MIDLANDS ENGINE

OBSERVATORY

MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

EDITION 33: JANUARY 2023

This month we are asking all readers to participate in a survey in order to better understand how our readers use the Monitor, which will then inform the development of future Monitors. Please follow the link to the survey, which should only take 2 minutes to complete: Monitor Survey

Executive Summary

This version of the **Midlands Engine Regional Economic Impact Monitor, the first of 2023,** considers the impacts of the current economic situation on the Midlands – particularly on its businesses and communities.

It's unpredictable, but **there is hope that 2023 will eventually become a less tough, more successful year than 2022**, reflected by recent business surveys and indicators like inflation starting to move downwards again. However, as much of the following intelligence shows, the current **cocktail of issues hitting the economy** (and thus the livelihoods of people and businesses in the Midlands) **cannot be overlooked and will take time to get through.**

- The main feedback from local households and businesses continues to be **concerns regarding costs.**
- A major issue in the domestic market too, **soaring energy costs** remain the biggest concern for firms across the region. **Businesses will be "squeezed even tighter" by the Government's decision to cut energy support for firms** in April; a decision described as "**disappointing" and "not enough" by key business groups.**
- Additionally, businesses are facing disruption caused from continued **strike action, persistent labour market challenges and problems related to Brexit.**

Reflecting the difficulties outlined, the **Midlands' (and wider UK) Business Activity Index remained below 50 (which indicates contraction) in December 2022.** While there has been a modest increase in the West Midlands for both the business activity and the Future Activity Index, the East Midlands has fallen further behind. More positively, the **Input Prices Index has decreased across both Midlands regions.**

Further business intelligence presented later in the Monitor corroborates this evidence, including via:

- **ONS' BICS survey:** highlighting costs and economic uncertainty as key challenges impacting businesses.
- **Enterprise Research Centre's State of Small Business report for 2022:** such as looking at the adverse impact of current conditions on business cash reserves and insolvency prospects.
- **FSB's latest Small Business Index:** highlighting the three greatest perceived barriers to growth over the next year as: (1) the general economic conditions in the UK; (2) rising utility costs; and (3) weakening consumer demand.

While all Midlands sectors are affected, **hospitality, manufacturing and retail are thought to be most impacted.**

In terms of the labour market, the **high demand reported through large parts of last year appears to be cooling off**. This could signal a potential inflection point in the regional labour market; with expectations of lower turnover putting **less pressure on employers to recruit new staff, while employees exert greater caution before moving jobs.** The **number of postings across the Midlands dropped 27.5% over the last six months** to 1.2 million.

But despite this, those seeking work - wanting a job , currently remains heightened – in line or above national rate.:

- There were **268,385 claimants aged 16 years and over** in the Midlands Engine area in December 2022, an increase of 5,215 (+2.0%, compared to UK +1.9%) claimants since the previous month. **Youth claimants also increased.**
- In the year ending September 2022, the **employment rate in the Midlands Engine area was 74.4%,** compared to 75.5% for the UK overall. When compared to the year ending September 2021, the Midlands Engine area **increased by 0.7 percentage points (pp)** and the UK overall increased by 1.0pp. Midlands Engine unemployment decreased in line with this: down to approximately 3.7%.

Also, Midlands Engine economic inactivity increased slightly (+0.1pp) in the same period; the UK's overall fell by 0.1pp. While the **number of employee jobs paying under the Living Wage has decreased but is still above average.** Overall, The **labour market data paints a worrying picture of continued unmet demand for labour that is holding back growth**, but also signs of a **slowdown and potential weakening in the labour market** in the coming months.

Section 4 of this Monitor looks at recent place-based analysis, further supporting an understanding of the different strengths and challenges within places in the Midlands Engine geography. **Low-level mapping of GVA data provides a snapshot of relative value and productivity of places**, while the recently released UK Prosperity Index takes into account a wider variety of indicators: **it confirms that there is a wide variation of prosperity across the Midlands.**

Levelling up within the region and across the country will be critical to addressing identified spatial disparities. And **Midlands Engine places recently received £371m additional funding to projects from the 2nd round of the Levelling Up Fund – 17.6% of the total.** The distribution of funding **has not come without criticism**, but funded projects have been welcomed by local partners as important for catalysing positive economic activity in local places.

Lastly, **levelling up and net zero will need to be delivered hand-in-hand.** Several recent data releases and reports have further opened up these discussions, which are likely to be critical for the Midlands.

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• Some reports suggest that **Midlands businesses expect 2023 to be more successful than 2022.** For example, data from Lloyds Bank shows that **62 per cent of West Midlands firms said they are confident they would have greater success in the coming 12 months**, compared to the past year, while 28 per cent were not confident about being more successful and 6 per cent expected their business to perform at the same level. • The East Midlands is more optimistic, with **65 per cent saying they are confident they would have greater success in 2023, with 21 per cent not confident about being more successful and 8 per cent in the middle.** Additionally, 51 per cent expect to report a higher turnover. • However, the current cocktail of issues hitting businesses hard cannot be overlooked. In particular, the main feedback from local businesses continues to be concerns regarding the **costs associated with doing business.** • In addition, businesses are facing disruption caused from continued **strike action, persistent labour market challenges and problems related to Brexit**; all before the ability to think about innovation, growth, productivity, and decarbonisation. • These problems are likely to affect the viability of businesses running at full capacity, and **lead to an uptick in company insolvencies again.** This is already beginning to happen nationally, and while regional data is upcoming, reports are already highlighting that 2022 saw an increase in company difficultly, for example a **60% increase in firms filing for administration.** • The **unfortunate closure of some businesses is also reflected at the local level**, as reported by individual Midlands Growth Hubs; while also supported by FSB surveys showing low confidence.
Energy Costs and Support	• **Soaring energy costs remain the biggest concern for firms across the region**, especially SMEs. Business support organisations like Growth Hubs have had further conversations with businesses facing **fourfold increases** that will be hardest felt once the government support scheme ends in March. • Those on fixed rates are preparing to **mitigate increases in bills by making cuts or looking to invest in energy saving measures.** The latter has been reported as an area of particular increase within business support enquiries across the region. • According to local business leaders, Midlands businesses will be **"squeezed even tighter" by the Government's decision to cut energy support for firms in April.** Leaders have said a longer-term strategy is needed, including incentives for businesses to invest in renewable sources of energy. • The support has been deemed "**disappointing" and "not enough" by some business groups** (including the FSB and British Chambers of Commerce), **suggesting it will push many SMEs into temporary or permanent closure.** The CBI reflected that it understood continuing the level of existing support would not be financially viable, but admitted **many firms would find it really hard if costs stayed so high.** • While some firms (mainly manufacturers) will receive additional support from April (but still reduced), **most will not be eligible and will be left exposed.**
Trading Conditions	• Separately, research by the Centre for Business Prosperity at Aston University has shown that **UK exports to the EU fell by an average of 22.9% in the first 15 months** after the introduction of the EU-UK Trade and Cooperation Agreement, highlighting the continuing challenges that UK firms are facing. • According to the research, the UK has also experienced a **significant contraction in the variety of goods being exported to the EU**, with an estimated loss of 42% of product varieties. The researchers say this, combined with an increased concentration of export values to fewer products, has **serious implications for the UK's future exporting and productivity**. The authors are calling for an urgent national debate from politicians about the UK's post-Brexit trade arrangements. • While cash flow is an issue for a lot of businesses at the moment, **in particular smaller businesses, a lot of business want to invest into various things but just can't afford it**. A lot of businesses are wanting to grow but due to the current climate can't and don't want to take the risk of investing.

1. Economic Outlook

Global and National Outlook

Global

World Economic Forum Global Risks Report

The Global Risks Report 2023, by the World Economic Forum, explores some of the most severe risks we may face over the next decade. Key findings include:

- Over the next 2 years **the most severe global risk is expected to be the cost-of-living crisis**, forecasted to peak in the short-run.
- Over the next 10-years climate change related risks account for 6 out of the 10 top risks. With '**bio-diversity loss and ecosystem collapse**' viewed as one of the fastest deteriorating global risks over the next decade.
- The economic aftereffects of Covid-19 and the war in Ukraine have ushered in **skyrocketing inflation**, a rapid normalization of monetary policies and started a low-growth, low-investment era. Continued supply-driven inflation could lead to stagflation, the socioeconomic consequences of which could be severe, given an unprecedented interaction with historically high levels of public debt.
- **Geopolitical fragmentation** will drive geoeconomic warfare and heighten the risk of multi-domain conflicts. Economic policies will be used defensively, to build self-sufficiency and sovereignty from rival powers, but also will increasingly be deployed offensively to constrain the rise of others. Intensive geoeconomic weaponization will highlight security vulnerabilities posed by trade, financial and technological interdependence between globally integrated economies, risking an escalating cycle of distrust and decoupling. As geopolitics trumps economics, a longer-term rise in inefficient production and rising prices becomes more likely. Geographic hotspots that are critical to the effective functioning of the global financial and economic system, in particular in the Asia-Pacific, also pose a growing concern.
- **Technology will exacerbate inequalities while risks from cybersecurity will remain a constant concern**. The technology sector will be among the central targets of stronger industrial policies and enhanced state intervention. Spurred by state aid and military expenditure, as well as private investment, research and development into emerging technologies will continue at pace over the next decade. For countries that can afford it, these technologies will provide partial solutions to a range of emerging crises, for those that cannot, inequality and divergence will grow. In all economies, these technologies also bring risks, from widening misinformation and disinformation to unmanageably rapid churn in both blue- and white-collar jobs.

Tech-sector redundancies

Meta, Amazon and Microsoft, 3 of the largest tech companies in the world have all announced redundancies. With Meta announcing 11,000 redundancies, Amazon 18,000 and Microsoft 10,000 across their global workforces. The reason for these large-scale redundancies, is largely due to economies re-opening. Now economies have re-opened and we move further towards normality, the growth of these companies are lessening and as a result cuts are being made. However, this is not to say these companies are not still growing, it is simply that their rate of growth is slowing comparative to the pandemic. Under the pandemic these companies significantly increased their workforces, however, **now demand or usage has fallen, the businesses are downsizing their staff**. Staffing levels will still be higher than their pre-pandemic levels, however they will be lower than under the period of high demand during the pandemic.

National

Consumer price inflation, UK: December 2022

In the latest update on Consumer Price Inflation for December 2022, highlighted:

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by **9.2%** in the 12 months to December 2022, down from 9.3% in November.
- The largest upward contributions to the annual CPIH inflation rate in December 2022 came from housing and household services (principally from electricity, gas, and other fuels), and food and non-alcoholic beverages.
- On a monthly basis, CPIH rose by **0.4%** in December 2022.
- The Consumer Prices Index (CPI) rose by **10.5%** in the 12 months to December 2022, down from 10.7% in November. On a monthly basis, CPI rose by **0.4%** in December 2022.
- The largest downward contribution to the change in both the CPIH and CPI annual inflation rates between November and December 2022 came from **transport (particularly motor fuels), clothing and footwear, and recreation and culture,** with rising prices in restaurants and hotels, and food and non-alcoholic beverages making the largest partially offsetting upward contributions.

Britishvolt

UK battery start-up Britishvolt has collapsed into administration, with the **majority of its 232 staff made redundant with immediate effect**. There are hopes that the company will now be bought out because without giga-factories the future of the car manufacturing sector looks bleak in the long-term.

Source: City-REDI University of Birmingham

2. Economic and Labour Market Impacts

Business Activity

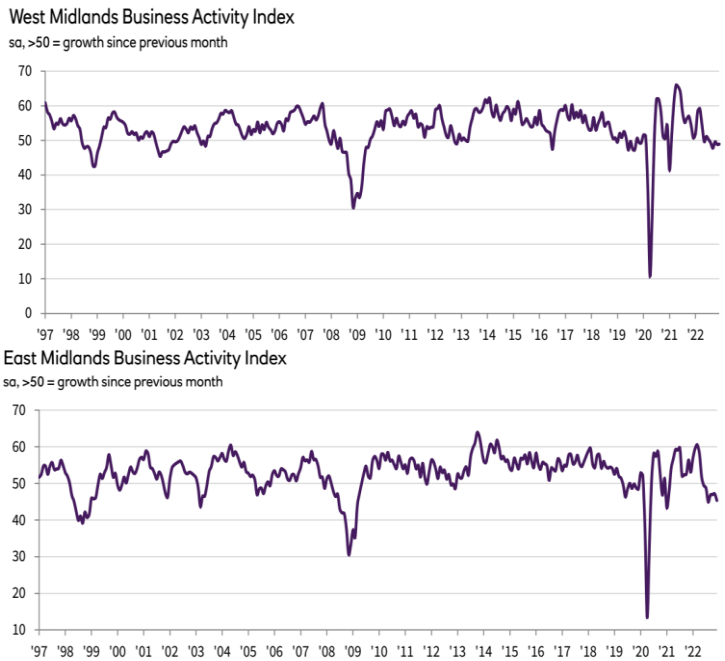
Business Activity Index

The **West Midlands Business Activity Index rose from 48.8 in November 2022 to 48.9 in December 2022** – although, remained below the 50-growth mark for the fifth consecutive month. Firms reported lower sales, staff absences, high stock levels and uncertainty restricted business activity.

