GDP will grow between **3.1%** and **3.6%** in 2022, down from a pre-war consensus of **4.5%**. For the East and West Midlands, a mild scenario would consist of **3.4%** and **3.3%** GVA growth whilst a harsh scenario consists of **2.9%** and **2.8%** GVA growth respectively. Further expectations include GVA / GDP to moderate markedly in 2023 and 2024 as the economy enters a slow growth period or even a prolonged recession.

UK Productivity: Opportunities in Challenges

Productivity in the UK has consistently lagged behind other advanced economies, remaining weak since the 2008 financial crisis and has remained low at **0.6%** on average running up to the pandemic. As the furlough scheme wound down, UK productivity fell by **4.9** ppts in Q3 2021, compared to a year earlier and has struggled to recover since.

At regional levels, productivity has been a long-standing issue, with London and the South East consistently ranked top exceeding average UK productivity levels. The deviation from the UK average level ranged from **-17** ppts to **-7** ppts, making closing the regional productivity gap more crucial to delivering the levelling up policy as well as overall UK economic growth. This could be **driven by 'within-industry' gaps; skills and education; regional income imbalance and regional productivity driven by the between industry effect and the within industry effect.**

Solving the gap could potentially add as much as **£71.6bn to the total UK output per year, estimated to be around 3.4% of total GDP in 2023**. The largest contributor would come from the services sector **(77%)**, followed by production **(18%)** and construction **(5%).** Additionally, the West Midlands and the North West were identified as having the most potential of improving their services productivity, in which real estate and wholesale and retail could contribute the most. Although, this sector is traditionally harder to improve its productivity.

Where Can Future Growth Come From?

Future growth could come from **embracing the full benefits of the digital age**; the UK's technology and digital sector is considered stronger than most of its European counterparts. London has beaten New York and Singapore as a top hub for fintech, and is ranked as the number one destination for US tech companies outside their domestic market.

Moreover, the UK could boost business investment for sustainable growth, improve performance of poorly performing firms, reduce inactivity, and promote skills.

Business Activity

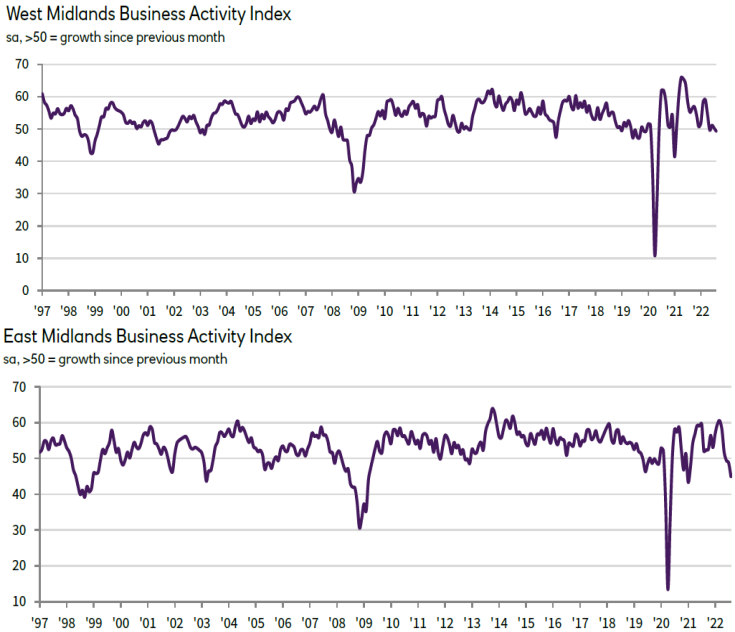
Business Activity Index

The **West Midlands Business Activity Index decreased from 50.3 in July 2022 to 49.3 in August 2022**, indicating a quicker deterioration in demand conditions leading to a renewed fall in business activity. Firms indicated that business activity contracted due to reduced client purchasing, consumers reducing expenditure, economic uncertainty and product availability issues.

The **East Midlands Business Activity Index decreased further from the 50-growth mark from 48.7 in July 2022 to 45.0 in August 2022**, the fastest decline in business activity since January 2021. Firms indicated that the strong decrease in business activity was linked to weak client demand and reduced purchasing power at customers.

The overall UK Business Activity Index decreased from 52.1 in July 2022 to 49.6 in August 2022.

The West Midlands and East Midlands Business Activity Index trends:



Source: NatWest PMI, September 2022

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

Demand

The **West Midlands New Business Index decreased from 49.6 in July 2022 to 48.5 in August 2022.** The decline is linked to subdued demand conditions during economic uncertainty. **The East Midlands New Business Index decreased from 47.8 in July 2022 to 43.5 in August 2022.** The decrease in new business was linked to reduced purchasing power of customers amongst the strain on disposable income and soaring inflation.

Exports

The **West Midlands Export Climate Index decreased from 50.1 in July 2022 to 48.5 in August 2022**, indicating weakening in trade prospects since mid-2020. The **East Midlands Export Climate Index decreased from 51.7 in July 2022 to 50.0 in August 2022**, indicating stagnation in the export climate.

Business Capacity

The **West Midlands Employment Index decreased from 54.1 in July 2022 to 53.5 in August 2022** – but still an 18 month increase for job creation. The **East Midlands Employment Index decreased from 56.3 in July 2022 to 54.9 in August 2022.**

The **West Midlands Outstanding Business Index decreased from 53.2 in July 2022 to 47.3 in August 2022**, ending a 17-month sequence of growth. The **East Midlands Outstanding Business Index decreased from 50.8 in July 2022 to 49.0 in August 2022**, the first fall in unfinished business since February 2021.

Prices

The **West Midlands Input Prices Index decreased from 75.2 in July 2022 to 72.1 in August 2022**. The **East Midlands Input Prices Index decreased 80.0 in July 2022 to 76.8 in August 2022.**

The West Midlands Prices Charged Index increased from 65.9 in July 2022 to 66.0 in August 2022. 32% of firms reported higher fess compared with 5% of firms that offered discounts. **The East Midlands Prices Charged Index decreased from 68.2 in July 2022 to 65.5 in August 2022.**

Outlook

The **West Midlands Future Business Activity Index decreased from 68.3 in July 2022 to 67.8 in August 2022**. Firms still remain optimistic for the upcoming year; however, reported inflation concerns, recession fears and energy price volatility. The **East Midlands Future Activity Index increased from 59.3 in July 2022 to 59.6 in August 2022**. Firms again were still optimistic but the level was at the second lowest since May 2020 due to concerns regarding pressure on customer spending and higher prices.

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

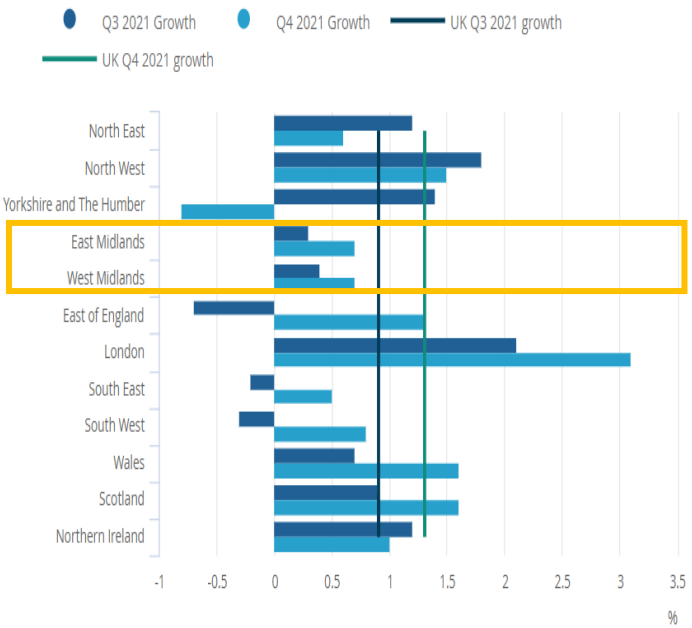
Source: NatWest PMI, September 2022. Located on the Midlands Engine Hub is an Interactive Regional Business Activity Dashboard

Gross Domestic Product

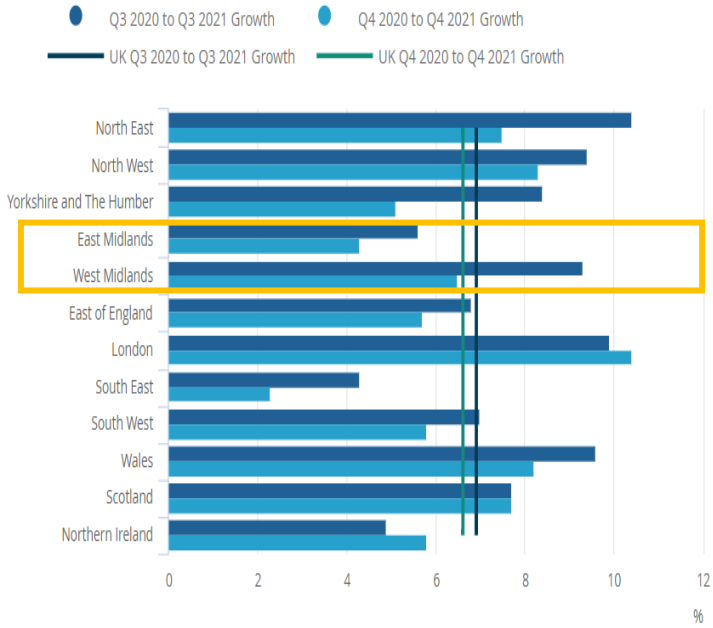
Quarter on Quarter analysis shows that **eight of the nine English regions had GDP growth** in Quarter 4 2021. For both the West Midlands and East Midlands regions, GDP growth increased by 0.7% in Quarter 4 2021, below the UK-wide growth of 1.3%.

All regions had growth in Quarter 4 2021 when compared with the same quarter in 2020. Quarter on same Quarter a year earlier (Quarter 4 2020) analysis shows **for the West Midlands region, GDP growth increased by 6.5% and for the East Midlands there was growth of 4.3%** in Quarter 4 2021, these figures were below the UK-wide growth of 6.6%.

Change in GDP, Q3 2021 and Q4 2021:



GDP Growth, Q3 2020 to Q3 2021 and Q4 2020 to Q4 2021:



Office for National Statistics – Regional GDP estimate; Scottish Government – GDP Quarterly National Accounts; Northern Ireland Statistics and Research Agency – Northern Ireland Composite Economics Index

Notably, when looking at percentage change year on year, the West Midlands had the highest increase in GDP in 2021 by 10.2% (albeit from a lower base having been hit hardest by Covid-19 impacts), the East Midlands increased by 8.4% - both were above the England increase at 8.3%.

GDP, year on year change, 2019-2021:

	2019	2020	2021
England	1.8%	-9.7%	8.3%
North East	2.2%	-10.3%	10.1%
North West	2.6%	-9.9%	9.7%
Yorkshire and The Humber	2.1%	-9.9%	9.1%
East Midlands	**1.7%**	**-9.3%**	**8.4%**
West Midlands	**0.1%**	**-10.8%**	**10.2%**
East of England	1.4%	-10.0%	8.1%
London	1.6%	-9.2%	8.8%
South East	2.8%	-9.4%	5.1%
South West	1.7%	-10.2%	8.2%
Wales	2.4%	-10.1%	10.0%

Source: ONS, GDP, UK regions and countries: October to December 2021, released September 2022
Please note, these estimates are produced using new methods for constraining to UK GDP. The estimates are designated as Experimental Statistics while they are still in development, and should be interpreted with some caution. Regional data can be volatile and quarterly movements should be considered alongside the long-term trend. Please note, figures are percentage change on chained volume measures (CVM).