The **East Midlands Business Activity Index decreased from 47.1 in November 2022 to 45.4 in December 2022.** This was a strong fall in output and remained below the 50-growth mark for the seventh consecutive month. Firms indicated that weak client demand and a further fall in new orders was behind the latest decline.

The UK Business Activity Index increased from 48.2 in November 2022 to 49.0 in December 2022.

The West Midlands and East Midlands Business Activity Index trends:



Source: NatWest West Midlands PMI, January 2023

Of the 12 UK regions, the West Midlands and the East Midlands were fourth highest and second lowest respectively for business activity in December 2022.

Demand

The **West Midlands New Business Index decreased from 48.8 in November 2022 to 46.9 in December 2022.** The decline was linked to recession fears, subdued consumer spending and price pressures. **The East Midlands New Business Index decreased from 43.1 in November 2022 to 42.6 in December 2022,** remaining below the 50 growth mark for the eighth month. The decrease was linked to linked to economic uncertainty and the impact of inflation on customer spending.

Exports

The **West Midlands Export Climate Index increased from 47.5 in November 2022 to 48.0 in December 2022**. **East Midlands Export Climate Index increased from 48.8 in November 2022 to 48.9 in December 2022.** For both regions, the latest figures still indicate deterioration in trade prospects.

Business Capacity

The **West Midlands Employment Index decreased from 52.7 in November 2022 to 50.8 in December 2022**. The **East Midlands Employment Index decreased from 49.5 in November 2022 to 48.8 in December 2022.**

The **West Midlands Outstanding Business Index decreased from 50.8 in November 2022 to 46.0 in December 2022.** The **East Midlands Outstanding Business Index decreased from 48.5 in November 2022 to 42.6 in December 2022**.

Prices

The **West Midlands Input Prices Index decreased from 76.7 in November 2022 to 72.0 in December 2022.** The **East Midlands Input Prices Index decreased from 79.7 in November 2022 to 74.8 in December 2022.** For both regions, the latest figures still show sharp input costs.

The **West Midlands Prices Charged Index increased from 64.6 in November 2022 to 65.2 in December 2022.** The **East Midlands Prices Charged Index decreased from 65.8 in November 2022 to 63.4 in December 2022.**

Outlook

The **West Midlands Future Business Activity Index increased from 64.7 in November 2022 to 65.3 in December 2022**. Optimistic firms reported new product releases, projects in the pipeline and marketing efforts. Optimism was restricted due to recession risks, a challenging economic climate and weak demand.

The **East Midlands Future Activity Index decreased from 62.1 in November 2022 to 59.8 in December 2022.** East Midlands Firms optimism for the next 12 months was hindered due to inflation and recession concerns. However, firms still remain optimistic overall with hopes of increases in client demand.

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

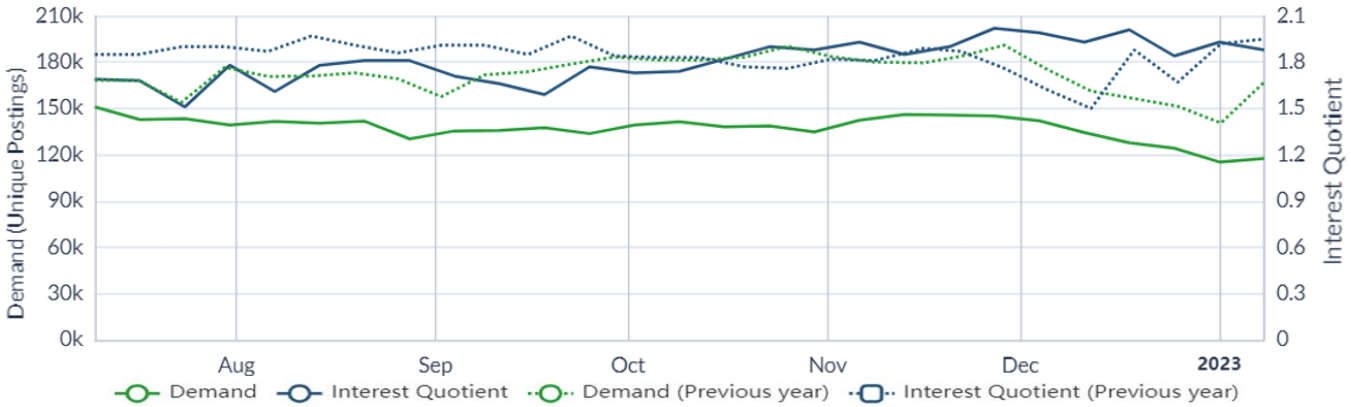
Source: NatWest UK regional PMI report for December 2022, released January 2023. Located on the Midlands Engine Hub is an Interactive Regional Business Activity Dashboard

Labour Market and Job Postings

Over the course of 2022, job postings and vacancies rose to record levels. However, **the latest indicators suggest that the demand for labour has begun to cool off.** This could signal a potential inflection point in the labour market; with expectations of lower turnover putting less pressure on employers to recruit new staff, while employees exert greater caution before moving jobs in light of a deteriorating economic outlook.

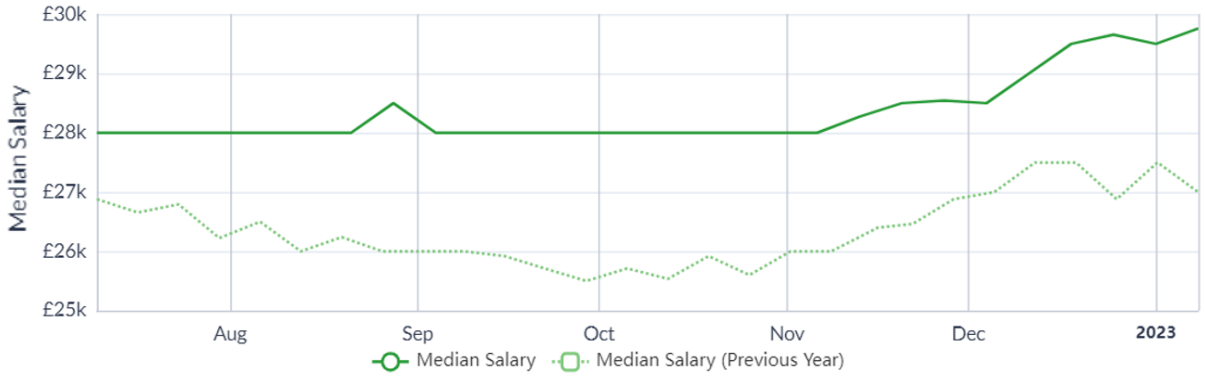
This is reflected in the latest job postings data, which shows that the **number of postings across the Midlands dropped 27.5% over the last six months to 1.2 million**. Despite employer demand narrowing, those seeking work - wanting a job , currently remains heightened.

Overall Demand and Interest for the Midlands:

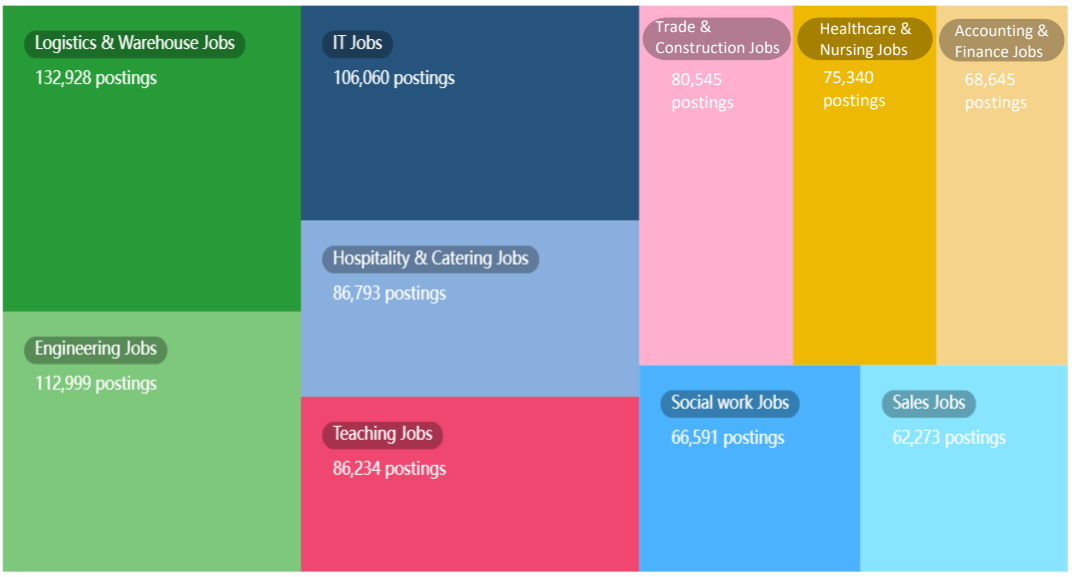


Nevertheless, **advertised median salary across the Midlands has increased by 6.4%** year-on-year to £28,032; 6.8% below the national median advertised salary of £30,000.

Salary Trends for the Midlands:



Sectors Hiring in the Midlands:



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

Source: Adzuna Limited Job Posting Intelligence, January 2023.

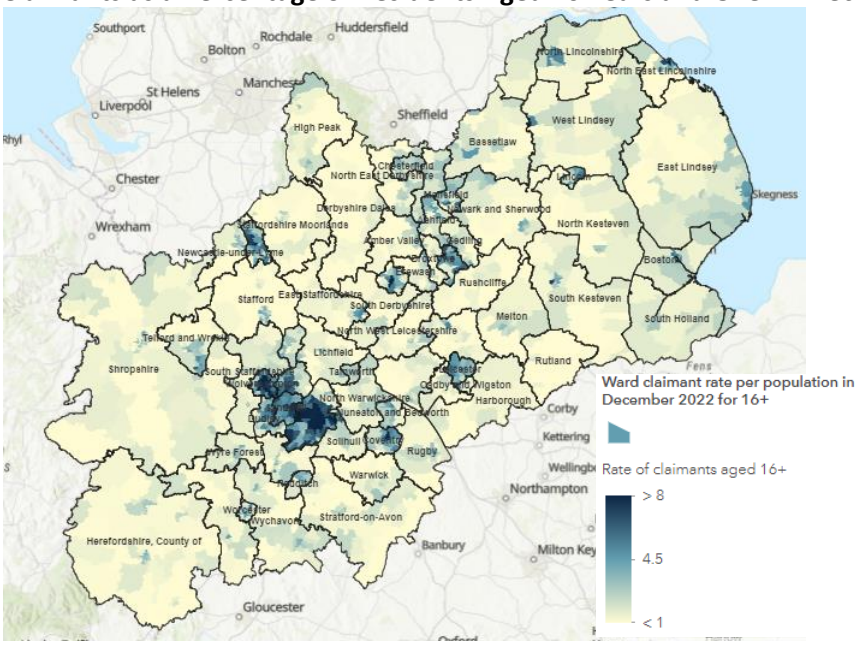
Please note, the Interest Quotient uses jobseeker data to quantify the level of interest in particular roles.

Labour Market Impacts: Claimants

There were **268,385 claimants aged 16 years and over** in the Midlands Engine area in December 2022, an increase of 5,215 (+2.0%, compared to UK +1.9%) claimants since the previous month. **There are 46,845 (+21.1%, UK +20.8%) more claimants when compared to March 2020**. East Lindsey and North East Lincolnshire had lower levels of claimants than March 2020 (-600, and -395 respectively).

The number of claimants as a percentage of residents aged 16 years was 3.2% in the Midlands Engine (UK 2.8%) in December 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 December 2022:



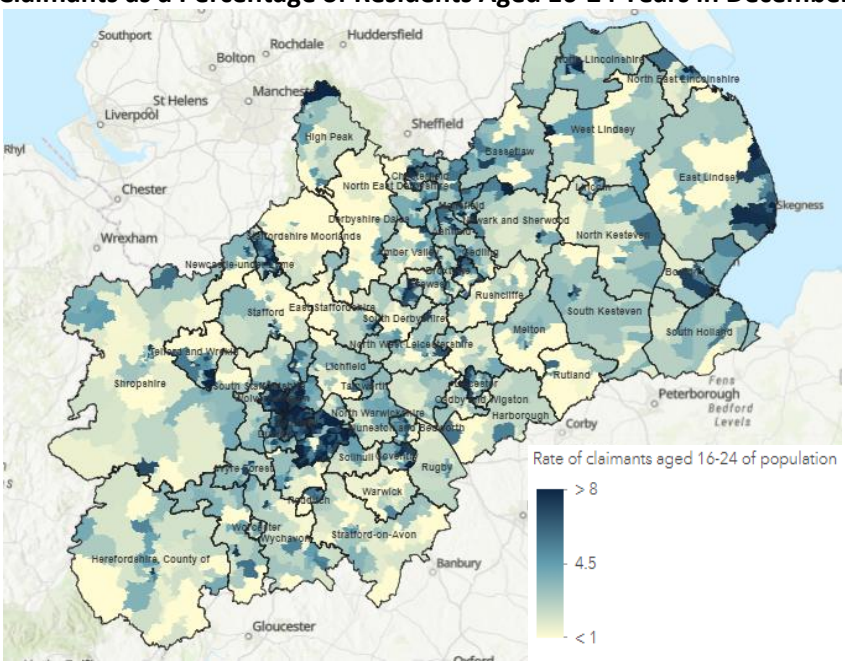
Out of the 1,511 wards within the Midlands Engine, **447 were at or above the UK proportion of 2.8%** for the number of claimants as a percentage of the population aged 16 years and over in December 2022.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, Lozells was the highest with 14.3%. This is followed by Aston at 14.0% and then Birchfield at 13.8%.