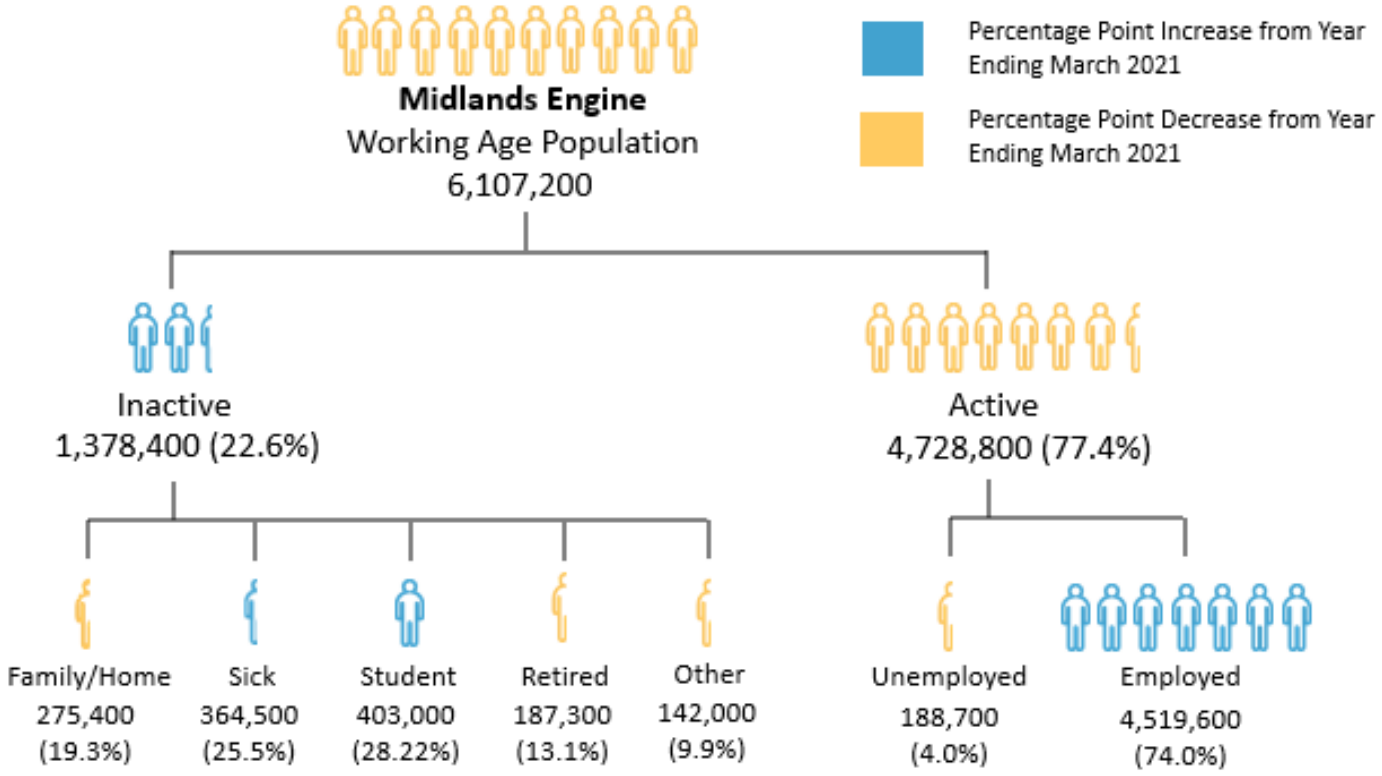
Labour Market

In terms of **the labour market** nationally, unemployment is at the lowest level since 1974 and coupled with continued strong labour demand makes for the tightest labour market in living memory. However, there are **storm clouds on the horizon with employment down, economic inactivity up and real-terms pay falling.**

Headline labour market statistics for the Midlands Engine area:

- In the year ending March 2022, the **employment rate in the Midlands Engine area was 74.0%,** compared to 75.1% for the UK overall. When compared to the year ending March 2021, the Midlands Engine area has **increased by 0.2 percentage points (pp)**, the UK rate increased by 0.4pp.
- The **unemployment rate for the Midlands Engine was approximately 4.0%** compared to 4.2% for the UK in the year ending March 2022. For the Midlands Engine, this is a **decrease of approximately 1.5pp** compared to the UK decrease of 0.7pp since the year ending March 2021.
- The **economic activity rate for the Midlands Engine area was 77.4%** compared to 78.4% for the UK in the year ending March 2022. For the Midlands Engine area, the economic activity rate has **decreased by 0.9pp** since the year ending March 2021. The UK decreased by 0.1pp in the same period.
- For **economic inactivity, the Midlands Engine rate was 22.6%** compared to 21.6% for the UK overall in the year ending March 2022. Since the year ending March 2021, for the Midlands Engine area, this has **increased by 0.9pp** while the UK increased by 0.1pp.
    - Looking at inactivity from an age and gender perspective, there is an **increase in economic inactivity amongst the older-age cohort (50+), particularly males; with an additional 46,900 for the Midlands Engine area.** Kwasi Kwarteng is expected to announce new support to get over-50s into work, after a sharp increase in economic inactivity in that age group since the Covid-19 pandemic, with a significant number citing stress or mental health reasons. The Treasury has found that economic inactivity in the over-50s is contributing significantly to shortages in the jobs market, one of the key issues driving up inflation.

Labour Market Activity for the Midlands Engine in the year ending March 2022:



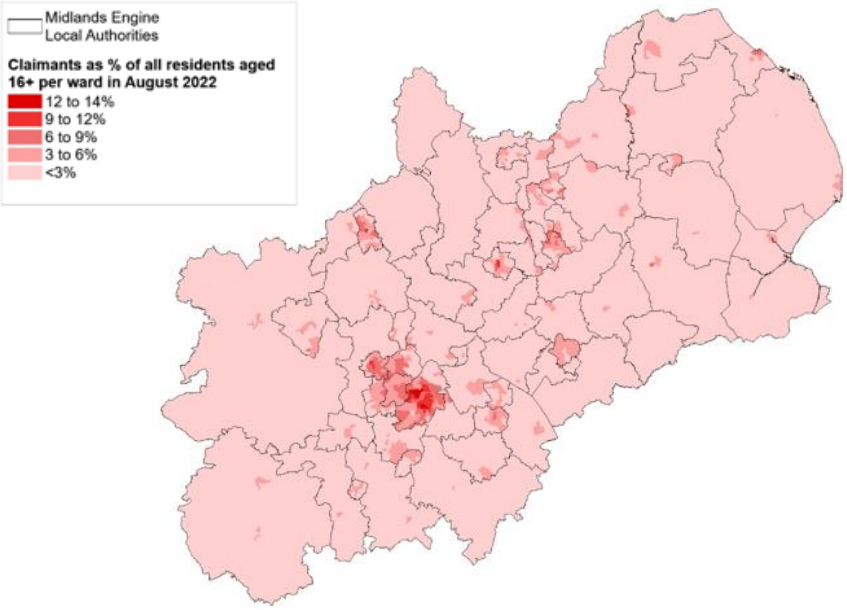
ONS, Annual Population Survey, 2022
Located on the Midlands Engine Hub is an [Interactive Employment Activity Dashboard]

Labour Market Impacts: Claimants

There were **268,170 claimants aged 16 years and over in the Midlands Engine area in August 2022**, an increase of 3,015 claimants since the previous month. This equated to an increase of 1.1% for the Midlands Engine area (UK +1.0%). **There are 46,630 (+21.0%, UK +21.2%) more claimants when compared to March 2020**. East Lindsey (-935), North East Lincolnshire (-330) and North Lincolnshire (-15) had lower levels than March 2020.

The number of claimants as a percentage of residents aged 16 years was 3.2% in the Midlands Engine (UK 2.8%) in August 2022 – remaining slightly above the pre-pandemic levels of 2.7% (UK 2.4%) in March 2020.

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



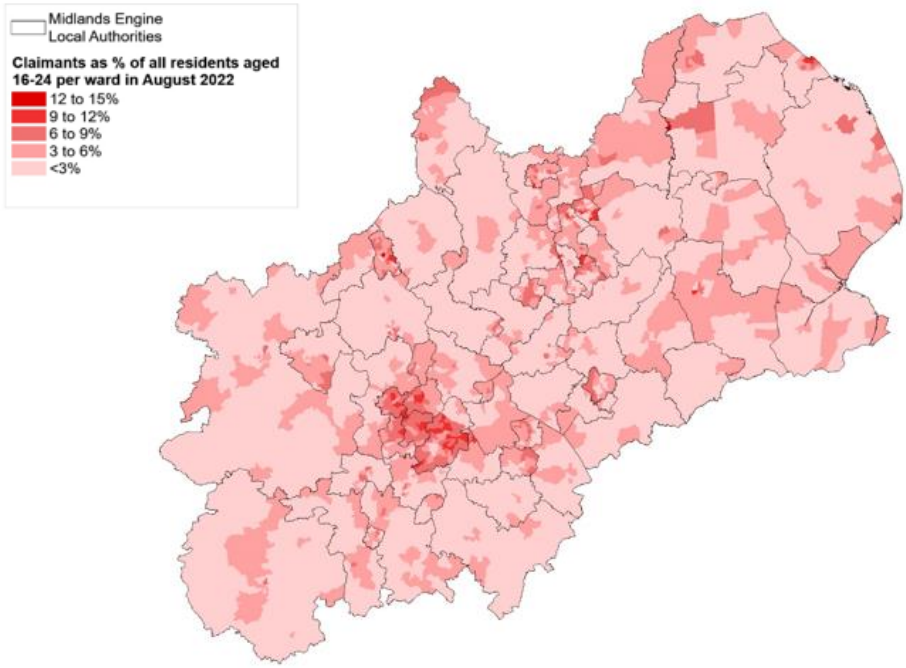
Out of the 1,511 wards within the Midlands Engine, **444 were at or above the UK proportion of 2.8%** for the number of claimants as a percentage of the population aged 16 years and over in August 2022.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, Handsworth was the highest with 13.9%. This is followed by Lozells at 13.8% and then Birchfield at 13.6%.

There were 47,560 claimants aged 16-24 years old in the Midlands Engine area in August 2022 – an increase of 1,640 youth claimants since July 2022. This equated to an increase of 3.6% which matched the UK growth rate. Since March 2020, **the number of claimants aged 16-24 years old has increased by 3,365** (+7.6%, UK +6.5%). Notably, 21 local authorities were lower than March 2020 levels and a further 2 were at the same level.

The number of claimants as a percentage of residents aged between 16 and 24 years old was 4.1% in the Midlands Engine and 3.6% for the UK in August 2022.

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



Out of the 1,511 wards within the Midlands Engine, **619 were at or above the UK proportion of 3.6%** for the number of claimants as a percentage of the population aged between 16-24 years old in August 2022.

The ward with the highest the number of claimants as a percentage of the population was Joiner's Square (Stoke-on-Trent) at 14.4%. This is by followed Gainsborough South-West (West Lindsey) at 12.8%, then East Marsh (North East Lincolnshire) at 11.7%. In contrast, within the Midlands Engine there **were 120 wards with no youth claimants** in August 2022.

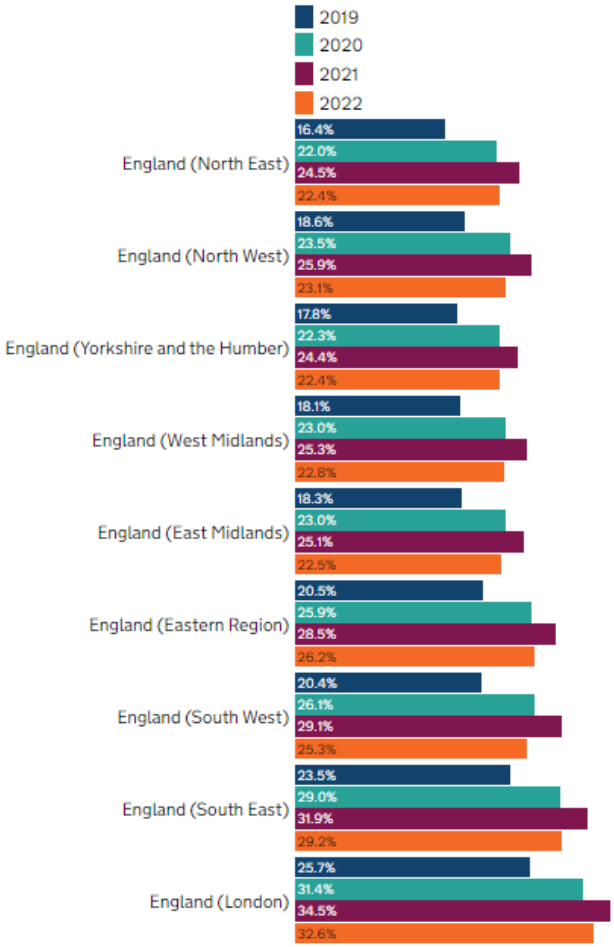
Source: ONS/ Department for Work and Pensions, September 2022.
Located on the Midlands Engine Hub is an [Interactive Claimant Count Dashboard]

GCSE Results

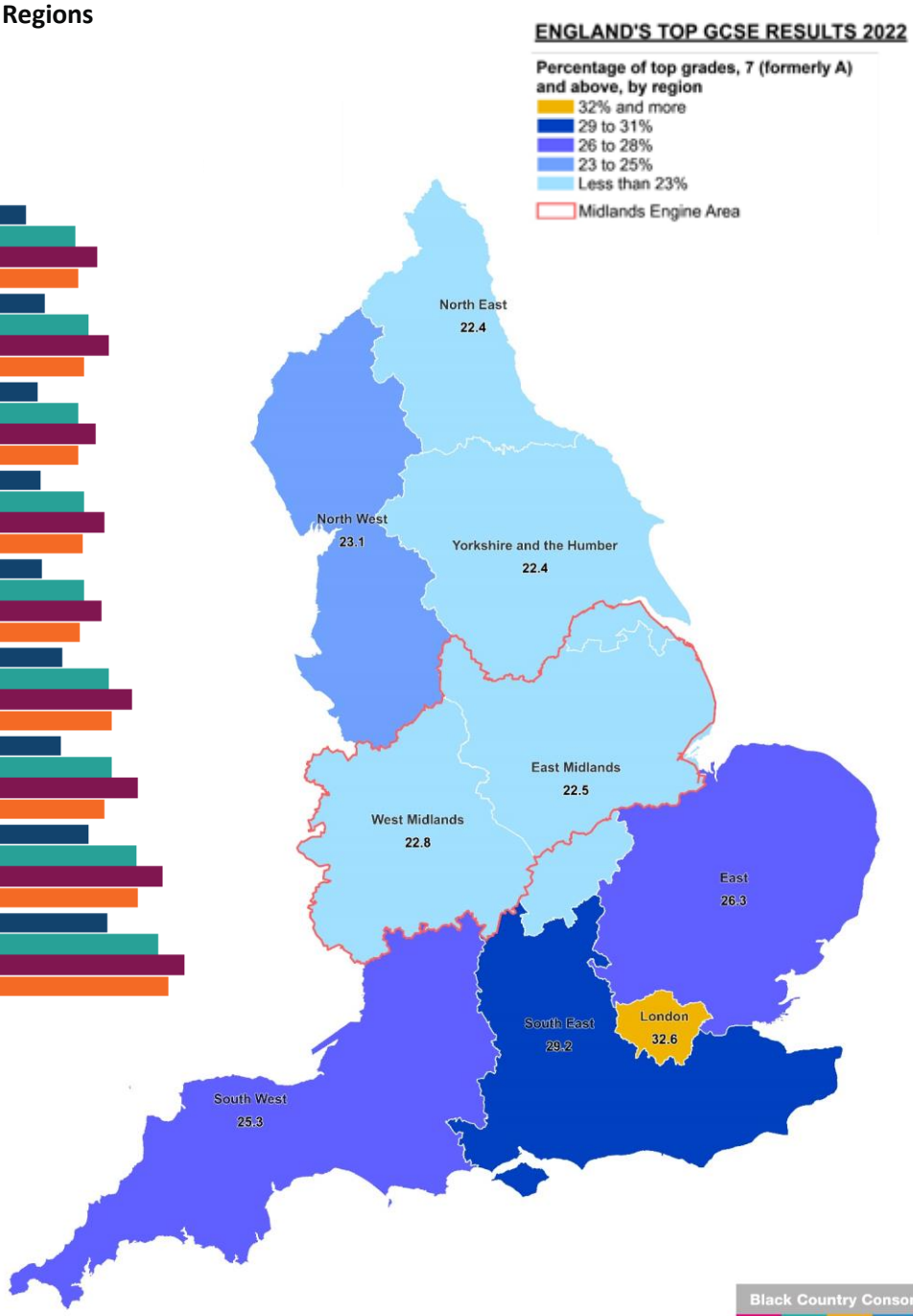
As seen in the following map, in 2022, London received the highest proportion of GCSE grades at 7/A or above out of all the regions at 32.6%, the **West Midlands received the fourth lowest proportion at 22.8%, the East Midlands received the third lowest at 22.5%**, down to the joint lowest regions; North East and the Yorkshire and The Humber at 22.4%.

When compared to 2019, there has been an **increase of 4.7 percentage points in the West Midlands and an increase of 4.2 percentage points in the East Midlands**. However, the gap to London has increased from 7.6 percentage to 9.8 percentage points for the West Midlands and from 7.4 percentage points to 10.1 percentage points in the East Midlands.

Trends in the Proportion of GCSE grades at 7/A or above across English Regions in Between 2019 -2022:



Proportion of GCSE grades at 7/A or above across English Regions in 2022:



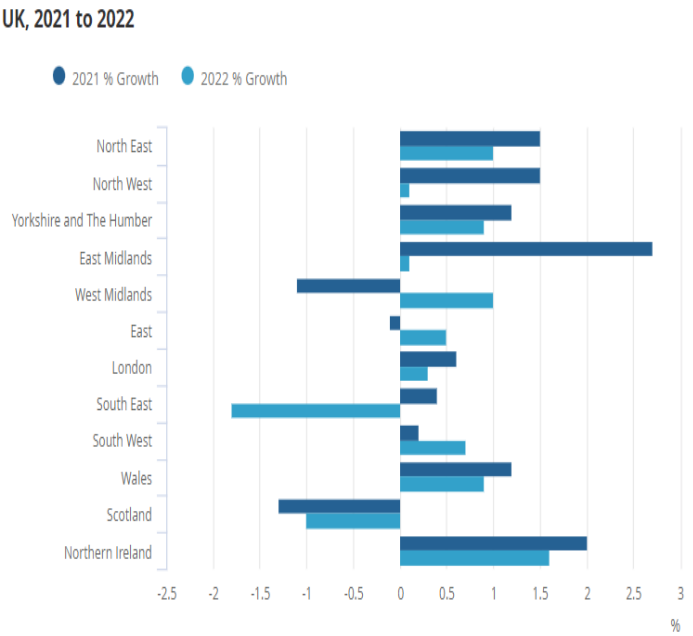
Source: Ofqual, 2022

2. Business Environment

UK Business: Activity, Size and Location

The UK Business: activity, size and location dataset released in September 2022 provides a snapshot of the Business Demography dataset from March 2022. The fuller Business Demography is released in November each year which provides the total number of active enterprises, births, deaths and survival rates.

Percentage Business Growth 2021 to 2022 by UK Region



Enterprises and Characteristics

According to the data, the UK business population has remained fairly steady over the last two years. The snapshot from March 2022 shows there were **383,095 enterprises** in the Midlands Engine area, an **increase of 0.7% (+2,535 enterprises) compared to March 2021 snapshot.** This is a greater increase that the UK overall (increase of 0.1%). There were small increases in the number of businesses in most regions between 2021 and 2022, with an **interesting contrast between the East Midlands and West Midlands – with the former showing subdued growth in 2022 after high growth in 2021, and the latter the opposite.**

The latest snapshot data (March 2022) shows that, in the Midlands Engine area, **88.9% (340,735) of enterprises employ between 0-9 employees**, below the UK average of 89.5%. The percentage of Midlands Engine enterprises that **employ 10-49 people is above the UK average (9.1% vs 8.6%) and also for enterprises that employed 50 to 249 people (1.6% vs 1.5%).**

	Number of Businesses by Employment Size Band				
Employment Size Band	0-9	10-49	50-249	250+	Total
Midlands Engine	**340,735**	**34,795**	**5,990**	**1,570**	**383,090**
Midlands Engine % of Total	**88.9%**	**9.1%**	**1.6%**	**0.4%**	**100%**
UK	2,476,210	239,100	41,815	10,575	2,767,700
UK % of Total	89.5%	8.6%	1.5%	0.4%	100%

The Midlands Engine area has a **slightly higher proportion of enterprises with a turnover between £250,000 - £999,000 than the UK, at 19.7%** of enterprises compared with 19.6%. The region also exceeds the UK average for enterprises with turnovers between **£1m - £4.99m at 7.0% of enterprises**, while the UK average was 6.8%.

	Number of Businesses by Turnover Size Band					
Turnover Size Band	£0 - £249,000	£250,000 - £999,999	£1m - £4.99m	£5m - £49.99m	£50m+	Total
Midlands Engine	**272,550**	**75,365**	**26,645**	**7,470**	**1,060**	**383,090**
Midlands Engine % of Total	**71.1%**	**19.7%**	**7.0%**	**1.9%**	**0.3%**	**100%**
UK	1,975,620	541,530	187,695	54,250	8,605	2,767,700
UK % of Total	71.4%	19.6%	6.8%	2.0%	0.3%	100%

Enterprises by Broad Industrial Group

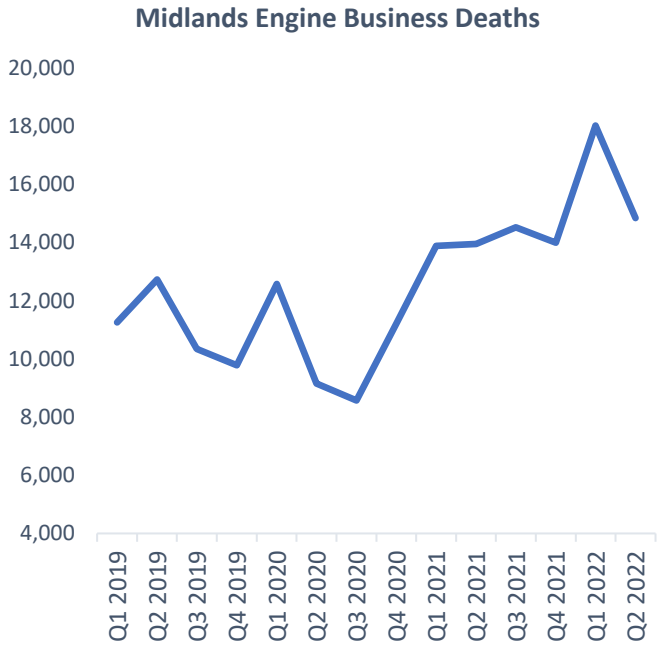
In the Midlands Engine area, the industry section with the highest proportion of enterprises was the **construction which accounts for 13.3% of the business base**, compared to UK average of 13.5%.
The 2022 snapshot shows that the Midlands Engine had a **higher proportion of enterprises in nine industry sections when compared to the UK,** with a further one industrial matching the UK-wide proportion. These include were; agriculture, forestry & fishing (5.5% vs 5.1%), production (7.1% vs 5.6%), motor trades (3.7% vs 2.9%), transport & storage (7.2% vs 5.0%), and health (4.1% vs 3.8%).

Source: ONS, UK Business: Activity, size and Location: 2022

Business Births and Deaths

The whirlwind of cost pressures and uncertainty has filtered through to **higher levels of business deaths in recent months and quarters.** The total number of corporate insolvencies actually fell during the pandemic across the UK (because of Government fiscal and other measures that were put in place to support businesses), **but since this support was withdrawn business closures have returned to and above traditional levels.**

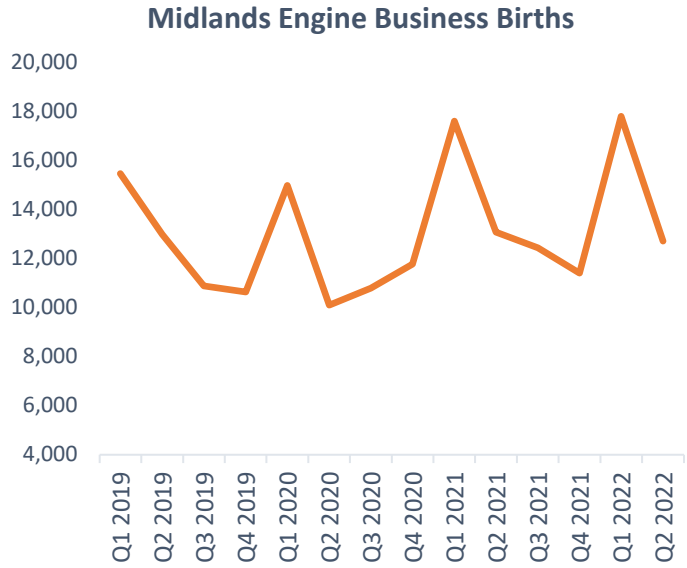
Experimental low-level geographic analysis by ONS has found that, in **2021 the number of business deaths in the Midlands Engine area was 56,355**, a 27.7% increase compared to 2019 (44,120). This is broadly line with the national average increase (+28.8%) but certain areas in the Midlands have fared worse.



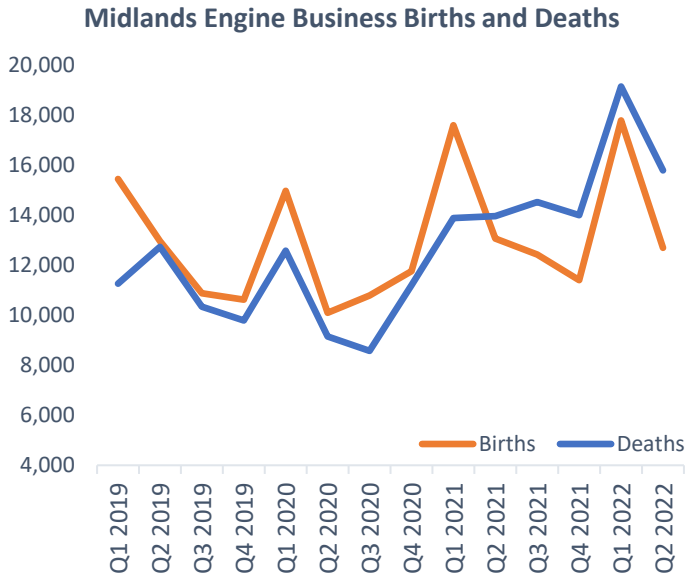
As the graph depicts, business deaths have risen in the Midlands Engine from 2021, **reaching their peak in Q1 2022** (over 19,000 deaths), before falling back in Q2, albeit still at a comparatively high level. Given the current cost of doing business crisis, **the next quarters of data will be important to follow.**

When comparing total business deaths in 2021 to 2019, the Midlands Engine local authorities with the **largest increase in business deaths are Blaby (+107.8%), Telford and Wrekin (+103.3%), Wychavon (+98.6%) and Rutland (+94.1%)**. In contrast, the large urban areas of Birmingham (-7.8%) and Nottingham (-5.3%) saw the **number of business deaths fall in this time period,** as did Charnwood (-3.8%), Newark and Sherwood (-3.0%) and Melton (-2.0%).