There were **48,895 claimants aged 16-24 years old** in the Midlands Engine area in December 2022 – an increase of 630 youth claimants since November 2022. This equated to an increase of 1.3% for the Midlands Engine area (matching the UK rate). Since March 2020, **the number of youth claimants has increased by 4,700** (+10.6%, UK +7.2%). Notably, 16 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 4.2% in the Midlands Engine and 3.7% for the UK in December 2022.

Claimants as a Percentage of Residents Aged 16-24 Years in December 2022:



Out of the 1,511 wards within the Midlands Engine, **519 were at or above the UK proportion of 3.7%** for the number of claimants as a percentage of the population aged between 16-24 years old in December 2022.

The ward with the highest the number of claimants as a percentage of the population was Joiner's Square (Stoke-on-Trent) at 13.8%. This is by followed Portland (Mansfield) at 13.1% and East Park (Wolverhampton) at 12.4%. In contrast, within the Midlands Engine there were **109 wards with no youth claimants in December 2022.**

Source: ONS/ Department for Work and Pensions, January 2023.
Located on the Midlands Engine Hub is an [Interactive Claimant Count Dashboard]

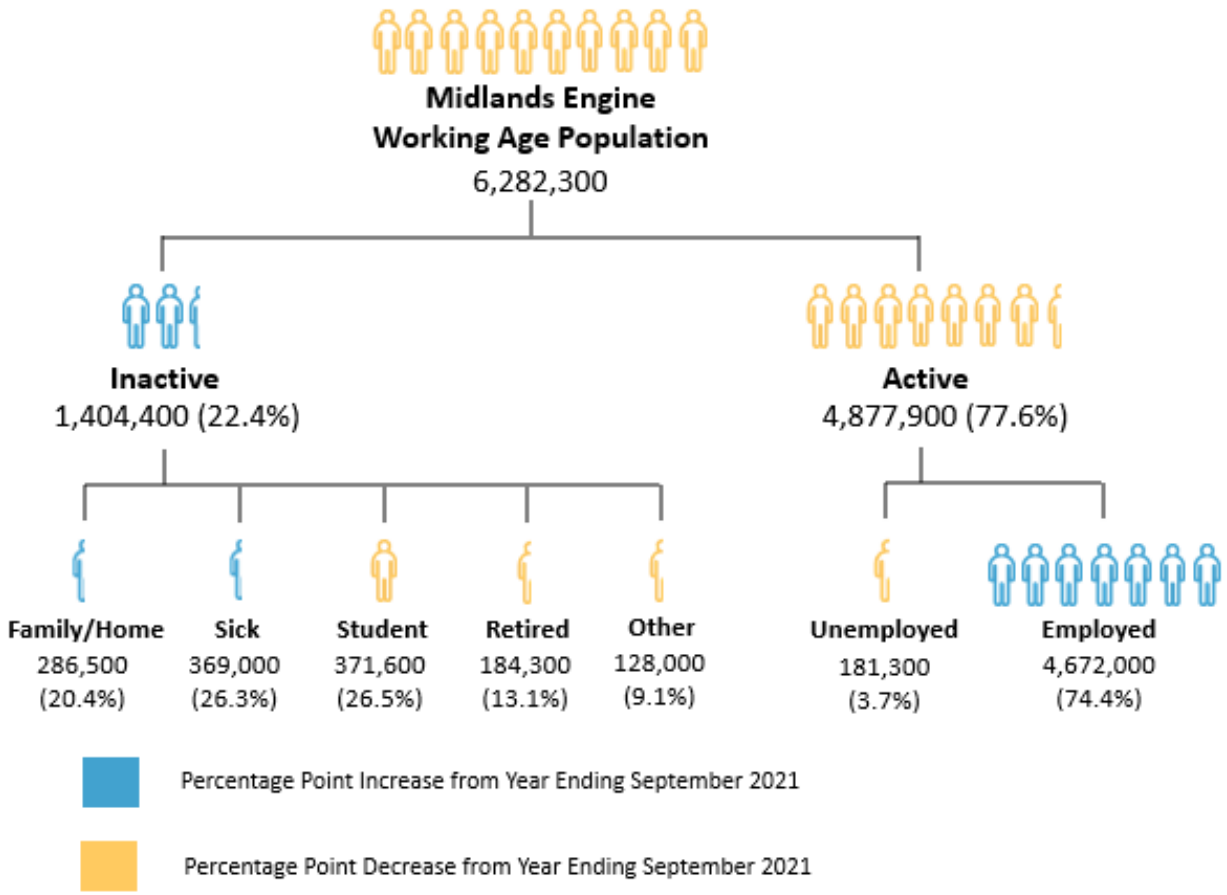
Labour Market

The labour market data paints a worrying picture of continued unmet demand for labour that is holding back growth, but also signs of a slowdown and potential weakening in the labour market in the coming months.

Headline labour market statistics for the Midlands Engine area:

- In the year ending September 2022, the **employment rate in the Midlands Engine area was 74.4%,** compared to 75.5% for the UK overall. When compared to the year ending September 2021, the Midlands Engine area **increased by 0.7 percentage points (pp)** and the UK overall increased by 1.0pp. For the Midlands Engine area **to reach national proportions requires 69,225 working age residents to be employed.**
- The **unemployment rate for the Midlands Engine was approximately 3.7%** which matched the UK rate in the year ending September 2022. For the Midlands Engine, this is a **decrease of approximately 1.2pp** compared to the UK decrease of 1.3pp since the year ending September 2021.
- The **economic activity rate for the Midlands Engine area was 77.6%** compared to 78.4% for the UK in the year ending September 2022. For the Midlands Engine area, **the economic activity rate has decreased by 0.1pp** since the year ending September 2021. The UK increased by 0.1pp in the same period. For the Midlands Engine area **to reach national proportions requires 45,225 working age residents to be economically active.**
- **For economic inactivity, the Midlands Engine rate was 22.4%** compared to 21.6% for the UK overall in the year ending September 2022. Since the year ending September 2021, for the Midlands Engine area, this **increased by 0.1pp** while the UK decreased by 0.1pp.
    - As seen below, the increase in economically inactivity was linked to looking after the family/home (+2.1pp) and sick (+0.7pp).
    - The Midlands Engine had a **higher percentage of residents that were inactive when compared to the UK for those looking after the family/home (20.4% vs 19.5%).**

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



Figures will not sum due to rounding/data gaps
Source: ONS, Annual Population Survey, 2023. Located on the Midlands Engine Hub is an [Interactive Employment Activity Dashboard]

Employee Jobs Paid Below the Living Wage

This summary explores the employee jobs paid below the Living Wage according to the ONS Annual Survey of Hours and Earnings (ASHE) in order to assess the incidence of low pay, and trends across groups over time. Latest ASHE data relates to below Living Wage jobs collated in April 2022, when the **Living Wage rates were £9.90 across the UK and £11.05 in London**. The rates are calculated annually by the Resolution Foundation based on a **social consensus of what people need for a decent standard of living and to participate fully in society.** This calculation is overseen by the Living Wage Commission. At the time of data collection, the UK minimum wage (known as the 'National Living Wage'), for people aged 25 and over, was £9.50, while the National Minimum Wage was **£9.18** for those aged 21-22, **£6.83** for those aged 18-20, and **£4.81** for those under 18 and/or apprentices.

The Living Wage Foundation's analysis finds that **12.2% of employee jobs in the UK (3.5m jobs) were paid below the Living Wage in April 2022**, in contrast to the **previous year's 17.1% (4.8m jobs). This is the lowest since the figures were first recorded in April 2012.** However, with wages lagging behind inflation and the cost-of-living crisis expected to continue, **forecasts project that 18.5% (5.1m) of jobs will be paid less than the Living Wage in 2023.**

Gender

14.6% of jobs held by women were paid below the Living Wage, compared to 9.9 % of jobs held by men. The gap in the proportion of low paid jobs between men and women (at 4.7%) is the narrowest it has ever been, and less than half of what it was in 2012. However, **jobs held by women still account for the majority (59.4%) of all low paid jobs.**

Part-time/Full-time

Part time jobs (26.3%) continue to be more likely paid below the Living Wage in April 2022 than full time jobs **(7.0%).** This gap has also been narrowing over the decade (with the exception of 2021–22 where there was a slight increase). Consequently, the gap has declined by almost 10% since 2012.

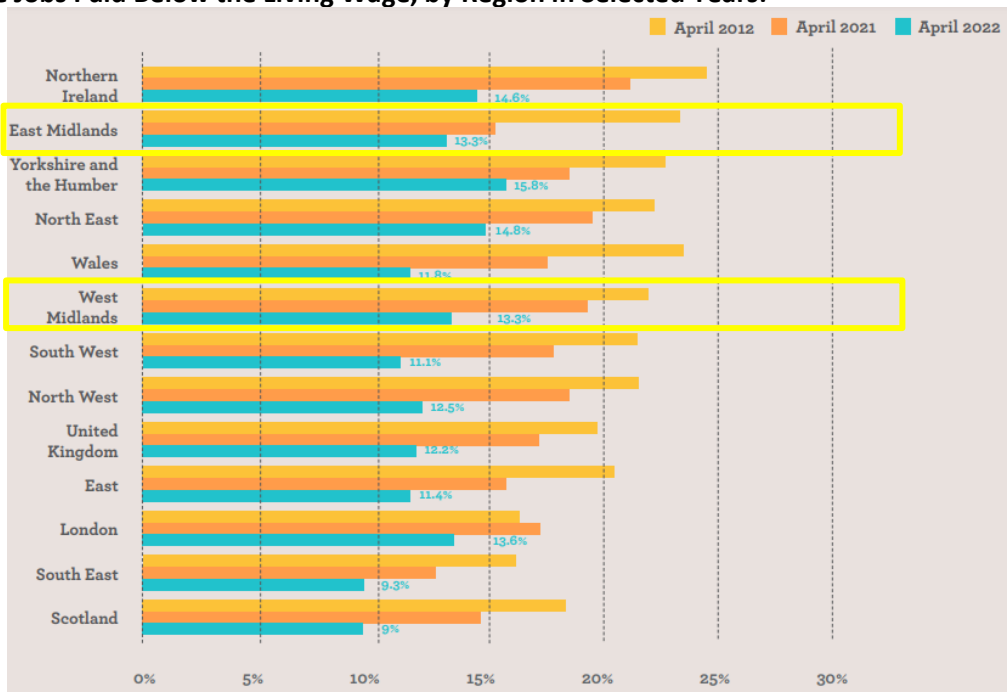
Industries

'Accommodation & food services', or **hospitality, has the highest proportion of jobs paid below the Living Wage (48.5 %),** followed by 'arts entertainment & recreation' **(24.4 %).** However, as the **'wholesale and retail' sector is larger in terms of numbers of jobs, it accounts for the largest number of below Living Wage jobs (822,000).**

Regional Analysis

The regions with the highest proportion of jobs paid above the Living Wage is the Yorkshire and the Humber (15.8%), the North East (14.8%) and Northern Ireland (14.6%). On the other hand, the regions with the lowest proportion of jobs paid below the Living Wage are Scotland (9%) and the South East (9.3%). **Both the East Midlands and West Midlands had above average levels of jobs paid below the Living Wage (13.3%). The East Midlands alongside the South West saw the largest drop of all UK regions from 2021-2022, a decrease of 6.9% for both regions.**

Employee Jobs Paid Below the Living Wage, by Region in Selected Years:



Source: Living Wage Foundations, 2022

3. Business Environment

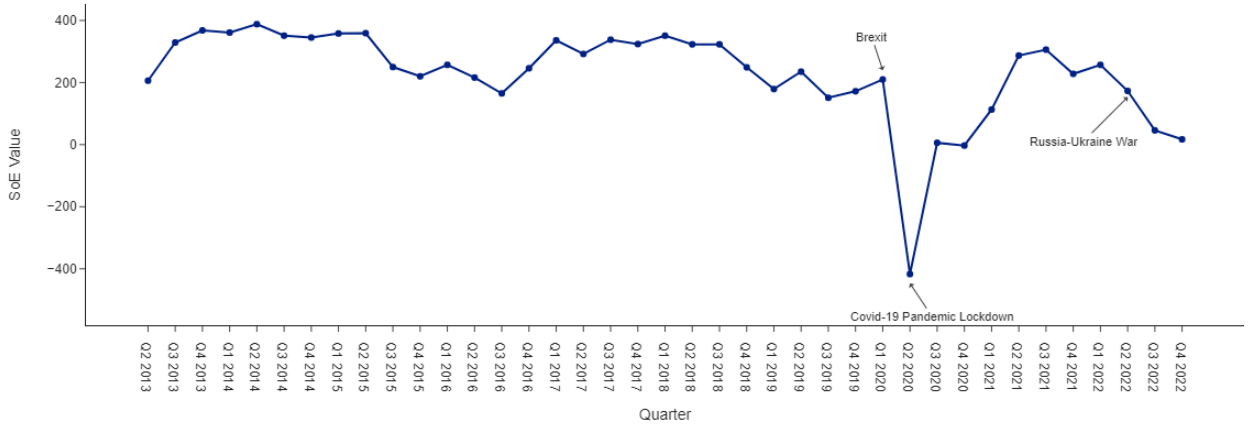
Local Business Intelligence

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

EMC Regional Overview

This commentary draws on the Q4 Quarterly Economic Survey (QES) results, the full report is available here. The **overall State of the Economy Index compiled from the QES has fallen further since Q3 reinforcing the view that the economies of the Midlands are heading into recession.** Equally, the slowing pace of decline could indicate a somewhat softer landing for the regional economy than some commentators have been anticipating in recent months.