Regarding business births, there was **54,460 in the Midlands Engine in 2021.** This represents an increase of **9.1% from 2019 (49,910), more than double the rate of increase compared to the UK overall (+4.0%).**



However, **in 2021 the number of business deaths rose above the number of business births in the Midlands Engine (-1,895 more deaths than births);** characteristic of over half (35) of the region's local authorities and also nationally. The Midlands local authorities with the most **positive births to deaths ratio (more births than deaths) in 2021 were Mansfield, Sandwell, Wolverhampton, Broxtowe and Cannock Chase**; while the most negative (more deaths than births) include Bromsgrove, South Staffordshire, Wychavon and Warwick. As shown in the graph below, **business deaths being above business births marks a change from the pre-pandemic period, reflecting the current crises.**



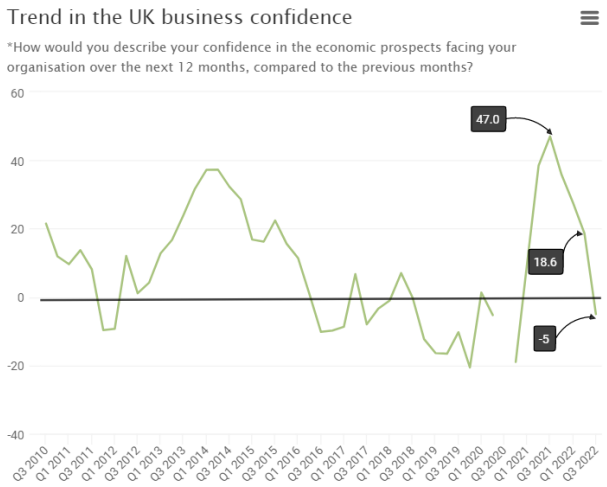
ONS: Business demography, quarterly experimental statistics, low-level geographic breakdown, UK, 2022

Business Confidence

ICAEW's Business Confidence Monitor (BCM) is an authoritative and authentic check on the nation's economic pulse. The results are based on 1,000 telephone interviews among ICAEW Chartered Accountants covering a range of UK sectors, regions and company sizes, ensuring a representative picture of the UK economy.

The latest monitor (Q3 2022) shows **business confidence is falling into negative territory** as companies' fact a cost of doing business crisis, alongside the cost of living crisis faced by consumers. **Both input prices and labour costs are rising, alongside growing challenges with transport and the tax burden**, as well as regulatory requirements and customer demand. Whilst companies continue to experience rising sales, they expect slower growth over the year ahead. Generally, this is reversing gains achieved during the recovery from COVID-19 with all sectors, regions and types of companies being affected.

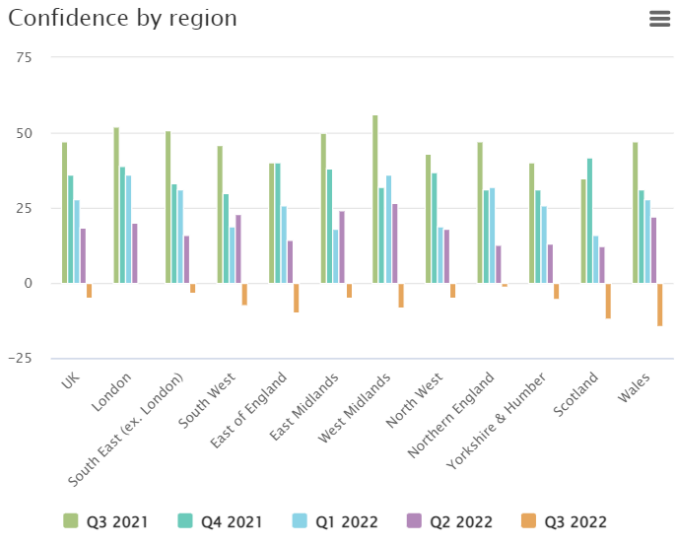
Confidence Overall



Source: ICAEW using Oxford Economics/ONS data

- The Business Confidence Index is back below zero at **-5**, **down from a high point of 47 a year earlier**, with companies expecting the next 12 months to be tougher than the previous 12 with all sectors experiencing a decline.
- Declining confidence reflects a range of growing challenges, led by **shortages of non-management skills**, which have overtaken staff turnover as the most pressing difficulty businesses face with twice as many companies in this quarter than a year ago **-44% in Q3 2022 compared with 20% in Q3 2021**. Similarly, companies are reporting problems with the availability of management skills.
- **Regulatory challenges remain a big issue**, now joined by difficulties created by the tax burden mainly reflecting the levels of taxes companies and their customers have to pay. Other challenges include **transport problems, marketplace competition and customer demand**.

Confidence by Region



Source: ICAEW using Oxford Economics/ONS data

The Business Confidence Index has fallen markedly across the UK nations and regions. The index is flat for London businesses, while those in Wales and Scotland have the most negative readings. Yet, **companies in London and the West Midlands anticipate that domestic sales growth will outperform the UK average** as concerns of export growth not being as strong as domestic sales - with Brexit likely as an important factor. Domestically, companies' sales increased by **6.4%** in the 12 months to Q3 2022, repeating the previous quarter's historic high. Before the pandemic the record increase was **5.7%** in Q4 2007. At the same time, export growth has been at **3.1%** over the past year.

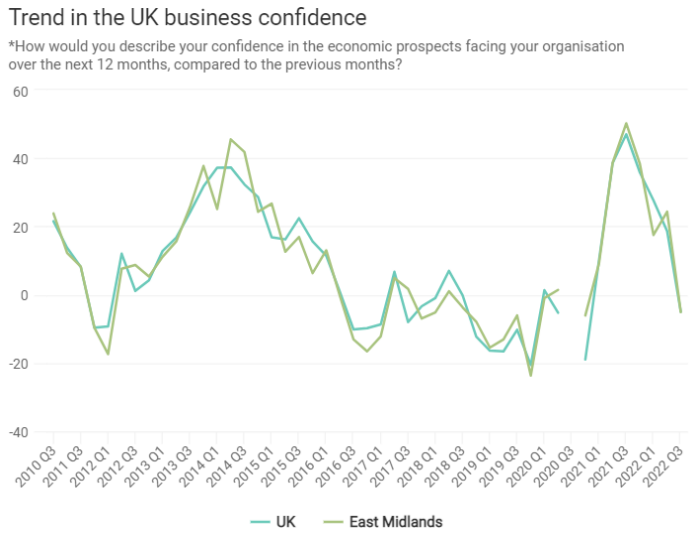
Falling confidence largely reflects rising input and labour costs, rather than demand conditions. In particular, Welsh businesses have the strongest expectations for both input costs and salaries over the next 12 months. Against the backdrop of supply-side problems, capacity constraints and a global surge in costs, **input inflation has climbed to its highest rate since the survey began in 2004.** In the year to Q3 2022, input prices increased by **4.8%**, markedly faster than the previous record-high of **4.2%** in Q4 2008. Businesses do not expect these cost pressures to dissipate, with a further **4.7%** increase in input costs forecasts over the next 12 months.

Skill availability challenges, especially regarding **the availability of management and non-management skills are both most widespread in the East Midlands**, whilst transport challenges are especially challenging for businesses in the East of England and Yorkshire & Humber. **For Welsh businesses the tax burden has surged in prominence, with the issue more widespread there than in any other region except for the East Midlands.**

Source: ICAEW, 2022

Business Confidence

East Midlands Business Confidence



The Business Confidence Index for the East Midlands continues to fall from its peak of **40 in Q3 2021** and now stands at **-5.1** reflecting a range of growing challenges.

Domestic Sales and Exports Growth

Sales performance remained strong with domestic sales growing **6.5% year-on-year**. Businesses, however, expect this to slow down to **5.1% growth in the year to Q3 2023**. Export growth has been more modest with sales rising by **2.1%, year-on-year, in Q3 2022**. Still, **exports expectations are to increase at a sharper pace of 3.3%** over the year marking a return to pre-pandemic levels.

Business Challenges

Skills challenges are more widespread in the East Midlands with the proportions of businesses reporting the availability of non-management **(53%)** and management **(36%)** skills are at all-time highs for the region, and higher than anywhere else in the country. Other issues include high staff turnover **(46%)**, the tax burden **(38%)** and government support as a growing challenge **(16%)**, higher than anywhere in the country.

Labour Market

Challenges in the labour market help to explain why the average salary growth is at its highest over a decade **(2.8%)** with companies expecting an even sharper rise next year **(3.2%)**. Similarly, businesses in the East Midlands achieved a higher rate of employment growth **(2.2%)** than the historical average.

Input, Selling Prices and Profits Growth

Businesses face increasing pressure in terms of input costs, with annual input price inflation **(5.1%)** running at its sharpest pace since the survey began. In turn, selling prices increased significantly **(3.3%)** with the same increase planned over the next 12 months.

West Midlands Business Confidence

The Business Confidence Index for the West Midlands equally continues to fall from its peak of **56 in Q3 2021** and has entered negative territory at **-8.1**, in Q3 2022.

Domestic Sales and Exports

Although the business confidence weakened, companies are achieving robust sales growth of **6.9%** - slightly lower than in the previous quarter. Businesses in the region project a smaller rise in the year ahead, but at **5.6%**, this will be the fastest increase in the UK. Export wise, **the 4.3% rise over the past 12 months is the strongest the region has seen since Q1 2013 and the second fastest rate of expansion in the UK.** Over the next 12 months, businesses in the region expect exports to expand by **5%** - faster than anywhere in the country.

Business Challenges

Labour market challenges have come to the fore and are particularly apparent to the region's manufacturing base. These challenges include increasingly high staff turnover **(44%)** alongside the availability of skills including management skills **(35%)** and non-management skills **(38%)** remaining above the regions historical average. Regulatory requirements are the second most widespread issue for business **(39%)**, with transport being cited as a growing issue **(31%)**.

Labour Market

Despite labour market challenges, the number of employees is **4% higher than a year ago – this increase being faster than nationally.** Simultaneously, salaries are growing at fastest rate since the survey's began **(3.7%)**.

Input, Selling Prices and Profits Growth

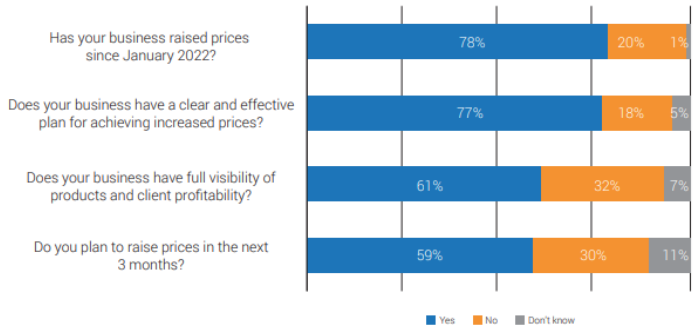
Businesses also face higher input prices, in turn increasing prices sharply **(3.6%)**, with similarly strong gains expected over the next year **(3.5%).**

Source: ICAEW, 2022

Make UK Manufacturing Outlook

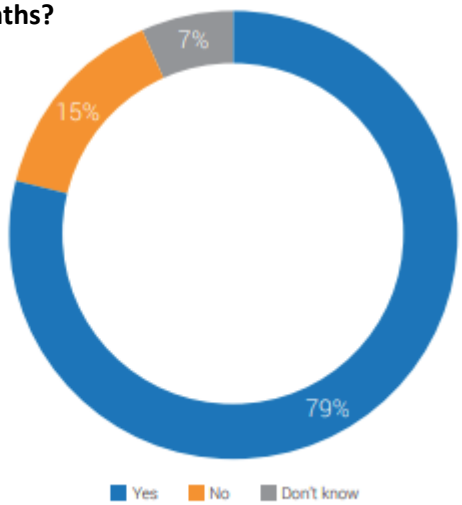
Make UK's Q3 2022 Manufacturing Outlook report provides an update on activities of UK manufacturers, this edition makes an inflationary pressures spotlight special.

Businesses are bringing in considered price increases



Source: Make UK and BDO Inflationary Pressures survey, September 2022

Is your business expected to be profitable over the next 6 months?



Source: Make UK and BDO Inflationary Pressures survey, September 2022

54% of manufacturers report that their **client contracts** have sufficient flexibility for inflationary price changes. 50% report that their **supplier contracts** have sufficient flexibility for inflationary price changes. Half of the manufacturing industry already has contracts in place to mitigate the worst of the margin-eating effects mid-project input cost fluctuations will have. The other half, those that either know their contracts do not have that capacity or don't know either way, are **exposed to deal failures and instances of force majeure**, especially when they and/or their suppliers will not deliver on contracts that force them to incur significant losses.

Sizeable portions of the industry are **taking production and procurement actions as a result of the inflationary environment.** 4 in 10 manufacturers have adjusted production volumes, most likely reducing production on lines where margins are either nil or negative. Similarly, 34% of the industry say that they have **changed to cheaper suppliers in response.**

Source: MakeUK, 2022

Output

Output and orders growth has now slowed down for four quarters in a row. It signals the inevitable end of the pandemic induced recovery period succeeding in the coming years as new challenges begin to put significant pressure on manufacturers. The output and order gap remains wide by a significant margin indicating continued supply-chain challenges. The persistence in this gap is partially to blame for ongoing inflation across the economy resulting in many manufacturers finding it more difficult to access critical inputs and fulfil orders. Most manufacturers expect growth in Q4 2022, however given how quickly the external economic environment is changing it is difficult to predict whether businesses will be able to keep the heating on this winter.

The latest balance of 5% indicates a positive share of manufactures have reported growth in output in the last three months, but this figure is down from 10% last quarter. The figure for output is expected to reach 30% in the next three months. **This quarter the East Midlands reached outputs of 32% whilst the West Midlands reached a performance of 21%, the next quarter's expectations are that output will further drop to 27% in the East Midlands and grow significantly in the West Midlands to 45%.**

Orders

The latest balance of 15% is a smaller decrease than last quarter, when the order balance fell by more than half. However, the balance is still positive indicating that a larger share of manufacturers are reporting more orders, than those reporting less. Orders are expected to reach 22% in the next quarter. **This quarter's total orders for the East Midlands were 23% with expectations to drop to 9% and the West Midlands were 30% and are expected to stay the same next quarter.**

Employment and Investment

The balance on employment and investment intentions **improved slightly** following a significant fall last quarter. Manufacturers reported a **balance of +10%** for employment as they continue to employ at speed due to the belief that orders will grow again. However, **rising energy costs are already resulting in businesses considering making fresh redundancies before year's end** which could reverse the employment growth trend. Improving investment intentions is a good sign that businesses are aware of their needs to expand, but a balance of +5% is only just matching output growth this quarter meaning it is likely investment activity will still fall short of what is required.

Employment in the East Midlands this quarter was 23% whilst the West Midlands had 6%, next quarters expectations are 36% and 39% respectively.

MakeUK Manufacturing Outlook

Prices & Margins

Prices have grown at exorbitant rates since the first quarter of 2021. For almost a year now the balance of growth for domestic and export prices has **exceeded +50% repeatedly**, indicating widespread inflation across the industry. Margins show no signs of improving after three quarters of negativity indicating higher costs are not being passed through fully resulting in reduced profits for businesses.

National & Regional Confidence

Business and economic confidence have **diverged** for the first time in recent memory, with the former having improved between Q2 and Q3 this year. Although manufacturers expect their own business performance to be positive over the next 12 months, **it is clear businesses do not feel optimistic about how the UK economy future will fare.**

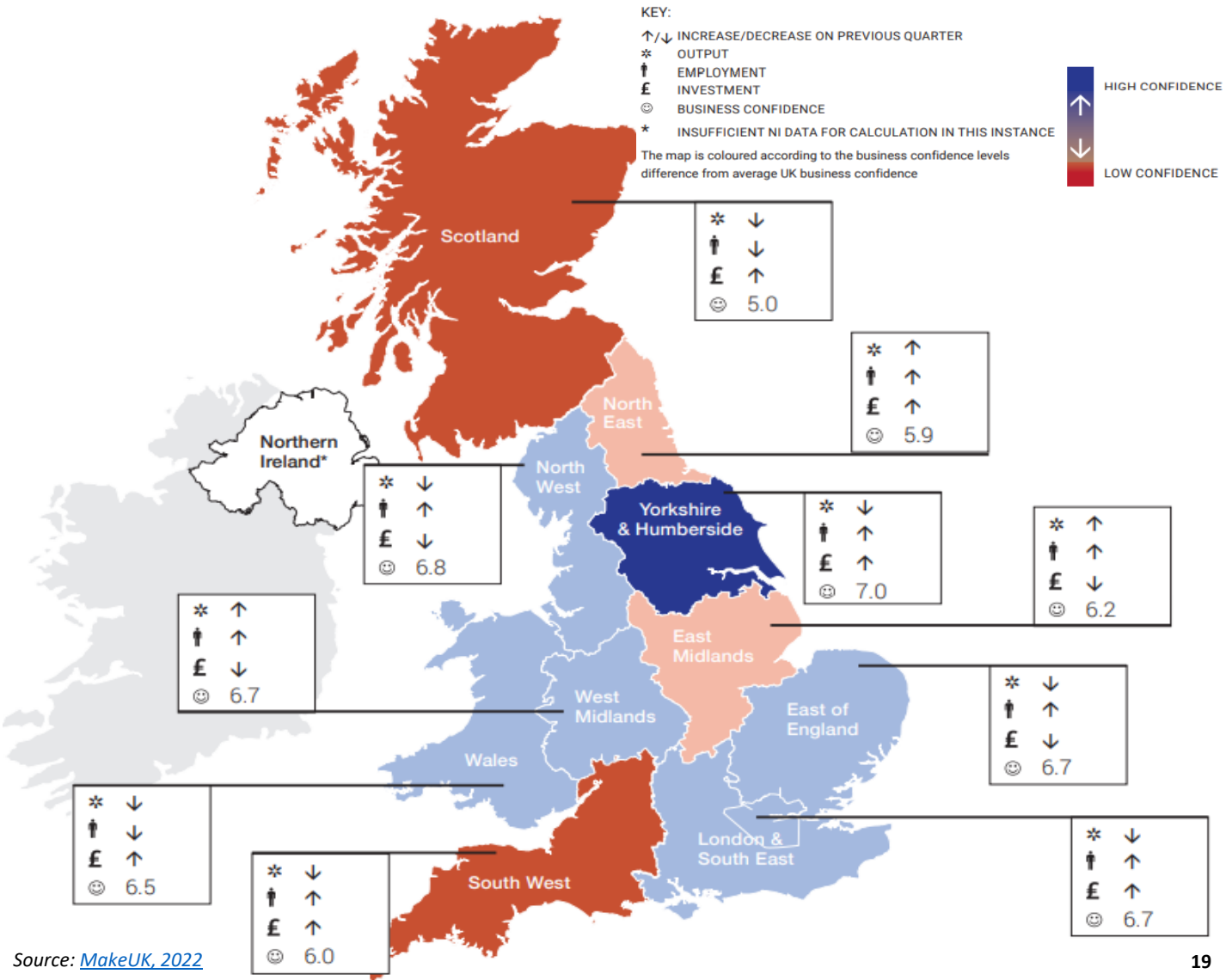
Economic Environment

This quarter, the UK reported its **worst trade deficit** since records began. The Bank of England (BoE) is now predicting the **longest downturn** since the Global Financial Crisis of 2008. The economy already contracted by 0.1% in the second quarter of the year.

International forecasters including the OECD say that due to factors including our diminished global trade since Brexit, **Great Britain is more susceptible to recession and inflation than other Western economies**, and we are also less equipped to recover. The IMF is among the groups predicting the UK could see the **slowest growth and most painful inflation of any G7 economy in 2023**, thanks, in part, to our relatively high reliance on fossil fuels, a big driver of inflation.

Price increases mean less disposable income for households to spend. The British Retail Consortium says **sales are now falling at a rate not seen since the depths of the first Covid-19 lockdown.**

Business confidence levels difference from average UK business confidence



Source: MakeUK, 2022

Local Business Intelligence By Sector

SECTOR	KEY INSIGHTS
Low Carbon	• **Sustainability is "very important" for SMEs but, according to one LEP / Growth Hub, less than half use a recycling service** which in an indication that while awareness and education is improving, **businesses still need assistance in putting sustainability into practice.** • **Solar panel installers have reported a dramatic increase in recent demand for both residential and commercial projects.** However, this demand is offset by challenges in sourcing components, particularly PV panels from China. • **Securing investment and finance for tech-led low carbon businesses continues to grow,** with investors recognising the future potential for the sector. Government focus on developing the **cleantech sector continues to rise, which gives further confidence to investors and businesses developing new products for the sector.** • Work across the Midlands **has highlighted the need for net zero to be embedded within business plans and jobs for green growth to take off.**
Manufacturing	• **Manufacturers across the region are struggling to cope with the continued rising energy costs** in addition to continued supply chain constraints related to materials supply. • SME manufacturers are hit particularly badly. Many have put plans (albeit before the government's energy relief scheme announcement) to: - **Only work 3 days per week during the winter** - **Relocate office staff to shop floor to close upper office areas** - **Look for opportunities in diversification** • MakeUK slashed its growth forecasts for manufacturing in September 2022, predicting sector **growth of just 0.6% in 2023, down from 1.7% forecast as recently as June.** As well as the need for short-term measures, MakeUK also re-iterated its call for a long-term **National Manufacturing Plan which sets out a longer-term vision for the economy.** • Repowering the Black Country and the West Midlands Combined Authority have announced the **West Midlands Industrial Energy Taskforce.** The taskforce will build on the work already underway to identify specific short-term measures government and industrial partners can take to **mitigate the immediate impacts of industrial energy cost increases.**
Logistics & Transport	• Transport for the East Midlands (TfEM) and Midlands Connect, have highlighted **eight shared priorities in a new joint vision for the cities and counties of the East Midlands.** • This includes visions for **better rail links, reduced congestion and safer roads** are all highlighted as key priorities for levelling up the East Midlands in a new document. • The eight priorities are: - **Electrification of the Midland Main Line** - **Improved rail connectivity between Nottingham, Leicester and Coventry** - **The delivery of HS2 to the East Midlands and Leeds** - **Enhancements to the A46 Growth Corridor** - **Reducing congestion and improving safety on the A5 Growth Corridor** - **Supporting growth and improving reliability throughout the A50/A500 Corridor** - **Improving safety and reliability on the A1** - **Improving connectivity across EMDevCo and East Midlands Freeport areas.**
Hospitality & Retail	• Hospitality is particularly hit by cost increases, **with pub and brewing company bosses signing an open letter to the Government urging it to act in order to avoid "real and serious irreversible damage"** to the sector. • Some in the sector have urged pubs and other hospitality businesses to **"diversify or risk losing the British pub industry."**
Cross-Sector	• All sectors (including production, services and consumer-facing) are now being **affected by rising costs, particularly energy, but also related to wages, materials and other goods.** • This is impacting every step of supply chains, while putting firms in a **difficult position deciding between substantially raising prices for customers or absorbing costs.** • Government support in recent weeks has **initially been welcomed** but its real **effectiveness and long-term benefit remains to be seen by many businesses and communities.**

Local Business Intelligence

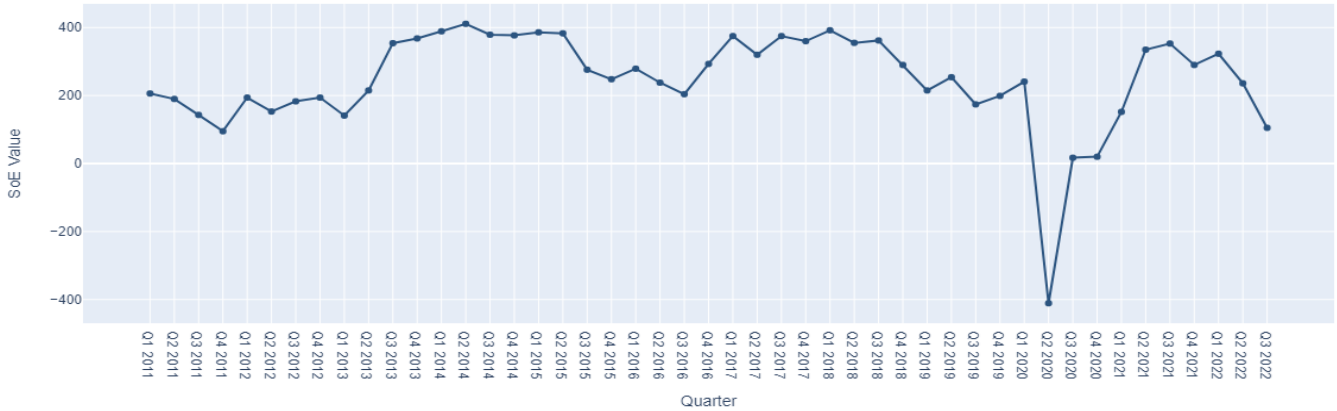
This section draws on contributions from the East Midlands Chamber, Make UK, the NFU, and the FSB.

EMC Regional Overview

This commentary draws on full Q3 Quarterly Economic Survey results. Note that the data collection period preceded the recent 'mini-Budget'.

The overall **State of the Economy Index compiled from the QES has fallen further since Q2 reinforcing the view that the economies of the Midlands are heading into recession.**

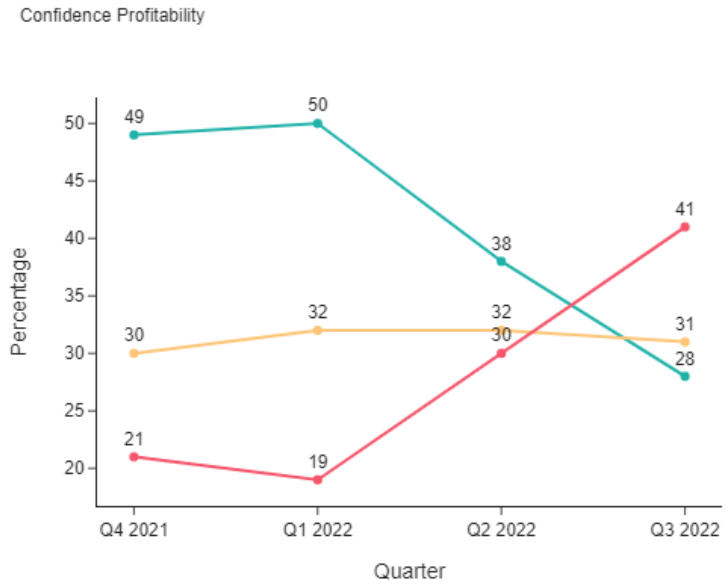
State of the Economy Index to Q3 2022:



This overall picture is further reinforced when we look at the individual indicators collected as part of the QES. **All indicators**, with the exception of 'size of labour force', have **deteriorated** over the last 3 months.

It is striking that, even before the 'mini-Budget' and subsequent market volatility that has affected interest and exchange rates, confidence in future turnover levels and profitability had both deteriorated. In the case of future profitability, this indicator is now recording a negative balance for the first time since the depth of the Covid trough in 2020.

Confidence in Future Profitability:



Consistent with Quarter 2, Chamber members continue to report **significant input cost pressures**.