State of the Economy Index to Q4 2022:



Chamber members continue to report **significant input cost pressures**. Foremost among these are energy costs. In common with manufacturers (below), Chamber members are voicing concern about the targeting of energy cost support to businesses.

The majority of QES indicators continue to record negative net balances (see Figure below), however, overseas sales, confidence in profitability and future prices have improved since the bleak picture recorded in Q3. Although flat quarter on quarter, **domestic sales continue to record a positive net balance** of 5 percentage points.

Recruitment expectations have softened since Q3, this coupled with lower proportions of firms reporting increasing workforce size in Q4 could provide tentative evidence that labour market pressures are cooling.

Summary of QES Indicators in Q4 2022:

Indicators	Net Value - Q3 2022	Net Value - Q4 2022	Net change over quarter	Direction of change
UK Sales	5.0 %	5.0 %	0.0 %	🟡
UK Orders	3.0 %	-6.0 %	-9.0 %	🔴
Overseas Sales	-10.0 %	-5.0 %	5.0 %	🟢
Overseas Orders	2.0 %	0.0 %	-2.0 %	🔴
Labour Force (Past 3 Months)	13.0 %	5.0 %	-8.0 %	🔴
Cash Flow	-14.0 %	-17.0 %	-3.0 %	🔴
Workforce (Next 3 months)	24.0 %	16.0 %	-8.0 %	🔴
Investment in Machinery	1.0 %	-5.0 %	-6.0 %	🔴
Investment in Training	11.0 %	3.0 %	-8.0 %	🔴
Confidence Turnover	25.0 %	24.0 %	-1.0 %	🔴
Confidence Profitability	-13.0 %	-3.0 %	10.0 %	🟢
Future Prices	58.0 %	57.0 %	1.0 %	🟢

Make UK - Manufacturing Outlook

Overall manufacturers remain broadly positive, but things are said to have slowed somewhat over the turn of the year. **Order books remain full, but the ability to deliver upon them is being hampered by ongoing labour shortages, supply chain disruption and general price inflation.** Energy remains the principal input cost concern - particularly among more intensive users.

Local Business Intelligence

Manufacturers based in the East and West Midlands are said to be reporting very similar experiences:

- Roughly 2 in 5 manufacturers are reported to be achieving planned budgets, **1 in 5 are exceeding planned budgets.**
- Concerns are being voiced in relation to the level of available government support for export promotion.
- Average pay settlements in the sector are reported to be around 6%.

Looking forward, manufacturers continue to report **considerable uncertainties in relation to future demand which are impacting on investment intentions within the sector.** Investment levels are said to have remained flat over the last month.

Sub-sector intelligence highlights **specific concerns in the Midlands aerospace supply chains** about the availability of specialist coatings, demand for construction supplies has been affected by the seasonal break and weather conditions adversely affecting conditions on site, and **automotive manufacturers continue to report supply chain problems** – particularly in relation to the availability of semi-conductors. Similar problems are being experienced by **manufacturers of bespoke robotics and automation systems.** Holding greater levels of stock as a means of ameliorating these supply problems is said not to be feasible for many businesses because of the wider input price pressures that they are experiencing.

In retail, **continuing labour supply problems are said to have stimulated demand for manufacturers of specialist monitoring equipment associated with self-checkouts and similar technologies**.

Energy prices in the UK are said to be internationally uncompetitive. Concerns are being voiced about the targeting of Government support to specific industrial sub-sectors, but not others seen as equally energy intensive. Examples of sub-sectors not defined by Government as intensive users include **electroplating businesses and metal forging**. Anecdotes of manufacturers struggling to cope with exponential increases in their energy costs abound.

Since the last Monitor, the Make UK/PWC Executive survey has been completed. National headlines include:

- **The impact of the seismic increase in energy prices shows no signs of abating on manufacturers as they enter 2023.** Rising energy costs anticipated to be biggest cost facing manufacturers in 2023. An overwhelming 70% of manufacturing leaders said that energy costs are expected to increase significantly in 2023.
- **This is followed by 37% of manufacturing leaders who expect employment costs to increase significantly next year.** A large proportion of the employment costs relate to increased pay offers, in both attracting and retaining employees.
- **Despite the expected increased costs, manufacturers are continuing to increase investment in the next 12 months.** 52% of manufacturers said they plan to increase investment in people and training within the next 12 months, and a further 57% planning to increase investment in new product development.
- **The biggest risk to manufacturers' competitiveness in 2023 is the increasing cost of producing goods and services.** Manufacturers still face significant upward pressure on input costs, as lingering shortages of raw materials across the world remain, with demand vastly outstripping supply. In fact, 58% of manufacturers identified this as the biggest risk they face to being competitive in 2023.
- **This is likely to be made more challenging with the ongoing supply-chain disruptions.** Despite some easing, supply chains have not returned to pre-pandemic levels, with 87% of manufacturers expecting logistics or transportation costs to increase either significantly or moderately next year.
- **For the first time in recent years, evidence shows that manufacturing leaders are growing increasingly concerned about domestic and international political instability.** 55% of manufacturers say this is the biggest risk to business confidence next year. It is evident that the uncertainty and instability – political, geopolitical and economic – are making businesses already based in the UK more cautious, and potentially adding a premium for non-UK businesses to doing business here in the UK.
- **Reducing costs, increasing competitiveness and rebooting confidence is critical if we are to kickstart economic growth.** This beings with a long-term economic vision - 42% of manufacturing leaders expressed a lack of long-term economic plan as one of two primary risks to business confidence in 2023. A lack of, and need for, a coordinated, regional approach to long-standing challenges is still missing from the Government's agenda.
- **The single biggest policy intervention that could reboot business confidence would be for the Government to extend the Energy Bill Relief Scheme for firms beyond March.** Almost half of manufacturers want to see this. A less generous relief package may not shield companies from the worst of these increases, with two thirds saying they still expect to take actions such as reducing production or cutting jobs despite the Government energy support package.

FSB – Small Business Experiences

In January, the Federation of Small Businesses published its latest, quarterly Small Business Index (SBI) reports for the East and West Midlands regions.

Covering the period October-December (Q4) 2022, the SBI measures small business performance and confidence across the Midlands. It is based upon comprehensive research that investigates small firms' recent performance, current circumstances, and future aspirations.

It shows that, across most of the main indicators, many Midlands-based small businesses faced ever-increasing challenges in the final three months of 2022, which caused a continued decline in confidence. For example: **more saw revenues decrease than increase; more reported a reduction in staffing levels than reported an increase; significantly more had increased their average salary bills than had not; and capital investment intentions were stagnant (East Midlands) or marginally positive (West Midlands) at best.**

There is more positive news with regards to regional SMEs' growth and investment aspirations, with a much higher proportion of Midlands SMEs intending to grow sales & turnover rapidly than expecting to downsize, sell or close their business.

Unsurprisingly, the greatest perceived barriers to growth over the next year are (1) the general economic conditions in the UK; (2) rising utility costs; and (3) weakening consumer demand.

With so many challenges facing so many Midlands small businesses, confidence, quarter-on-quarter and year-on-year, has continued to decline sharply.

Other issues being reported anecdotally by FSB's Midlands members, include on-going difficulty in recruiting staff with the necessary skills, increasing prevalence of late payment and problems in accessing business finance.

There are also huge concerns over energy prices and the proposed changes to the energy relief scheme at the end of March, which could create a 'cliff edge' moment that many small firms cannot cope with. Also of concern is the rumoured 23% hike in fuel duty in the Spring. These, coupled with the on-going 'drag' of costs that hit small businesses irrespective of their turnover or profitability – such as business rates and national insurance contributions, are all contributing to the 'cost of doing business crisis' in the UK. **It's a crisis that for many, is threatening the viability of their business operations.**

FSB is urging the Government to provide positive leadership and action to relieve the intense financial pressure on small firms. This could include expanding business rate relief, cracking down on late payments, and enhancing the proposed energy support package. Such measures would be welcomed with open arms by small firms and would help to save many from joining the 400,000+ that have already gone to the wall during the past three turbulent years.

NFU – Farming

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

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

Recent announcements about the details of the Government's **Environmental Land Management Scheme** are welcome – though earlier announcement of the detail would have facilitated better long-term planning within the sector.

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

More positively, labour shortages in abattoirs that caused problems in the run-up to Christmas 2021 are said to have been less of an issue this year. Seasonal visa schemes have clearly helped, but longer-term solutions are still required.

Local Business and Policy Intelligence By Sector

SECTOR	KEY INSIGHTS
Hospitality, Tourism & Retail	• Businesses operating in the hospitality sector have **further noted the damaging impact of energy prices, emphasising the impact of rising costs of food.** The nature of these increasing costs continues to put **businesses operating in hospitality on a knife edge.** • It has been reported that **trade over the festive season did not live up to expectations and that planning has become a 'finger in the air' scenario.** • **Finding staff to work in the sector continues to challenge employers** and again this is impacting wage inflation. • **The costs of stocking retail products continue to increase.** • **Rail strikes are causing substantial trading issues for the sector**, particularly those pubs located near rail stations, with gatherings being cancelled due to lack of transport. • According to the CBI's latest monthly Distributive Trades Survey, **retail sales volumes fell at a fast pace in the year to January (-23% from +11% in December).** Sales are expected to fall again next month, but at a slower rate (-15%).
Manufacturing	• MakeUK's 2023 Executive Survey demonstrates that issues **hampering manufacturers are the short-term challenges of stifling labour shortages, the rising cost of doing business, and ongoing supply chain disruption.** • Manufacturers are frustrated as they **"use energy, not just for heating, but to make things"**, a message that is hoped will reach the government. While some manufacturers will receive additional support from April (but still reduced), **many are still not eligible.** • **These findings corroborate with the CBI's latest Industrial Trends survey, which also finds that cost and pricing pressures are showing signs of easing.** In the quarter to January, average unit costs grew at the slowest pace since April 2021, while domestic selling price inflation was the slowest since July 2021. But both remained far above their long averages. • **SMMT** has reported that UK car production in 2022 was the **lowest recorded since 1956**. • Considering the longer-term, a report from the Centre for Social Justice argues that **rebooting manufacturing will be critical to recovery, growth and levelling up** – drawing on the industrial tradition and excellence of regions such as the Midlands.
Construction	• CITB's latest **Construction Skills Network (CSN) Industry Outlook** estimates that **over 25,000 extra construction workers are needed in the West Midlands by 2026, and 17,500 more in the East Midlands.** • This reflects respective output average annual growth in the sector **of 0.8% (West Midlands) and 1.6% (East Midlands) over the next 5 years**, compared to 1.5% UK wide.
Low Carbon / Net Zero	• SMEs in the region are becoming **increasingly aware of the importance of net zero and carbon reduction** and show an increased appetite to invest in energy efficiency. • However, SMEs across many sectors are struggling with inflation, the costs of services and materials, and energy. **While they are aware of the importance of investing in net zero, they are struggling to finance these investments.** • Positively, the **number of green jobs advertised in both the East and West Midlands has doubled in the last year**, according to the latest research from PwC. PwC's Green Jobs Barometer said that there were **24,044 green opportunities advertised in the West Midlands** in 2022, compared to just over 10,000 in 2021. In the East Midlands, **20,432 green opportunities were advertised** over the past 12 months, up from 8,752. • A report by Onward has **stressed the need for investment in green jobs in places like the Midlands, ensuring a just transition and successful green industrial revolution.** • Furthermore, the Government commissioned Net Zero Review was published by Chris Skidmore MP, warning that the **UK is falling behind on its net zero by 2050 target** and outlining **25 recommendations to make net zero plans more consistent and ambitious**.
Cross-Sector	• **Centre for Cities' recent report** on the new economy has found that large cities outside of the Greater South East are lagging behind economically because they have fewer new economy businesses than they should – impacting productivity. The report calls **for huge investment (a £14.5bn growth package) to build innovation districts in the centres of cities outside London – particularly Birmingham, Glasgow and Manchester.**

Business Insights and Impact on the UK Economy

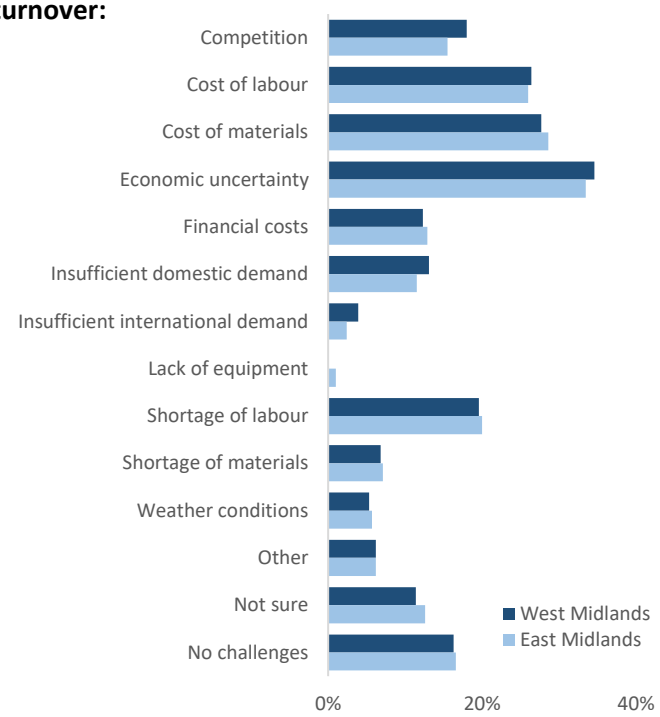
ONS have published the final results from Wave 69 of the [Business Insights and Conditions Survey (BICS)](#).