Demand for the goods and services that they supply in the domestic market is reported to have softened slightly, but **sales in overseas markets is now recording a negative net balance of 10 percentage points.** Whether this will continue to be the case as the 'cost of living' crises impacts on household expenditure remains to be seen.

39% of Chamber members were reported to be operating at full capacity. A figure that is reported to be high by historic standards. This may add to concerns, alongside low unemployment rates, about the potential inflationary impact of the Chancellor's mini-Budget.

Investment intentions dropped quarter on quarter for both investment in plant and machinery and training.

It has been suggested that with a significant proportion of firms now operating at or near to full capacity, **one would normally expect investment intentions to be stronger**. This may reflect growing borrowing costs and a generally uncertain economic outlook.

Recruitment remains a significant business concern. Two thirds of members report that they have attempted to recruit. Of these firms, 82% indicate that they have struggled to fill vacancies. It is noteworthy that recruitment difficulties are being **reported at all skill levels** – including in relation to unskilled roles.

Investment intentions in relation to plant and machinery remain positive by the slender margin of one percentage point. Similarly, the net balance on investment intentions for training remain positive, but both measures have deteriorated over the last month.

When asked about their biggest current concerns, inflation is now ranked highest by a large margin followed by access to skilled labour, interest rates and then exchange rates. **Concerns about competition – traditionally a major concern for respondents to this survey – are ranked 7th.**

Rising input cost pressures on businesses are not yet thought to have fed through into rising insolvencies, although this remains a future risk – particularly in light of the hangover of loans associated with Government support during the Covid lockdown periods.

Summary of Q3 QES indicators:

Indicators	Net Value - Q2 2022	Net Value - Q3 2022	Net change over quarter	Direction of change
UK Sales	27.0 %	5.0 %	-22.0 %	🔴
UK Orders	22.0 %	3.0 %	-19.0 %	🔴
Overseas Sales	2.0 %	-10.0 %	-12.0 %	🔴
Overseas Orders	3.0 %	2.0 %	-1.0 %	🔴
Labour Force (Past 3 Months)	9.0 %	13.0 %	4.0 %	🟢
Cash Flow	4.0 %	-14.0 %	-18.0 %	🔴
Workforce (Next 3 months)	33.0 %	24.0 %	-9.0 %	🔴
Future Prices	62.0 %	58.0 %	-4.0 %	🔴
Investment in Machinery	7.0 %	1.0 %	-6.0 %	🔴
Investment in Training	17.0 %	11.0 %	-6.0 %	🔴
Confidence Turnover	42.0 %	25.0 %	-17.0 %	🔴
Confidence Profitability	8.0 %	-13.0 %	-21.0 %	🔴

Make UK - Manufacturing

The overriding story of manufacturing industry in the Midlands is reported to be one of great volatility. Aspects of the mini-Budget including specifically the energy price cap have been welcome, but **concerns are reported that the 6-month duration of the commercial energy price cap is inadequate to allow businesses to plan and does not align well with the contract periods in common use for commercial energy supply.**

Energy prices remain an abiding concern of many manufacturers – particularly intensive users. Adoption of renewables such as solar power is being affected by growing lead times for orders of solar panels for commercial installation.

Despite suffering significant input cost increases, many manufacturers are reporting limited scope to pass these cost increases to their customers.

Business performance remains adversely affected by shortages in the availability of skilled labour.

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

On the financial side, more than two thirds of manufacturers are reporting that they are not achieving budgets set at the start of the year.

Manufacturing Skills

Make UK have recently published a report on the impact of skills shortages on manufacturing employers. Headline findings from this report include:

- **95,000 current manufacturing vacancies costing the British economy £7.7 billion a year - a £21million daily loss to UK GDP**
- 50% of manufacturers say they cannot source the talent their business needs locally
- And 62% reported the will not find it easy to ensure their businesses have the skills they need to power ahead to 2030
- Automation, digitalisation and environmental sustainability came out top of companies' priority lists
- 58% of manufacturers plan to recruit engineering technicians and 61% are prioritising production and process engineers between now and 2030
- Automation is changing business focus – with over a quarter (27%) of companies saying they need data analysts and 11% plan to recruit data scientists
- **Almost three-quarters (74%) of businesses expect demand for cognitive and metacognitive skills like critical thinking, creative thinking and learning to learn to increase with the transition to a green and digital future across manufacturing gathers pace**

The report concludes that British **manufacturing companies are now having to compete with top City banks and leading innovation companies to secure employees with the relevant digital and technical skills needed to drive automation** through traditional businesses. The move towards digitalisation of production processes has accelerated in recent months, leaving companies desperate to recruit the very best qualified technical engineers and data experts.

FSB – Small Business Experiences

Energy is the number one concern for FSB members right now. Both security of supply and cost. Government pledges of support are welcome but the detail is less clear and there are **concerns that some small businesses may miss out due** to current/recent contractual commitments and **lack of bargaining power** (smaller businesses being more akin to domestic consumers in terms of market knowledge and bargaining power).

Even with Govt support, heavy users (manufacturing, hospitality & leisure) are really concerned about additional costs as we face the winter months. Security of supply is also a concern, as unexpected power outages could be a huge disruptor to businesses and also cause additional costs due to business recovery requirements or, in the case of manufacturing, damage to plant & tooling due to unexpected shutdowns. The power matrix must be managed efficiently, effectively and with minimum 'surprises' to avoid potentially catastrophic consequences for high dependency businesses.

Skills/labour shortages remain a huge issue for FSB members. Common experiences include:

- low number of applicants;
- **low quality of applicants – from basic employability through to technical skills;**
- successful applicants failing to attend interviews;
- job offers being renegotiated by successful applicants (calling for enhanced wages, working patterns/locations etc);
- **new recruits moving on quickly and established staff securing 'better' employment terms elsewhere** – particularly a problem for smaller businesses which are less able to accommodate flexible/enhanced employment packages; and
- **We are also seeing more early retirees (50+). This seems to be as a result of COVID and the appeal of more flexible working/a reassessment of life priorities**.

There is a need for new thinking – for example, looking at ways to match retired/early retired talent with 'pay as you go' opportunities for them to solve local business skills needs (and to mentor newer entrants to the Midlands workforce). i.e. the skills deficit might be partly addressed by using the huge pool of latent talent available in the growing population of retired, but very able individuals who have a lot to offer but don't want a 9-5 full time job. Particularly relevant to parts of the Midlands that are 'retirement hotspots', such as the rural hinterlands.

NFU – Farming

The NFU report particular concerns about cost of living increases in rural areas as a function both of their **typical reliance on cars and the preponderance of off-grid heating systems in use by rural communities.**
The major concern reported by the farming sector echo those of other sectors reported here: input costs are reported as rising on all sides. In contrast to other economic sector, labour costs or availability are not currently reported to be major concerns. This is largely a result of the **seasonal fluctuation** in the demand for labour as we have moved into autumn. The next labour supply pinch-point is anticipated in relation to abattoir workers in the run-up to Christmas. In common with other sectors noted above, long term solutions to labour supply problems are said to be required. Labour shortages earlier in the year are reported to have **resulted in significant food wastage** particularly among growers of fruit and vegetables.

The launch of the £110m **Rural England Prosperity Fund** has been welcomed. This new fund will run from 2023 to 2025.

Business Insights and Impact on the UK Economy

The Office for National Statistics (ONS) have published the final results from Wave 65 of the **Business Insights and Conditions Survey (BICS)**.

Financial Performance

25.1% of West Midlands businesses and 26.3% of East Midlands businesses reported that the business turnover in August 2022 when compared with the previous calendar month had **increased**. At the other end of the scale, **26.4% of West Midlands businesses and 22.5% of East Midlands businesses reported turnover had decreased.**

25.1% of West Midlands businesses and 25.4% of East Midlands businesses expect turnover to increase in October 2022. At the other end of the scale, 14.5% of West Midlands businesses and 14.3% of East Midlands businesses expect turnover decrease in October 2022.

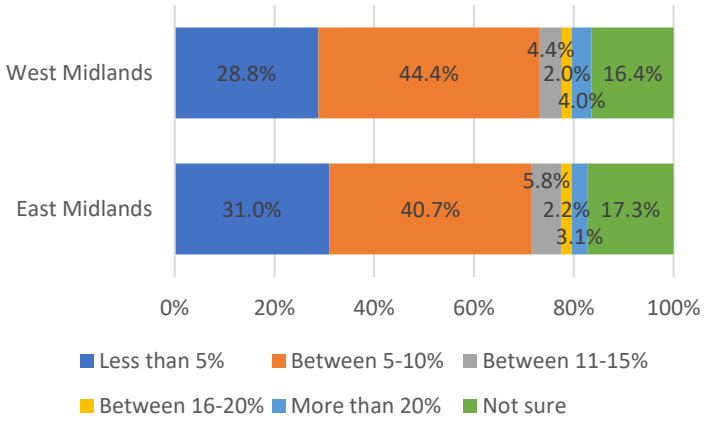
Prices

42.1% of West Midlands businesses and 42.7% of East Midlands businesses reported the prices of goods or services brought in August 2022 when compared to the previous month. At the other end of the scale, 1.1% of West Midlands businesses and less than 1% of East Midlands businesses reported that prices of goods or services brought had decreased.

19.1% of West Midlands businesses and 19.6% of East Midlands businesses reported the prices of goods or services sold in August 2022 when compared to the previous month had increased. 1.5% of West Midlands businesses and 1.4% of East Midlands businesses reported that prices of goods or services sold had decreased.

44.4% of West Midlands businesses and 40.7% of East Midlands businesses reported on average that the prices of good or services sold increased between 5-10% in August 2022.

On average, how much prices of goods or services sold by Midlands businesses increased by in August 2022:



28.9% of West Midlands businesses and 29.3% of East Midlands businesses expect the prices of goods or services sold in October 2022 to increase.

Demand for Goods and Services

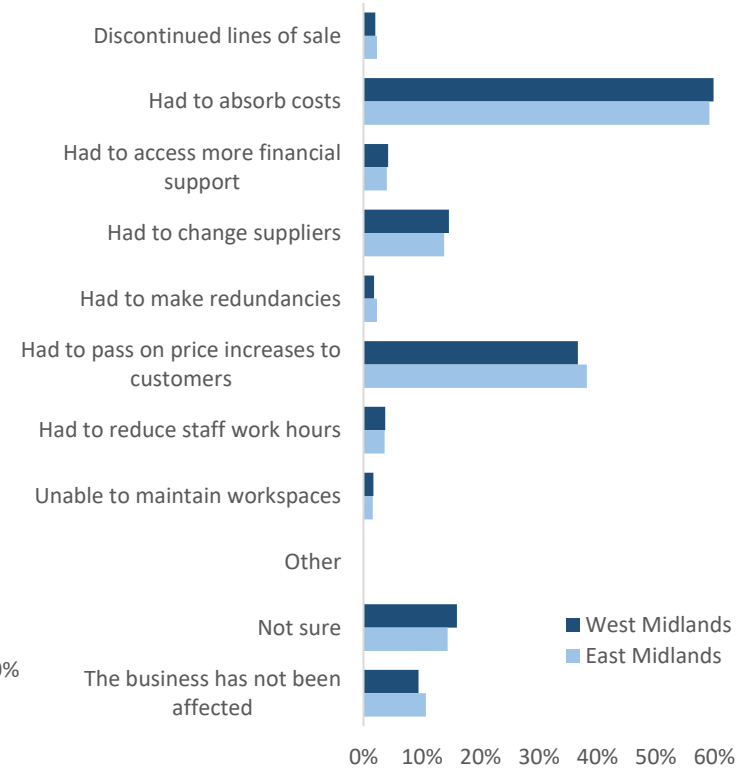
52.8% of West Midlands businesses and 53.3% of East Midlands businesses reported the **domestic demand** for goods or services in August 2022 when compared to the previous calendar month had stayed the same. 12.1% of West Midlands businesses and 12.6% of East Midlands businesses reported an increase. **16.7% of West Midlands businesses and 15.5% of East Midlands businesses reported that domestic demand had decreased.**

In comparison, 26.2% of West Midlands businesses and 24.9% of East Midlands businesses reported the **international demand** for goods or services in August 2022 when compared to the previous calendar month had stayed the same. 3.9% of West Midlands businesses and 3.3% of East Midlands businesses reported an increase. Although, **6.5% of West Midlands businesses and 6.0% of East Midlands businesses reported that international demand had decreased.**

Impacts of Price Rises

59.9% of West Midlands businesses and 59.2% of East Midlands businesses have had to absorb costs due to price rises.

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



Business Insights and Impact on the UK Economy

Number of Employees

21.0% of West Midlands businesses and 22.8% of East Midlands businesses reported the number of employees had increased in August 2022 when compared to the previous month. Although, **13.2% of West Midlands businesses and 12.9% of East Midlands businesses reported the number of employees had decreased.**

21.2% of West Midlands businesses and 24.1% of East Midlands businesses expect the number of employees in October 2022 to increase. **7.4% of West Midlands businesses and 6.8% of East Midlands businesses expect the number of employees to decrease.**

Expected Site Closures

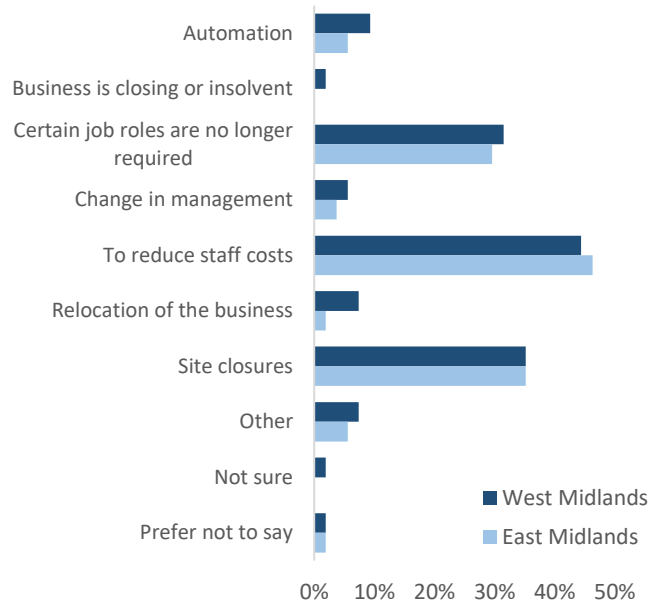
3.5% of West Midlands businesses and 3.8% of East Midlands businesses intend to permanently close business sites in the next three months.

Redundancies

4.1% of West Midlands businesses and 4.7% of East Midlands businesses expect to make redundancies over the next three months.

44.5% of West Midlands businesses and 46.3% of East Midlands businesses reported the reason for the expected redundancies is to reduce staff costs.

Reasons for Midlands Businesses Making Redundancies:



Recruitment Difficulties

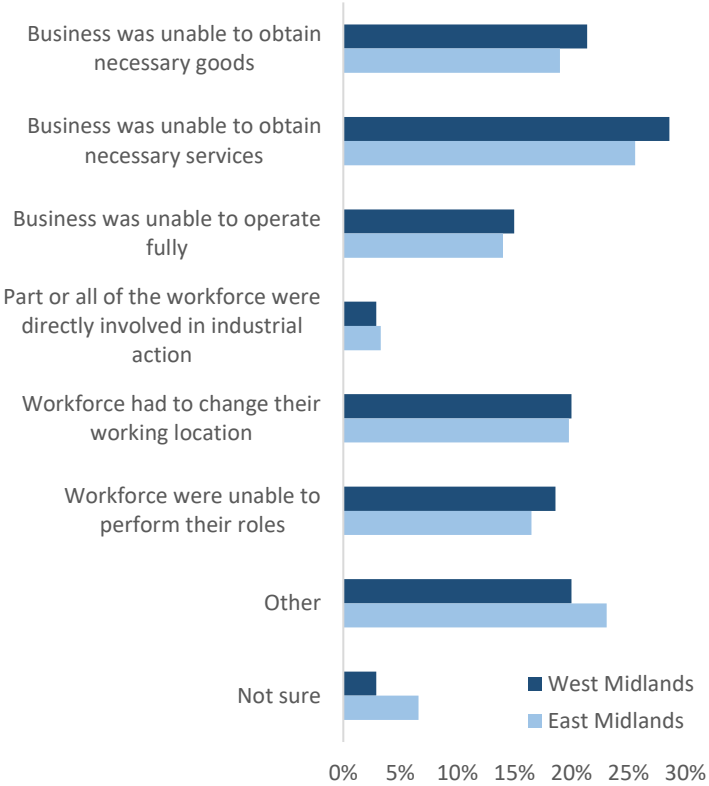
39.1% of West Midlands businesses and 2.4% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in August 2022. While 34.9% of West Midlands businesses and 30.8% of East Midlands businesses reported no difficulties in recruitment.

Industrial Action

10.7% of West Midlands businesses and 10.5% of East Midlands businesses reported to being affected by industrial action in August 2022.

28.6% of West Midlands businesses and 25.6% of East Midlands businesses reported that due to industrial action in August 2022, the business was unable to obtain necessary services.

How Midlands businesses were affected by industrial action in August 2022:



Overall Performance

25.0% of West Midlands businesses and 25.0% of East Midlands businesses reported that **performance had increased** in August 2022. Although, 20.1% of West Midlands businesses and 17.6% of East Midlands businesses reported that **performance had decreased**.

30.7% of West Midlands businesses and 30.6% of East Midlands businesses and expect an **increase in overall performance in the next 12 months**. Although, 13.2% of West Midlands businesses and 13.5% of East Midlands businesses expect **performance will decrease.**

Source: ONS: Wave 65 of the Business Insights and Conditions Survey. In the West Midlands there was a response rate of 25.9% and in the East Midlands there was a response rate of 27.4% where businesses have a presence in the region. There was a response rate of 24.2% for the West Midlands and 26.4% of East Midlands where businesses are headquartered in the region. Survey reference period: 1st to 31st August 2022. Survey live period: 5th to 18th September 2022. As response rates are low and the data is unweighted and should be treated with caution.

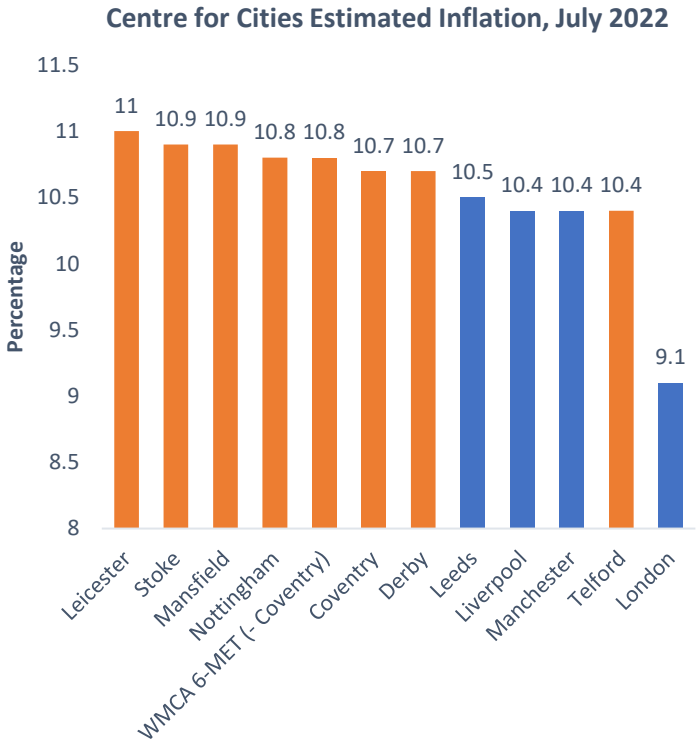
3. The Cost of Living Crisis

The Cost of Living and Doing Business Crisis

The Midlands Engine area is currently facing a **cost-of-living and cost of doing business crisis.** This section **identifies underlying issues which will worsen the impact on the region in comparison to other areas** across the country, looking at the acute issues facing the regions people and businesses.

Regional Economy Impacts

- As identified by Centre for Cities, many of the hardest-hit places are cities and large towns in the North, but Midlands cities are badly affected too. In fact, the **WMCA area (Birmingham, Solihull and the Black Country) is predicted to have the largest inflation rate of major English city-regions** (10.8%), despite being lower than some northern towns.
- 10.8% is the predicted inflation rate in Nottingham too, while some Midlands cities and towns are expected to be even more affected: **Leicester (11% inflation), Stoke (10.9% inflation) and Mansfield (10.9% inflation).**
- **Wages growth has also been more subdued in the Midlands cities** compared to Manchester and particularly London.

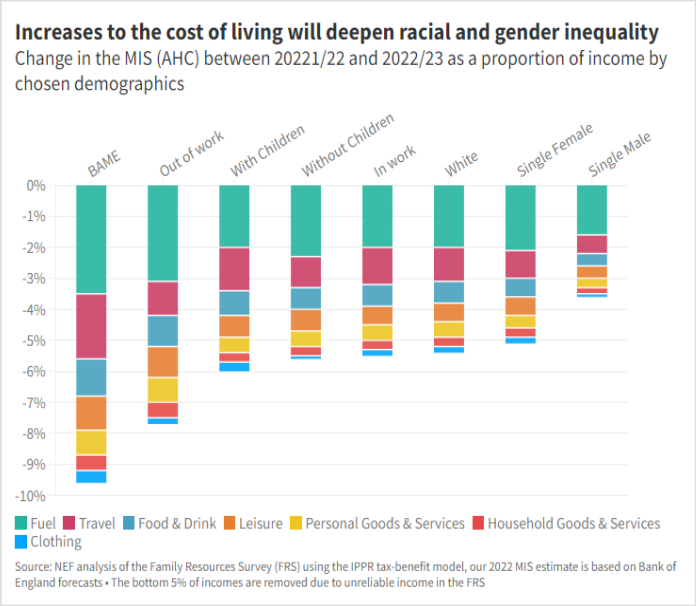


The Midlands is also experiencing a worse economic downturn. KPMG's Economic Outlook based on ONS data suggests from early GDP estimates that the **West Midlands region is having the slowest recovery in reaching pre-pandemic levels, and the East Midlands is experiencing the 4th slowest recovery.**

People & Community Impacts

Some households are clearly affected by the cost of living more than others. **Low-income households** spend a larger proportion than average on energy and food and will therefore be relatively more affected by increases in their prices. The Resolution Foundation suggests that **low-income households will have to reduce their spending by three times as much as high-income households** in order to afford their energy bills.

While the New Economics Foundation analysis highlights that increases to the cost of living will **deepen other inequalities, including racial, gender and age.**



The Midlands Engine is likely to be hit worse by these effects because of the following characteristics:

- **24.8% (1,500 LSOAs) of the Midlands Engine is classed as deprived** (in the top 20% of the most deprived areas in England).
- Within the Midlands Engine, some areas have a much **higher proportion of its population who describe themselves as BAME** compared to the national average of 14.6%.
- The Midlands Engine has a **higher proportion of its population who are young people.**
- The Midlands Engine has a **higher unemployment rate than the national average (4.6% vs 4.5%).**
- The Midlands Engine has **much higher levels of existing fuel poverty than national averages.**
- ONS surveys suggest **West Midlands households spend more on housing, fuel and power** (15% of total expenditure) than all other non-London regions other than the South West; while the **East Midlands reports the highest % of household spending on transport of all UK regions (16%).**

The Cost of Living and Doing Business Crisis

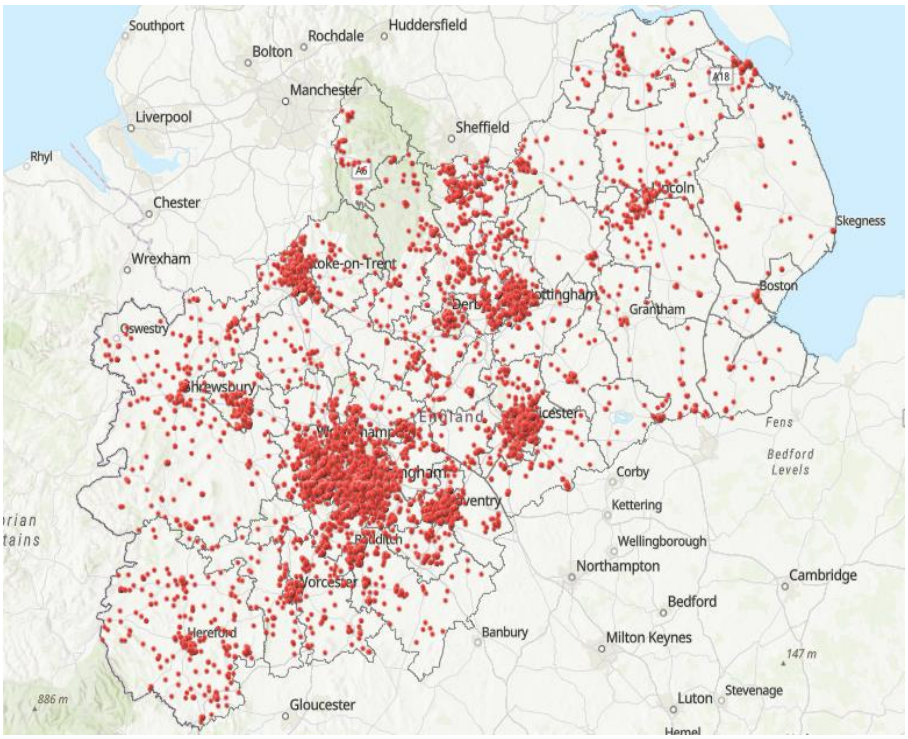
Business Impacts

The impact of inflation on rising costs / prices continues to be a major business issue, particularly for utilities, wages and materials. Business groups have warned that the **inflationary spiral is "unsustainable"** for businesses. The drastically rising cost of key inputs – such as people, materials, energy – is damaging the competitiveness and sometimes feasibility of many Midlands businesses. **Inevitable cashflow pressures are unfortunately leading to firms being in financial stress and some facing closure.** Many businesses are struggling to absorb major increases in the costs of inputs, but against the backdrop of the cost of living crisis, they **feel unable to pass on significant cost increases to customers.**

- **Business confidence in both the East Midlands and West Midlands has dropped back into negative territor**y as companies grapple with the rising cost of doing business. Sentiment tracked by ICAEW's Business Confidence Monitor (BCM) for the West Midlands for Q3 2022 , found confidence at -8.1, coming in at -5.1 for the East Midlands. Companies in the region face **rising costs, supply-side issues and a global surge in energy prices**, despite a strong sales performance, both domestically and abroad, ICAEW said. Recent FSB and Chamber surveys corroborate these findings (More detailed information provided on pages 16 and 17).
- One in five small businesses in the UK is at serious risk of closure due to the rising cost of living, with **the greatest areas of concern being the West Midlands** and the North East, according to new data: The data highlighted the West Midlands as the most at-risk area for businesses facing closure.
- According to exploratory ONS Business Demography data, **the number of business deaths in the Midlands Engine area was 56,355 in 2021, a 27.7% increase compared to 2019. This is in line with the national average but certain areas in the Midlands have fared worse** (More detailed information provided on page 15).