Financial Performance

21.5% of West Midlands businesses and 22.0% of East Midlands businesses reported that the business turnover in December 2022 when compared to November 2022 had increased. While **37.8% of West Midlands businesses and 34.5% of East Midlands businesses reported turnover had decreased.**

34.6% of West Midlands businesses and 33.5% of East Midlands businesses reported that economic uncertainty was a challenge that was currently impacting turnover.

Challenges (if any) impacting Midlands businesses turnover:



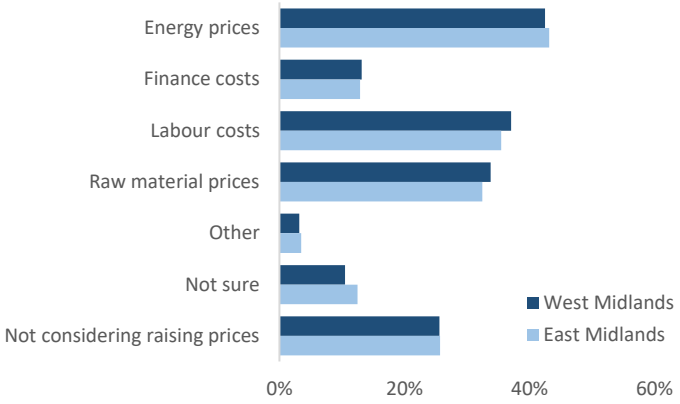
25.2% of West Midlands businesses and 23.8% of East Midlands businesses expect turnover to increase in February 2023. While, 17.0% of West Midlands businesses and 15.6% of East Midlands businesses expect turnover to decrease in February 2023.

Prices

28.0% of West Midlands businesses and 26.2% of East Midlands businesses expect the prices of goods or services sold in February 2023 to increase. While, 1.4% of West Midlands businesses and 1.0% of East Midlands businesses expect the prices of goods or services sold to decrease.

42.5% of West Midlands businesses and 43.2% of East Midlands businesses reported that energy prices were a factor for the business to consider rising prices in February 2023.

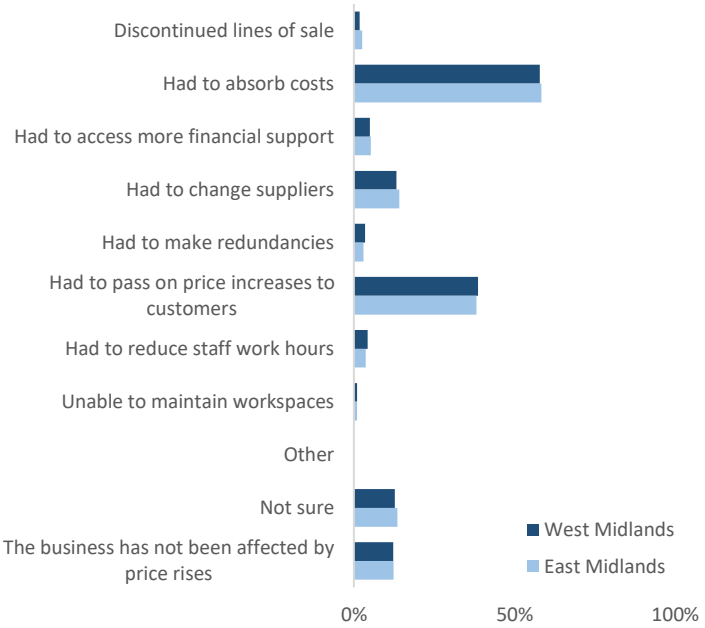
Factors (if any), are causing Midlands businesses to consider raising prices in February 2023:



Impacts of Price Rises

57.9% of West Midlands businesses and 58.4% of East Midlands businesses have had to absorb costs due to price rises.

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



Demand for Goods and Services

13.5% of West Midlands businesses and 12.5% of East Midlands businesses reported the **domestic demand** for goods or services in December 2022 when compared to November 2022 had increased. **23.4% of West Midlands businesses and 21.3% of East Midlands businesses reported that domestic demand had decreased.**

In comparison, 3.2% of West Midlands businesses and 2.9% of East Midlands businesses reported the **international demand** for goods or services in December 2022 when compared to the previous calendar month had increased **8.4% of West Midlands businesses and 7.3% of East Midlands businesses reported that international demand had decreased.**

Business Insights and Impact on the UK Economy

Number of Employees

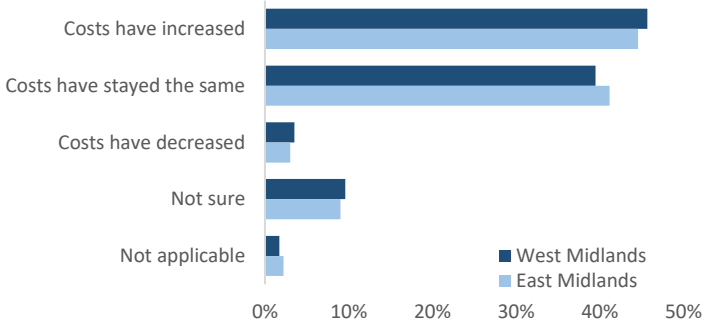
18.2% of West Midlands businesses and 16.0% of East Midlands businesses reported the number of employees had increased in December 2022 when compared to the previous month. Although, **13.2% of West Midlands businesses and 15.0% of East Midlands businesses reported the number of employees had decreased.**

21.4% of West Midlands businesses and 20.9% of East Midlands businesses expect the number of employees in February 2023 to increase. **9.0% of West Midlands businesses and 8.7% of East Midlands businesses expect the number of employees to decrease.**

Staffing Costs

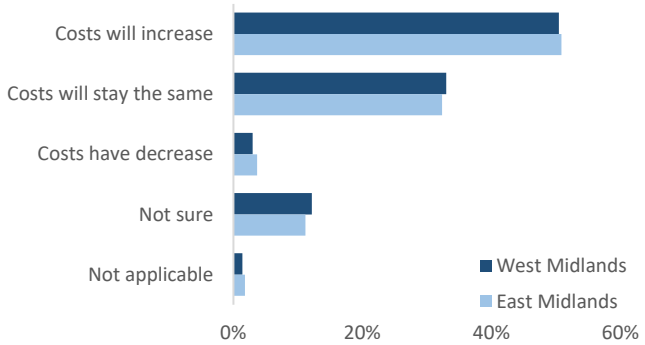
45.7% of West Midlands businesses and 44.6% of East Midlands businesses reported that staffing costs have increased over the last three months.

How Midlands businesses staffing costs have changed in the last three months:



50.5% of West Midlands businesses and 50.9% of East Midlands businesses expect staffing costs to increase in the next three months.

How Midlands businesses expect staffing costs to change in the next three months:

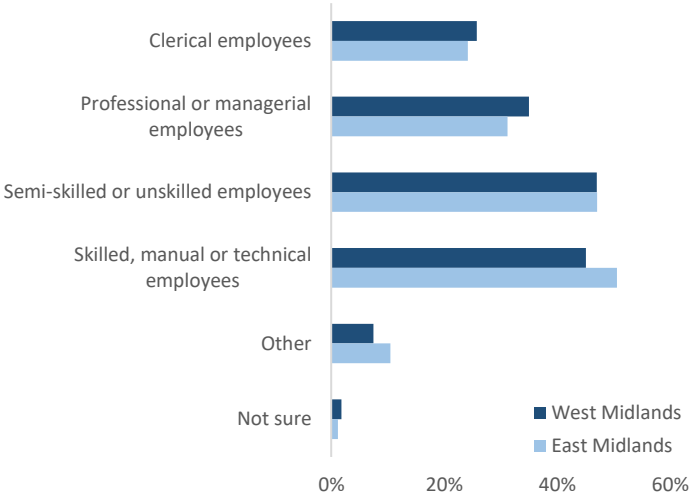


Recruitment Difficulties

35.0% of West Midlands businesses and 34.3% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in December 2022. While 38.7% of West Midlands businesses and 38.8% of East Midlands businesses reported no difficulties.

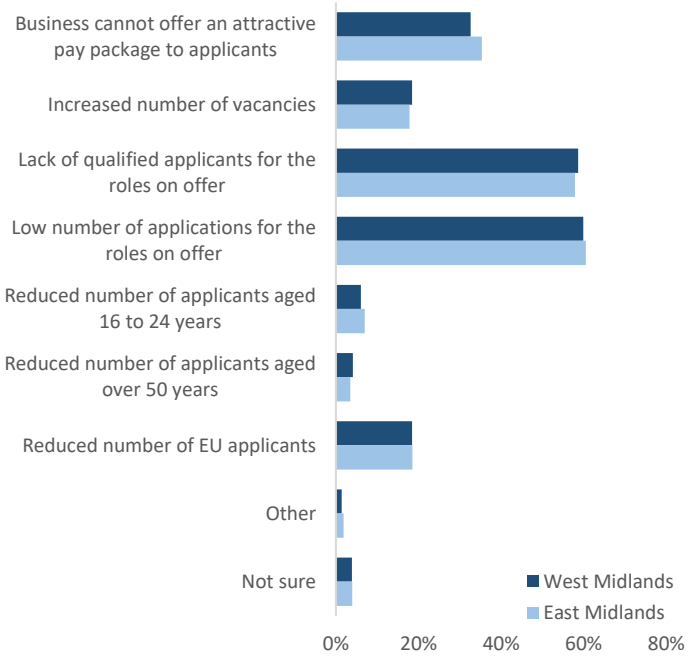
47.0% of West Midlands businesses and 47.1% of East Midlands businesses reported difficulties in recruiting semi-skilled or unskilled employees.

Employees Midlands businesses had difficulties hiring:



60.0% of West Midlands businesses and 60.6% of East Midlands businesses reported that the difficulties in recruiting employees was due to low number of applications for the roles on offer.

Difficulties Midlands Businesses experienced in recruiting employees:



Source: ONS: Wave 74 of the Business Insights and Conditions Survey. In the West Midlands there was a response rate of 27.6% and in the East Midlands there was a response rate of 28.1% where businesses have a presence in the region. There was a response rate of 25.7% for the West Midlands and 26.2% of East Midlands where businesses are headquartered in the region. Survey reference period: 1st to 31st October 2022. Survey live period: 9th to 22nd January 2023. As response rates are low and the data is unweighted and should be treated with caution.

State of Small Business

The State of Small Business Britain report is the Enterprise Research Centre's (ERC) annual review of trends and issues affecting small and medium sized enterprises (SMEs) in the UK. The report draws together and summarises several different strands of ERC's research to give a picture of the landscape for the UK's SMEs in 2022.

Business Trends

Findings from the Global Entrepreneurship Monitor (GEM) confirm that **the UK is a nation of entrepreneurs, with around one in three adults now either running a business or looking at starting one**. The number of individuals in early stages of setting up a new business is at the highest level since the GEM Global project started in 1999. Female early-stage entrepreneurial activity is also at a high, with the gender gap closing.

But **SMEs have faced severe financial challenges in 2022**. According to the ONS Business Insights and Conditions Survey (BICS) data, the proportion of **businesses in the UK reporting that they have 'no cash reserves' has increased since 2020**. At the same time, the proportion of financially healthy firms with more than six months cash reserves has also increased.

The highest percentage of firms with no cash reserves is found among micro-businesses employing 0-9 employees. Less than 25 per cent of micro-businesses and about one third of small businesses estimated that their cash reserves would last more than six months, compared to around 50 per cent of medium and large businesses.

Businesses have become increasingly more concerned over the year by increases in energy prices, inflation, and interest rates. In November, around 22 per cent of businesses said they were concerned by energy prices, increasing from 15 per cent in March. **One in four businesses expressed concerned about inflation of goods and services compared to around one in five previously**.

The ERC's Small Business Price Index (SBPI) shows that **business cost increases during the first half of 2022 were higher than at any time since 2008** when we first started the Index. Business cost inflation eased somewhat in 2022 Q3, but it still remained positive, 'locking in' the cost increases of earlier periods. The **ERC's Business Futures 2022 Survey does show a more encouraging picture regarding turnover and employment growth compared to 2020**. In 2022 there were more businesses that said they experienced turnover and employment growth in the past 12 months than whose who experienced a decline. However, the situation varies considerably between sectors.