The industrial structure of the Midlands Engine economy means it is **more at risk from increased energy costs than any other region.** The Midlands Engine has a concentration of GVA in certain sectors with high energy demand, such as manufacturing, transport and storage, and wholesale and retail trade of vehicles. **These 3 sectors alone account for 32% of the Midlands Engine GVA.** The energy price rises severely damage competitiveness of UK SME manufacturers, disproportionately impacting the wider Midlands given our industry base. The companies most **exposed to increased energy costs are medium and small manufacturing businesses exporting or competing in global markets**. Manufacturing businesses employ more than 530,850 skilled people in the Midlands Engine. We have a greater concentration than any other region.

Energy Intensive Companies



Time will tell on **the effectiveness of the Government's energy policy announcement in early September**, but the **relief scheme has been broadly welcomed by businesses**.

However, the policy has also been described as a **"sticking plaster on a bleeding wound",** thought to be too **little too late and not providing long enough certainty for firms – given it lasts initially for only 6 months.**

Likewise, fiscal changes made by the new Chancellor in late September include **major shifts in economic approach, sure to impact the cost of living and doing business crisis; for good or bad for business and communities remains to be seen.** (More detailed information provided on page 6).

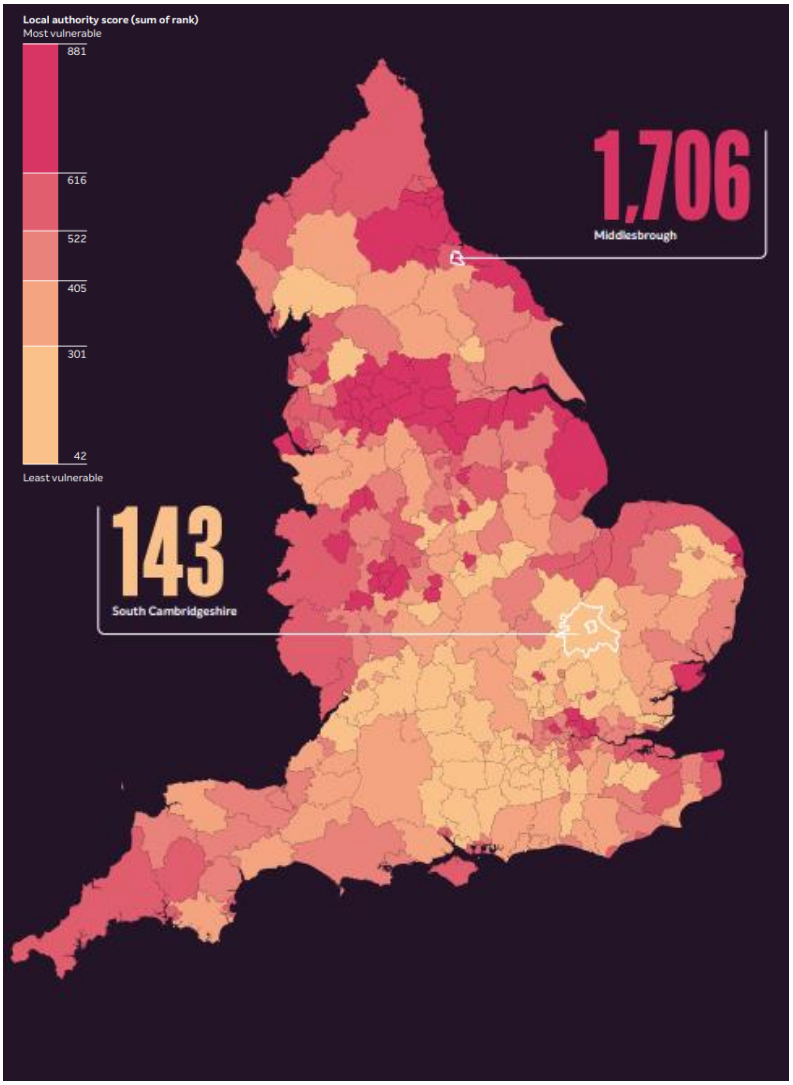
The Cost of Living Crisis: Vulnerability Index

A new report by the Centre for Progressive Policy (CPP) explores the spatial impact of the cost-of-living crisis, showing the challenges facing different places. Many of the findings corroborate with analysis in previous pages that suggests **parts of the Midlands Engine are disproportionately impacted by the current economic situation.** The report updates **CPP's Cost of Living Vulnerability Index** to reveal the changing nature of places most susceptible to poverty, labour market inactivity and workplace effects via higher energy emission industries.

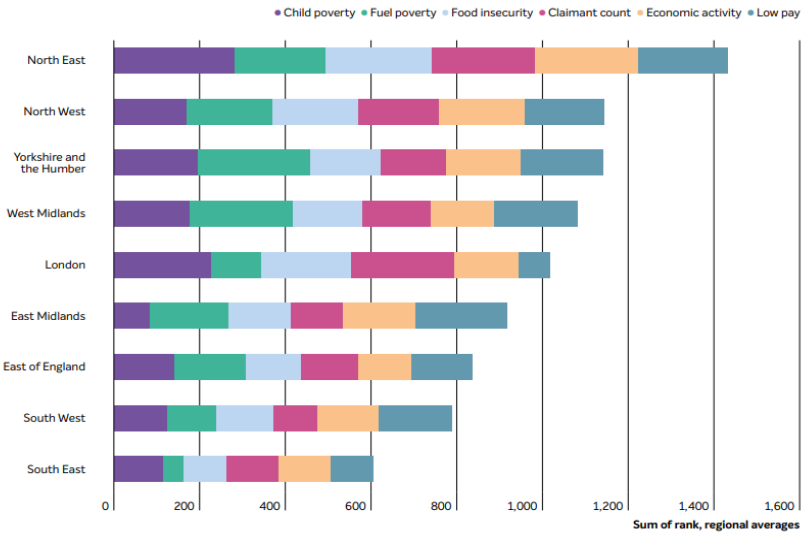
Headline Findings

- Large parts of both the North and the Midlands remain the most vulnerable to the cost of living crisis – nearly 9 in 10 (87%) of the places in the top decile of the index are based there. At the broader regional level, **the four most vulnerable regions are the North East, North West, Yorkshire and the Humber, and the West Midlands.**
- **Ex-industrial towns are among areas where residents are most vulnerable to the impact of rising prices**; coastal areas remain at risk, while **some rural areas are increasingly so.**
- Middlesbrough remains the most vulnerable local authority according to the index, **but 3 out of the top 5 are Midlands Engine areas: Sandwell (2nd), Walsall (3rd) and Wolverhampton (5th),** all in the West Midlands. Nine Midlands Engine LA's in total are in the most vulnerable decile (top 31): including **North East Lincolnshire (11th), Birmingham (17th), Leicester (18th), Nottingham (25th), Coventry (30th) and Wyre Forest (31st).**
- **Sandwell is ranked the most vulnerable in the poverty aspect of the index,** with Stoke-on-Trent, Wolverhampton, Coventry and Walsall also in the top 10 most vulnerable for this metric.
- New analysis finds some vulnerable local authorities – predominantly in the North and Midlands – are also **heavily dependent on energy intensive sectors** for employment. Places such as **Bolsover, East Lindsey, Shropshire, Stoke-on-Trent and Sandwell face a double hit** – the presence of vulnerable households could be compounded by having a **large proportion of employers who are likely to be particularly badly affected by higher energy costs.**
- Midlands regions overall are impacted worse than some regions, and less than others – **but with major pockets on vulnerability focused on fuel poverty and low pay in particular.**

Cost of Living Vulnerability Index



Vulnerability by Region and Indicator

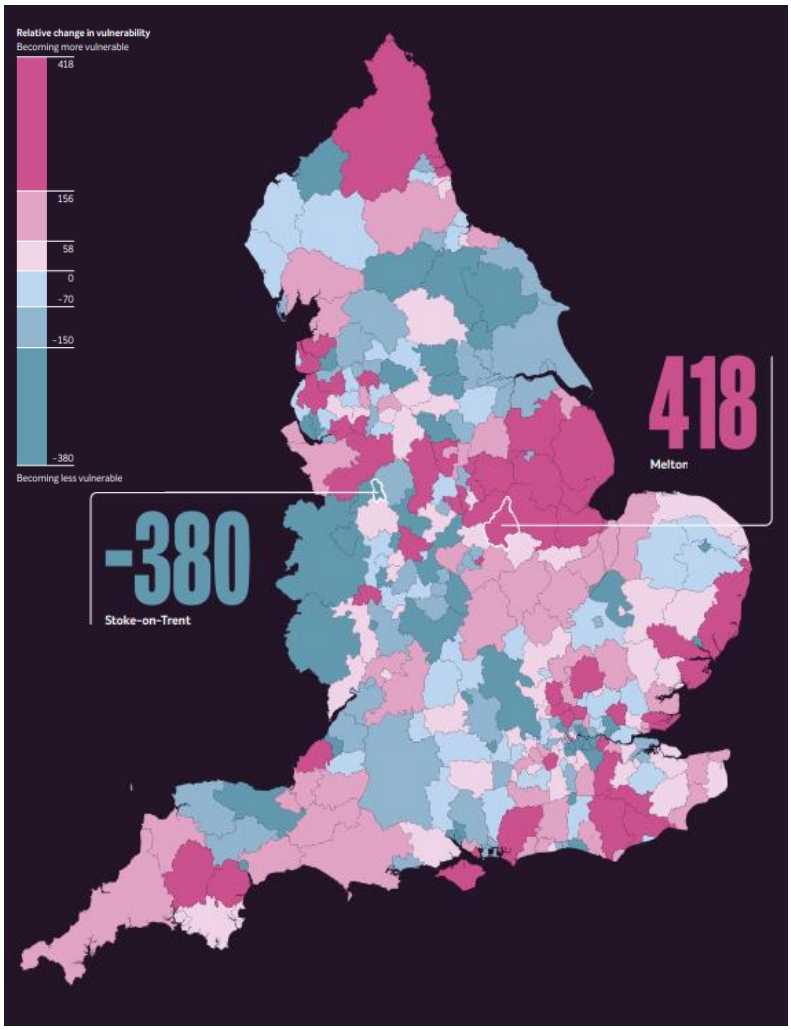


The Cost of Living Crisis: Vulnerability Index

Additional Findings

- According to the main Vulnerability Index, the **places in the Midlands Engine least vulnerable to the cost-of-living-crisis are Harborough, Rushcliffe, Blaby, Warwick, South Derbyshire and Rutland.**
- Several places have become **relatively more vulnerable to the cost of living crisis since the last Index in April.** For example, within the top decile of vulnerability, **Wyre Forest has risen from 85th most vulnerable to 31st.**
- Furthermore, several local authorities in the East Midlands have become relatively more vulnerable in the last few months, including **Melton, which has posted the largest relative increase in vulnerability across all local authorities in this time period.**
- **In contrast, Stoke-on-Trent has reported the best score the opposite way – becoming less vulnerable –** alongside several West Midlands local authority areas.
- **Many rural and coastal areas have become more vulnerable to the crisis** and this is not consigned to any particular region but is rather a national trend that is driven by the same two factors: economic inactivity and low pay. These include Midlands Engine locations such as **East Lindsey, Boston, Gedling and Oadby & Wigston.**

Change in Relative Vulnerability Since April 2022



Local Insight and Recommendations for Change

The report summarises interviews with over 20 local government officers working on the frontline to explore the key challenges places are facing and found:

- **Local government officers feel limited in how much support they can realistically provide to households** due to years of severe funding cuts and only small pots of funding allocated to this crisis with strict spending criteria.
- **The concern about funding extends beyond support for households, to the business community**. While some officers point to the existence of certain funding pots alongside potential business rates relief, the reality is local government has few financial levers to pull to support business through the crisis.
- Some officers argue that the cost **of living crisis is providing new opportunities for a renewed focus on sustainable inclusive growth** by underlining the importance of expanding retrofitting and the living wage, but for these to be fully realised there **needs to be greater national as well as local impetus.**

CPP suggest that the findings underline a **strong case for providing vulnerable places with greater financial assistance to deal with the crisis,** allied with stable long-term funding to deliver sustainable inclusive growth. To meet these aims, the report makes several recommendations:

- **Revamp the Household Support Fund** – significantly increasing its size and removing strings attached.
- **Reform the UK Shared Prosperity Fund** so that it more than matches previous EU structural funds.
- Create two new funds:
  - **Business Transition Fund**, to support the transition of energy-intensive sectors to a decarbonised economy.
  - **Retrofitting Investment Fund,** to retrofit millions of homes and put the responsibility for delivery in local areas.
- Allocate all funding to local areas **based on need and not via competitive bidding**, while ensuring places can **consolidate funds with other local government funds where possible.**

DISCLAIMER OF LIABILITY

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MIDLANDS ENGINE OBSERVATORY

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Worcestershire Local Enterprise Partnership