Trade Patterns

Looking at the bigger picture, **global trade made a strong comeback in 2022** following its pandemic triggered collapse and decline. Despite all this, according to the UNCTAD, total global trade was 10 per cent higher in May 2022 than in 2019, **reaching $7.7 trillion (£6.38 trillion) in 2022 Q1**.

However, the trade boom bypassed the UK. Between the period 2019 to 2022, the UK economy performed worse than its counterparts, with UK GDP growth being lower than the average growth of the OECD, G7 and the EU27. **Amongst exporting countries, the UK is an outlier, with zero export growth during 2019 Q1-202 2Q1**. Reasons for this include that EU exit and new trade relationships defined by the EU-UK Trade and Cooperation Agreement (TCA) had strong, negative, and significant impact on UK bilateral trade with EU countries in 2021 with **UK exports to the EU declining by 26 per cent on average over 2019-2021**. Unlike exports, **UK imports managed to recover from a decline** in 2021.

Although there are some encouraging signs in terms of entrepreneurial resilience, the **financial stability of many SMEs has declined, particularly amongst the smallest businesses**, with strong sectoral differences at play. Concerns have been steadily rising about the costs of doing business, inflation, and interest rates.

Innovation

The UK Innovation Survey data published this year on firms' innovation activity pre-pandemic (2018-20) suggested **increases in the overall proportion of firms classed as 'innovation active'.** However, these levels remained significantly below the levels for SMEs and larger businesses in 2012-14 and 2014-16. Likewise, there are indications that **the pandemic had a negative impact on innovation**.

Within the 2022 ERC / Innovation Caucus Innovation Survey, **half of firms said they were experiencing continued disruption within R&D activities**. Around a third of firms were reducing and re-prioritising R&D activities whilst around **one in ten had stopped some or all R&D**. On the other hand, around one in five firms increased their R&D activity.

Net Zero

As for adoption of net zero practices, the ERC's Business Futures 2022 survey found that nine in ten UK SMEs stated **they considered environmental implications when taking business decisions, slightly higher than previously found in 2020**.

Source: ERC, 2022

However, only two-thirds of firms stated that they have undertaken actions to reduce environmental impact, with smaller firms being less likely to take steps in contrast to larger SMEs. Meanwhile just over one-third of UK SMEs are not engaged in undertaking any activity to reduce business carbon footprints.

The survey also highlighted **three main barriers to the decarbonisation** of UK SMEs which were: (1) uncertainty related to the pandemic; (2) costs of meeting regulations and standards; (3) unfamiliarity with low carbon technologies. Variation included that **smaller firms were more concerned with costs, whilst larger firms with information barriers.** Out of the firms which took steps to reduce their environmental impact, three in four firms found that these measures resulted in decreased carbon emissions. The second most cited benefit included the **improvement of a firm's identity and reputation** reported by three in five firms. Moreover, around one in four firms **suggested benefits would increase their revenue**, with 40 per cent of firms stated that net zero practices helped to develop new products and services.

Digital

Evidence shows that **the pandemic accelerated digitalisation of small businesses**. In 2022, the Business Futures Survey continued to track digital adoption behaviours of UK SMEs finding that larger **SMEs took lead in adoption of more advanced emerging technologies like AI and Machine Learning**.

Further findings show that factors driving adoption related to growth, key business or industry requirements, and the pandemic. Despite already high reported usage and intensity, most SMEs stated they were interested in using new digital technologies, or better using/integrating already available technology. **Findings also suggest that there is value in short online training courses to support digital adoption in smaller firms**.

Mental Health and Wellbeing

ERC's 2022 survey of mental health and productivity in Midlands firms suggests **mental health related sickness absence levels are on the rise after declining in 2021**. Likewise, firms have also reported similar patterns of 'presenteeism', which is yet to regain its pre-pandemic levels.

Evidence also suggests greater uptake of mental health-related initiatives among employers, including raising awareness of mental health issues for staff, and providing line-manager training in mental health issues.

However, smaller firms were still considerably less likely to offer initiatives, likely due to resource constraints and lower levels of HR function. Family firms also faced these issues but were more linked to financial constraints.

Urban/Rural Inequalities

Viewing research from the National Innovation Centre for Rural Enterprise, with Levelling Up in mind, found some particular **obstacles in rural locations** including broadband quality, provision of public transport, and transport infrastructure. These being amplified in more remote rural areas. Research has also found that rural and urban firms had different connection patterns, with rural firms less likely to report that they know, interact, or feel supported by other businesses.

Separate research found that **the pandemic has had a disproportionately negative effect on entrepreneurial attitudes and perceptions in rural areas**. Pre-pandemic, rural respondents were more positive about starting businesses than their urban counterparts, but these differences largely disappeared in 2021.

Female Entrepreneurship

Female entrepreneurship has been a long-standing issue in the UK, although GEM data shows more female led businesses were started in 2021 than before. Although, new data made available through the Gender Index suggests a sizeable gap still exists in-terms of business ownership. At the UK level, **16.8 per cent of businesses were female owned** in comparison to 60.3 per cent which were male owned.

SMEs and Social Responsibility

ERC's Business Futures Survey 2022 showed that **46% of UK SMEs said that they 'undertook steps to actively generate social benefits for people and communities'** over the past year, where medium-sized firms were most likely to take these 'pro-social' actions. Likewise, ethnic minority-led enterprises were also more likely to take pro-active measures to create social benefits for individuals and communities.

The **results of these 'pro-social' actions were generally positive**. Three in four firms claimed that taking action to assist the community not only enhanced their reputation, but also the community. Other internal benefits were significant, including **helping with employee recruitment, retention, and employee skill development.** Additionally, more than half of firms said that undertaking **'pro-social' activities led to new product or service innovation and creation of new business possibilities**.

Source: ERC, 2022

4. Place Analysis

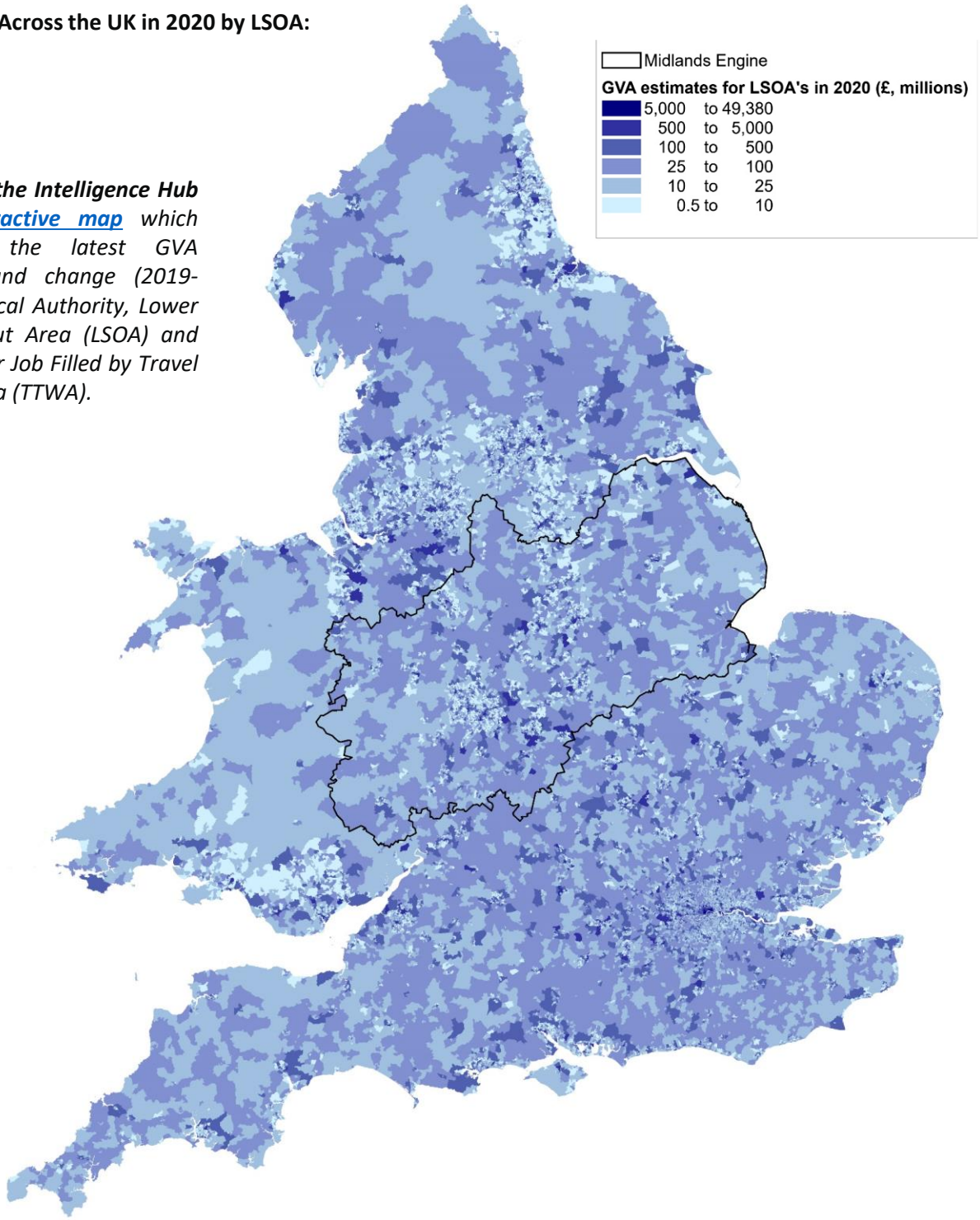
Dis-Aggregated Gross Value Added

In January 2023, the ONS released the second iteration of experimental Gross Value Added (GVA) estimates for low level geography covering up to the 2020 period. **GVA is a standard measure of the economic activity taking place in an area. It reflects the value of goods and services produced, less the cost of any inputs used up in that production process.** These experimental statistics continue the disaggregation of GVA figures to the smallest geographic areas possible, so they can be used as "building blocks" to create areas of interest, for example; aggregating the building blocks data to travel to work areas (TTWA). TTWA are useful geographies for exploring labour productivity data as they are built to approximate self-contained labour market areas. They aim to reflect areas where most people both live and work and that have relatively low levels of in- or out-commuting.

Notably, **labour productivity measured as GVA per job filled for TTWA was below the UK average in all TTWA within the major urban areas of the North and Midlands of England** in 2020.

GVA Estimates Across the UK in 2020 by LSOA:

Located on the Intelligence Hub is an [interactive map] *which showcases the latest GVA estimates and change (2019-2020) by Local Authority, Lower Super Output Area (LSOA) and also GVA per Job Filled by Travel to Work Area (TTWA).*



Source: ONS, [Disaggregating UK annual subnational gross value added (GVA) to lower levels of geography: 1998 to 2020], released 2023

UK Prosperity Index 2022

The UK Prosperity Index is a tool to better map and monitor the pathways to prosperity for all regions and local authorities of the UK. The Index measures the UK's 374 local authorities (LAs) through three domains (institutional, economic, and social wellbeing), 12 pillars, 53 actionable policy areas (elements), and 255 indicators.

Healthy Life Expectancy

Health is an essential part of prosperity and has rightly been acknowledged as one of the central missions underpinning the Government's approach to Levelling Up. The government, under Mission 7 in the Levelling Up White Paper stated that **by 2030 it aims to narrow the gap in healthy life expectancy (HLE) between the highest and lowest local areas**. By 2035 it aims to raise HLE by give years.

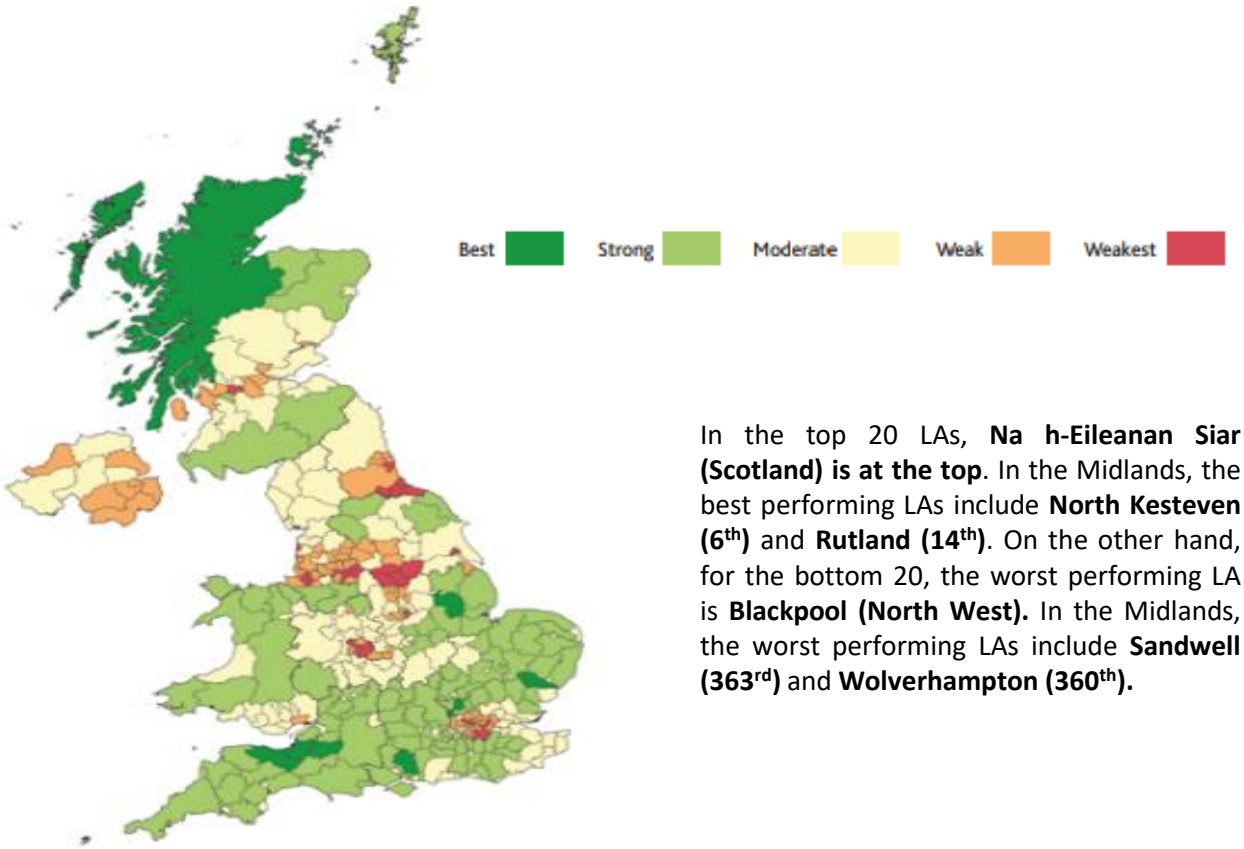
Based on current trends this will not happen, with HLE potentially worsening in 15 years. According to the ONS, **HLE declined for women between 2014-16 and 2017-19 whilst for men it has remained flat**. In the top 20 LAs, the Orkney Islands have the highest HLE at **74.4 years**, whilst Blackpool has the lowest HLE at **53.9 years**. In the Midlands, Rutland has the **3rd highest HLE at 70.7 years** making the top 20. On the other hand, **Stoke-on-Trent has the 2nd lowest HLE at 55.5 years** and **Nottingham is 14th lowest with a HLE at 57.2**.

Local Authorities with the highest HLE:

Local Authority	Region	HLE
Orkney Islands	Scotland	74.4
Wokingham	South East	71.1
Rutland	East Midlands	70.7
Windsor and Maidenhead	South East	70.0
West Berkshire	South East	69.7
Richmond upon Thames	London	69.6
Kingston upon Thames	London	69.5
Monmouthshire	Wales	69.0
Elmbridge	South East	68.7
Epsom and Ewell	South East	68.7
Guildford	South East	68.7
Mole Valley	South East	68.7
Reigate and Banstead	South East	68.7
Runnymede	South East	68.7
Spelthorne	South East	68.7
Surrey Heath	South East	68.7
Tandridge	South East	68.7
Waverley	South East	68.7
Woking	South East	68.7
Kensington and Chelsea	London	68.7

Inclusive Societies

The inclusive societies domain explores relationships between structures which exist within society, and the degrees they either enable or obstruct social cohesion and collective development. Elements of inclusive societies can be broken down into four pillars: safety & security, personal freedom, governance, and social capital.

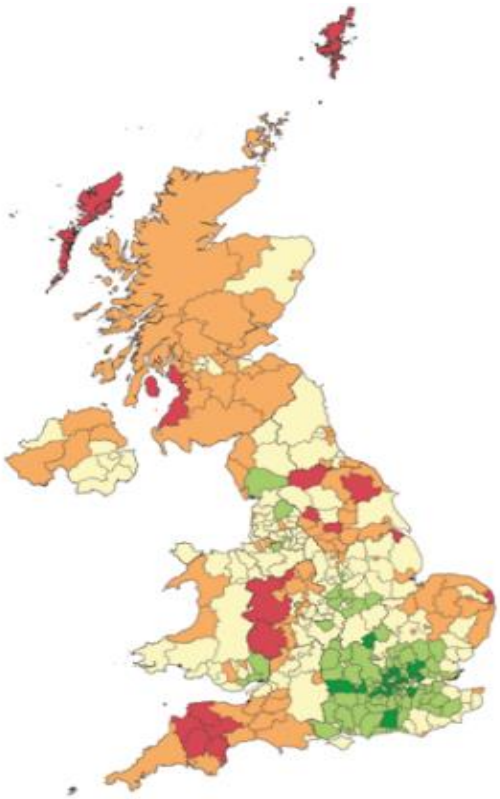


In the top 20 LAs, **Na h-Eileanan Siar (Scotland) is at the top**. In the Midlands, the best performing LAs include **North Kesteven (6th)** and **Rutland (14th)**. On the other hand, for the bottom 20, the worst performing LA is **Blackpool (North West).** In the Midlands, the worst performing LAs include **Sandwell (363rd)** and **Wolverhampton (360th).**

Source: Legatum Institute, 2022

Open Economies

The open economies domain encourages innovation and investment promote business and commerce and facilitate inclusive growth. The domain captures the extent to which a region and LA embodies these ideas. Elements of this domain include the investment environment, enterprise conditions, Infrastructure, and economic quality.



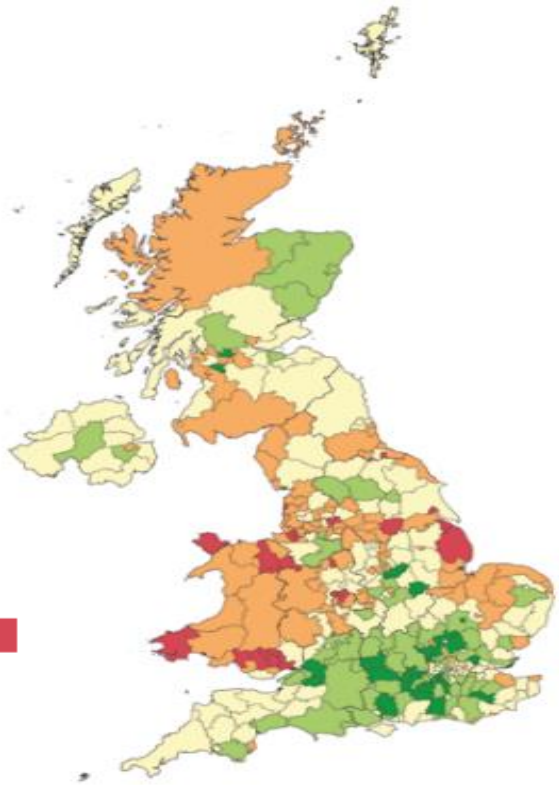
In the top 20 LAs, **the City of London (London) is at the top**. None of the Midlands LAs make the top 20. On the other hand, for the bottom 20, **Na h-Eileanan Siar (Scotland) is the worst performing LA**. In the Midlands, the worst performing LAs include **Shropshire (369th)** and **Herefordshire (360th).**

Best Strong Moderate Weak Weakest

Empowered People

The empowered people domain captures the quality of people's lived experiences, and the conditions present that enabled individuals to reach their full potential through self-determination. Elements of this domain include living conditions, health, education, and natural environment.

In the top 20 LAs, **St Albans (East England) is at the top**. In the Midlands, the best performing LA is **Rushcliffe (14th).** On the other hand, for the bottom 20, **the worst performing LAs is Blackpool (North West).** In the Midlands, the worst performing LAs include **Sandwell (368th), East Lindsey (366th)** and **Stoke-on-Trent (364th).**



Best Strong Moderate Weak Weakest

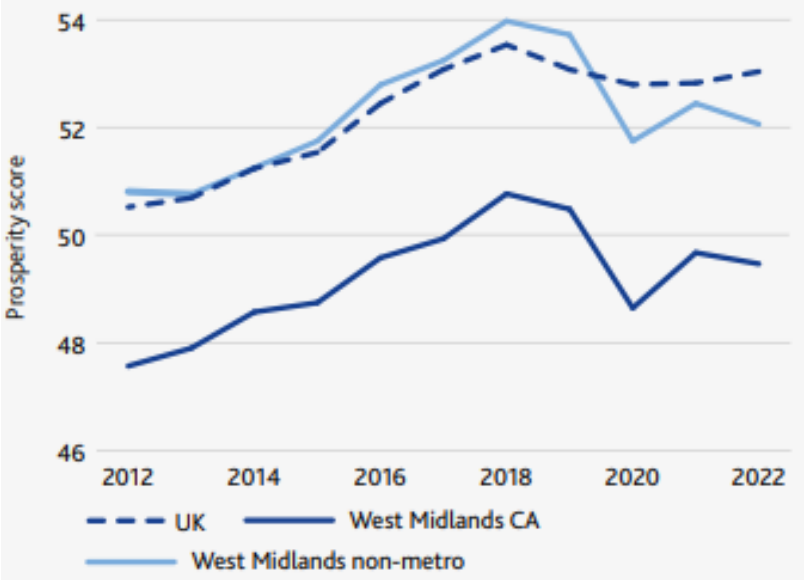
Source: Legatum Institute, 2022

UK Prosperity Index 2022

Regional Summary: West Midlands

Prosperity in the West Midlands non-metro area is close to the UK average, while the West Midlands CA has much worse prosperity. The **non-metro areas have been strongest in Safety and Security, Governance and Enterprise Conditions**, while being particularly weak in Infrastructure. **The Combined Authority has the UK's best infrastructure and good enterprise conditions**. However, it is particularly weak in Safety and Security, Living Conditions, and Natural Environment. **The West Midlands non-metropolitan area ranked 12th on the index, whilst the West Midlands CA ranked 18th.**

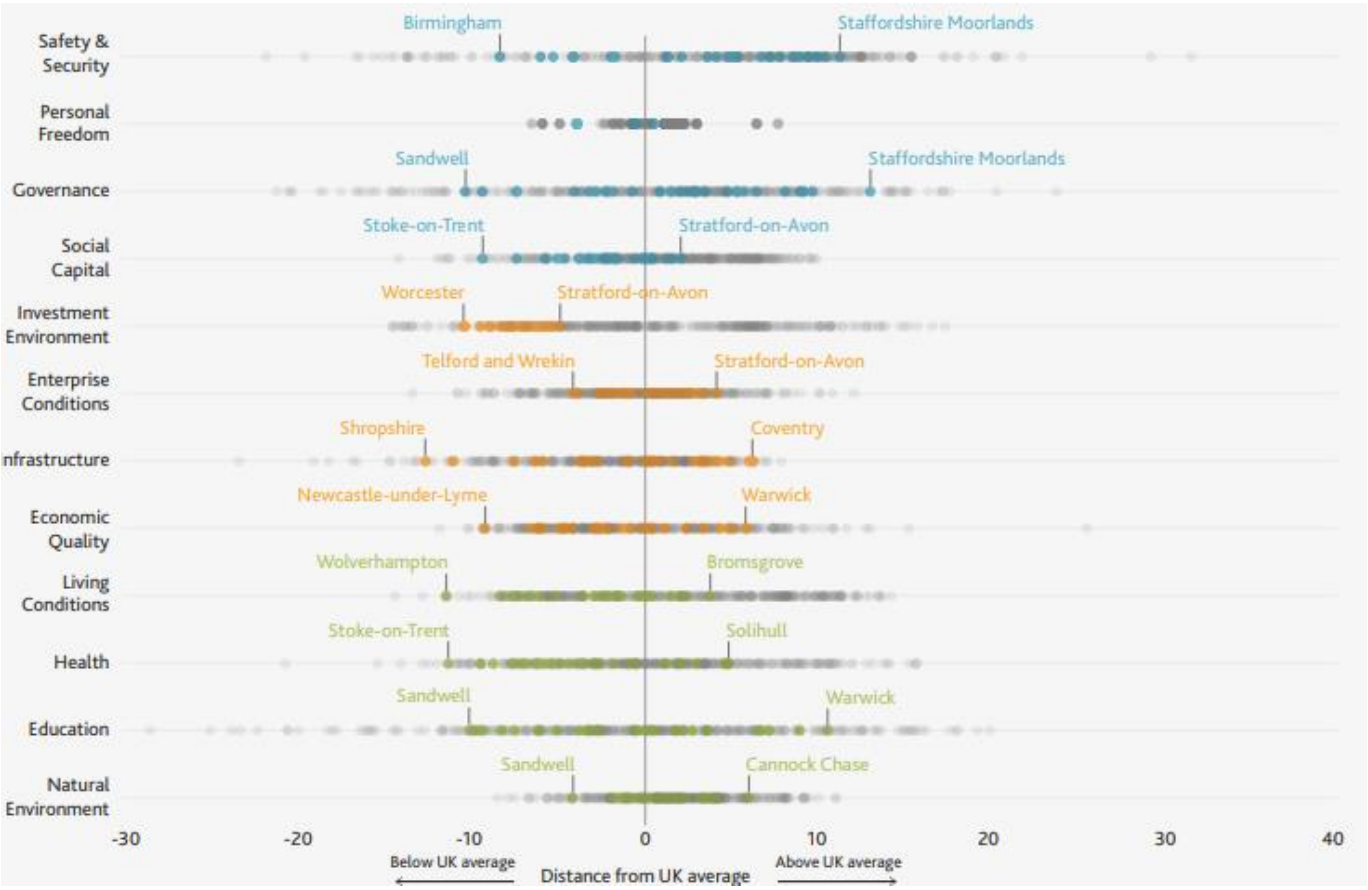
West Midlands, Non- Metropolitan and UK Prosperity:



Viewing all the LAs within the West Midlands, **the top performing LAs are Warwick (69th), Stratford-on-Avon (135th) and Rugby (136th)**. On the other hand, the lowest scoring LAs in the West Midlands include Wolverhampton (367th), Sandwell (366th) and Stoke-on-Trent (360th). Additionally:

- Outside of London, **Rugby has the highest number of patents submitted per capita, with 277 per 100 people**.
- **Warwick has the highest percentage of adults with any kind of qualifications in the UK**, at 98.7%
- Outside of London, **Bromsgrove has one of the highest number of new businesses**, at 503 per 10,000 people.

West Midlands Pillar Scores by Local Authority

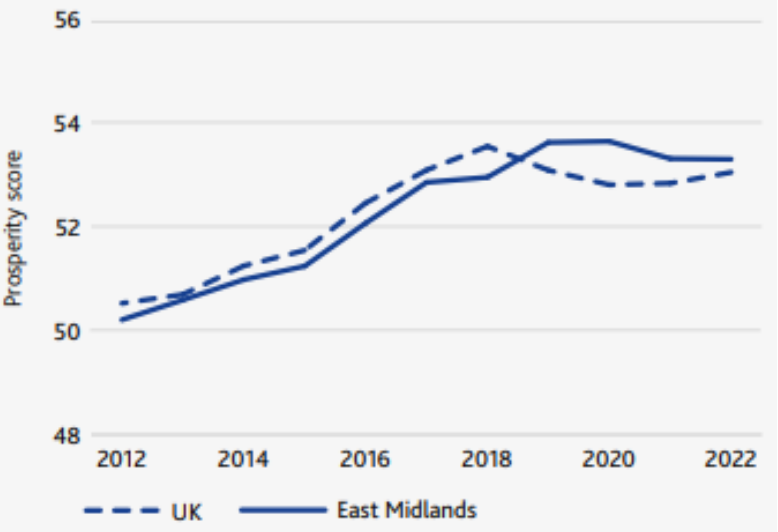


Source: Legatum Institute, 2022

Regional Summary: East Midlands

Levels of prosperity differ across the East Midlands. **As a whole, the region has good Enterprise Conditions, Living Conditions, and Social Capital**, while it is particularly weak in the Natural Environment, Infrastructure, and Education. **There is wide variation within the region**. Rural local authorities, such as Rutland, are much more prosperous than those in urban or dispersed urban clusters. **The East Midlands regionally ranked as 7th** on the index.

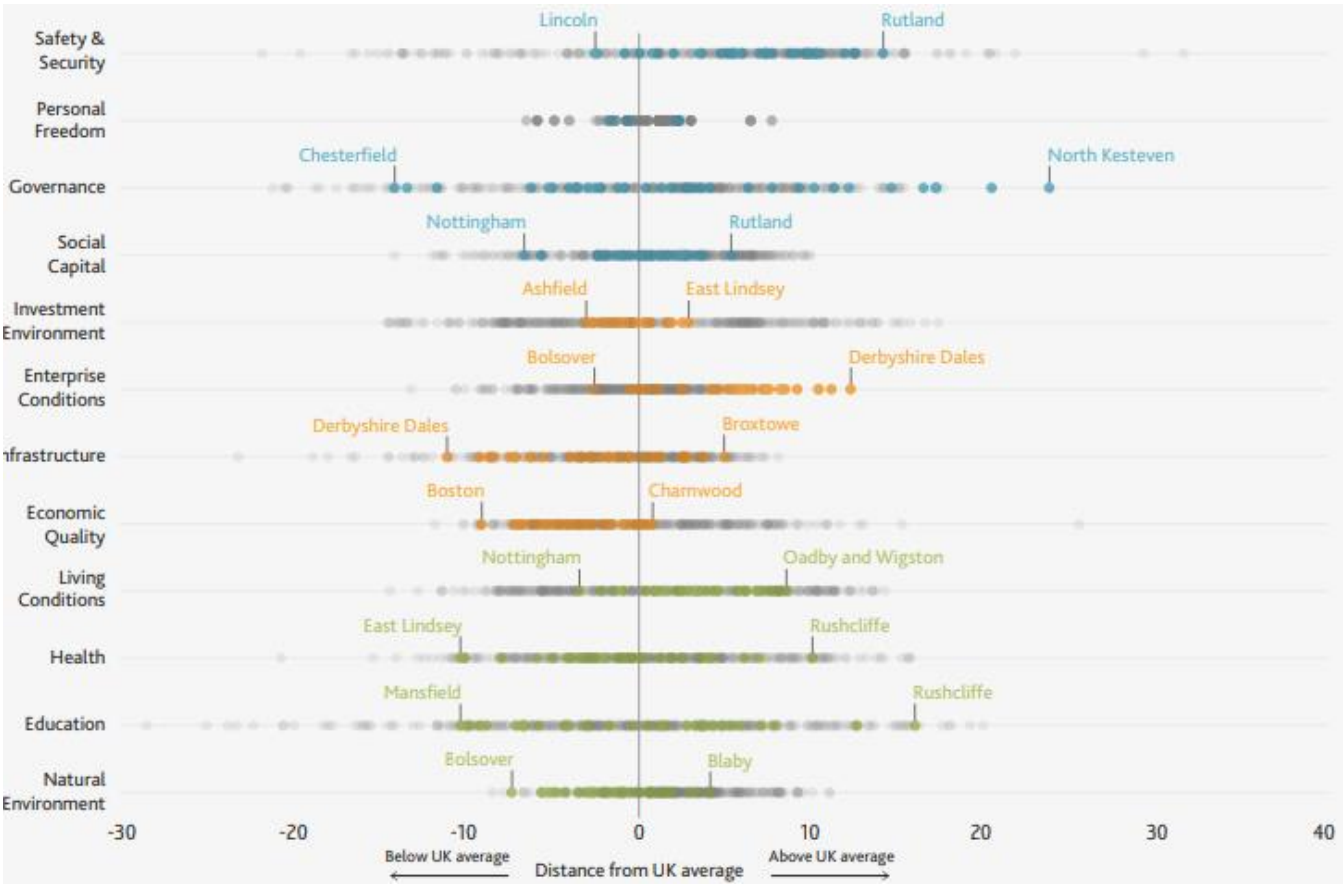
East Midlands and UK Prosperity



Viewing all the LAs within the East Midlands, **the top performing LAs are Rutland (13th), Harborough (43rd) and Rushcliffe (55th)**. On the other hand, the lowest scoring LAs in the East Midlands include Nottingham (341st), Bolsover (336th) and Chesterfield (328th). Additionally:

- Outside of London**, Rushcliffe has the highest primary attainment for numeracy in England**.
- **Leicester has the lowest rate of cancer in the UK**, at just 1.6% of the population.
- **Rutland has the highest primary attendance in the UK**, at 97.0%.
- **Blaby has the highest percentage of non-domestic premises that meet a high energy efficiency rating**, at 75.9%

East Midlands Pillar Scores by Local Authority



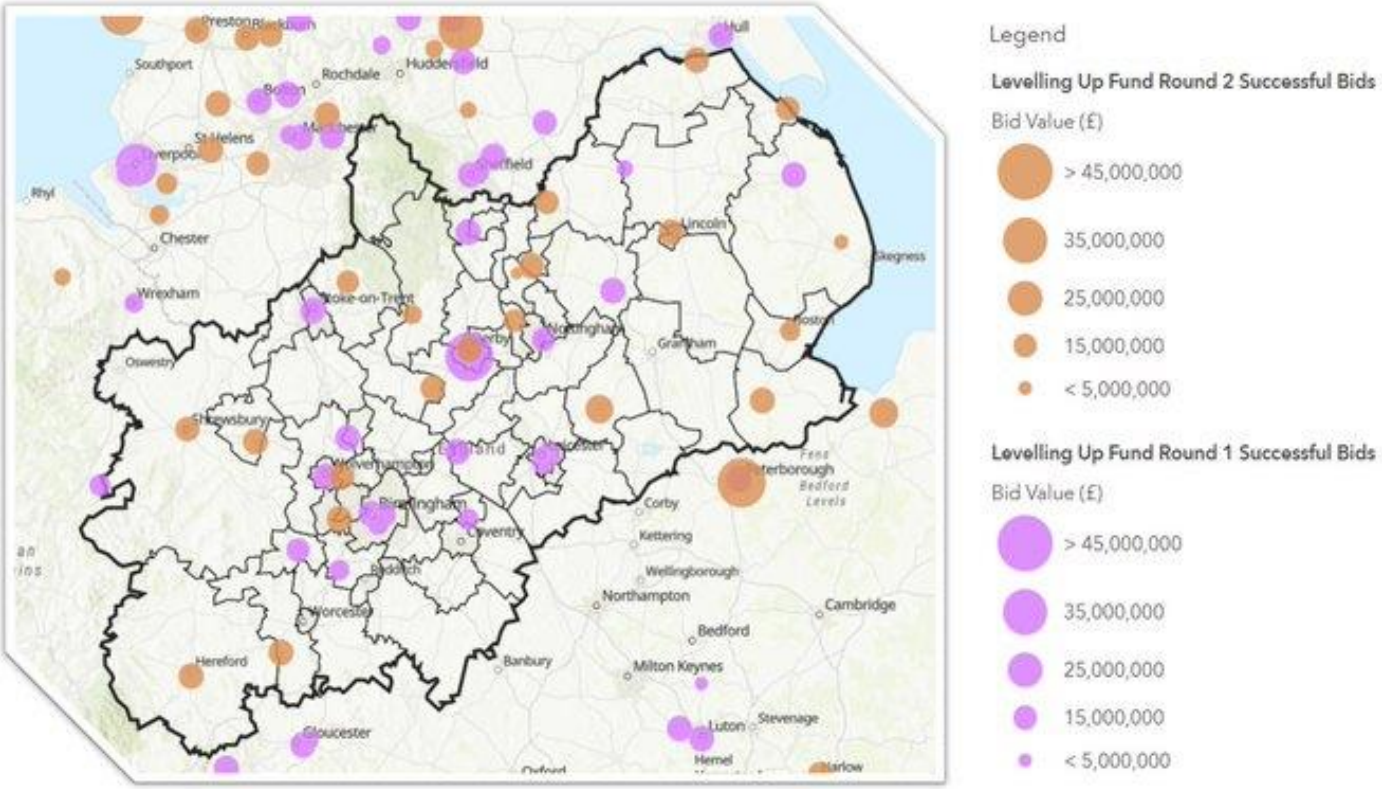
Source: Legatum Institute, 2022

Levelling Up Fund

The awarding of funds for the Levelling Up Fund Round 2 was announced by Government in January, **distributing £2.1 billion to support investment** in infrastructure, town centre regeneration and high streets, upgrading local transport, and investment in cultural and heritage assets.

A total of 111 areas across the UK have been awarded funds in this tranche, including £**371m million to projects in the Midlands Engine geography (17.6% of the total).** This is in addition to the £399m funding from the first round of the Fund. Overall, the **Midlands Engine geography has therefore received £770m from the Levelling Up Fund thus far, over one-fifth of the total fund allocation.**

Levelling Up Fund - Rounds 1 & 2 Successful Bids in the Midlands Engine:



To access the full, searchable UK-wide map please click here.

Midlands Engine projects awarded funding in the latest round include:

- **£22 million for a new outdoor food market and event space in iconic food town, Melton Mowbray and updating of the Rutland County Museum** in Rutland to create a digital visitor experience .
- **£20 million will kickstart the delivery of over 500 new homes connecting local people in Willenhall** to jobs, parks and a new rail station. This is part of the area's £210 million regeneration plan.
- **Hereford will receive £19.9 million to boost local people's use of public transport** with better cycle lanes, improved station facilities and new safety measures for pedestrians.
- **Almost £18 million to transform Worksop Town Centre**, funding will create a new leisure facility with ten pin bowling and soft play. The works will also create a new towpath link along Chesterfield canal

Overall, the **West Midlands will receive £26.20 per head (8th out of the 12 UK regions) and the East Midlands will receive £36.60 per head (5th out of 12 UK regions).** The region's with the highest level of funding per head in Round 2 were Wales (£67.00 per head), North West (£48.20) and North East (£48.20); while the lowest were London (£16.80), Yorkshire and The Humber (£21.90) and South East England (£22.80).

While the funded areas have welcomed local investment into their projects, there has been **criticism from some political and business leaders from all sides of the Midlands about the scale and distribution of funding**; including from the West Midlands Mayor Andy Street and business leaders in Nottingham.

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For any queries please contact the lead authors:

Professor Delma Dwight/ Rebecca Riley/ William Rossiter
Delma_Dwight@blackcountryconsortium.co.uk R.L.Riley@bham.ac.uk William.Rossiter@ntu.ac.uk

MIDLANDS ENGINE OBSERVATORY

Produced by:

Black Country Consortium Economic Intelligence Unit

WM REDI

NOTTINGHAM BUSINESS SCHOOL NOTTINGHAM TRENT UNIVERSITY

In Partnership:

Black Country LEP

UNIVERSITY OF BIRMINGHAM BIRMINGHAM BUSINESS SCHOOL

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D2N2 Derby Derbyshire Nottingham Nottinghamshire

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