MIDLANDS ENGINE
Observatory

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 24: MARCH 2022

Executive Summary

The March 2022 edition of the Midlands Engine Economic Monitor comes a month after Russia invaded Ukraine. Although primarily a grave humanitarian and geopolitical crisis, there are **wider economic and business implications of the war**, many of which will and already are being felt by Midlands people and businesses. This month's monitor outlines the war's current and expected economic impacts, through four core areas first outlined by CBI:
1) Commodities
2) Trade & Investment
3) Financial Conditions
4) Sentiment and Confidence

While the negative impact on business sentiment and conditions of financial markets is a concern for the whole UK economy - particularly for investment, growth and prosperity – the **greater "here and now" concerns relate to commodities**, **trade and investment.** These impacts are likely to **disproportionately affect the Midlands Engine.**

- The Midlands Engine region exports around £650m worth of goods exports to Russia and Ukraine a year. This represents **1.43% of all the region's goods exports, the highest proportion of all regions.**
- **Higher energy prices are by far the greatest war-based concern for the Midlands and wider UK economy**, which will likely result in further upward pressure on inflation and a modest hit to GDP growth over the next two years. Around 5-6% of UK gas imports come from Russia.
- Higher prices and supply difficulties are also being experienced for non-energy commodities such as **industrial metals, foodstuffs and fertilisers.** This will damage automotive, transport / logistics, food and drink, agriculture, aerospace, and key underpinning supply chains.

The effects reflect a **deepening cost of living and cost of doing business crisis in the UK**; the Office for Budget Responsibility predicts that inflation will now average 7.4% this year and peak at 8.7%. This inflationary pressure is filtering through to large sections of the economy, notably **raising the cost of food and other essentials like energy.**

- The monitor's dedicated pages to the energy crisis reflect on business and societal impacts. On the latter, the issue of fuel poverty in the Midlands are laid bare: **16.1% of households in the Midlands Engine are "fuel poor", above the England rate of 13.4%.** Further rising energy bills, in step with other hikes, threaten to worsen the situation.
- Whereas **business and industrial pricing of energy is structurally uncompetitive in the UK**; industrial energy prices for large industrial consumers are up to **50-90% higher in the UK** compared to EU competitor countries. The current energy cost crisis is exacerbating the issue, making Midlands manufacturers in particular less competitive.
- Businesses continue to struggle with increasing costs in other areas - including for **wages, materials and taxes.**

Regional business leaders have continued to **urge the Government to act on cost pressures**, including by maintaining lower levels of VAT, delaying rises to NI and continuing reform of the business rates system. It is acknowledged that Government has limited levers to pull and that the recent **Spring Statement did have some helpful policies** (Fuel Duty Cut, rise in Employment Allowance), but many think more will be required in future – particularly if the much-welcomed **Levelling-Up White Paper and Living With Covid Plan are to be a success** for places across the Midlands.

But in the meantime (and largely reflective of the period before Russia's invasion), the new year did initially bring **some confidence to local business activity**, while still being tempered by pandemic and Brexit related issues.

- The **West Midlands Business Activity Index increased from 51.9 in January 2022 to 58.4 in February 2022, while** the **East Midlands increased from 56.9 to 59.6 in February 2022**. Firms stated that greater new orders and stronger client demand following the easing of Covid-19 restrictions.

While reports from across the region – including from British Business Bank and BGF - suggest a **resilient business base that is hungry for recovery and growth**, working in an attractive region for investment.

This is translating into firms looking to recruit additional staff, but they are still **facing problems filling vacancies.** This is for various reasons including a **lack of qualifications or high wage demands.** Also on the labour market this month:

- Unemployment is no longer falling month on month (a pandemic legacy): there were 304,535 claimants aged 16 years and over in the Midlands Engine area in February 2022, which is an **increase of 7,140 claimants since January 2022**. This equates to an **increase of 2.4% for the Midlands Engine area, compared to 1.8% nationally**.
- The monitor reports on survey data suggesting trends of over 50s post-Covid. Many 50-70 year olds who either left or lost their jobs at the beginning of the pandemic have made **the decision to not return to work; lowering the labour market participation rate.** 85% of West Midlands and 84% of East Midlands respondents confirmed this.

Finally, the last section of this month's Monitor highlights the findings from recently Midlands Engine commissioned research on **Women in Business Leadership in the Midlands.** It reinforces the ongoing **gender gaps in local business.**

Policy Considerations

THEME	KEY INSIGHTS
Market Outlook	• Concerns among the business community continue over **tax rises, rampant inflation caused by supply chain disruption, labour market shortages and soaring energy prices** – now being exacerbated further by Russia's invasion of Ukraine. • Business concerns related to the conflict are already building, mostly regarding **commodity supply and price hikes.** • Regional business leaders have continued to **urge the Government to act on cost pressures**, including by maintaining lower levels of VAT, delaying rises to NI, offering financial support for those suffering from high energy bills, and continuing reform of the business rates system. • The Chancellor's recent Spring Statement did not directly implement significant change or policy in these areas, but did offer some positive help for businesses: such as the Fuel Duty Cut, rise in Employment Allowance and temporary business rates relief for some sectors. • It's widely acknowledged that the government has limited levers to pull though, and that a key current **priority is clearly supporting lower income households with the cost of living crisis**, in step with **continued humanitarian relief to Ukraine and its people.** • Separately, the Government's **Living with Covid plan was warmly welcomed** by many firms, particularly in sectors such as hospitality, retail and travel, who have noted that this is a major step towards normality. Several businesses have flagged that **caution must still be exercised, and that certain measures adopted during the pandemic should remain in place** for the long-term to protect businesses in the face of future variants. This is likely to become of greater importance as Covid cases rise again, **testing the effectiveness of the government's strategy.** • Announcements in the Levelling Up White Paper were also generally well received by Midlands businesses, who see Government investment in infrastructure, transport, and skills as crucial for the Midlands Engine's future. The strong **narrative and framework now needs to translate into action.**
Labour Market	• The latest KPMG and REC, UK Report on Jobs: Midlands said that the second month of the year experienced the **softest rise in the number of permanent staff appointments since last September, while temporary billings also reporting deceleration in the rate of increase.** • While this is likely to reflect a more stabilised economy, it may also point to the continued problems businesses are having filling vacancies with suitable staff, including: - **Lack of Suitable Candidates –** Feedback from regional recruiters further highlighting the **severe lack of suitably qualified candidates**, a problem faced across all sectors - **Forced Wage Increases & Flexible Working** – Companies continue to see an increase in wage demands with manufacturing, warehouse and the commercial sector reporting rises of between 5-10%. Similarly, employees are demanding flexible / hybrid working practices. - **Apprenticeships** - Although there is an increase in interest in giving young people an opportunity to gain a start in their careers, within SMEs there seems to be a problem with attraction and applications. This is also being confirmed via most training providers. Specifically, the number and quality of applicants for Apprenticeships. - **Trainers -** All sectors are reporting a lack **of instructional staff, assessors, and those to carry out end-point assessment.** Those staff who are suitably experienced to deliver the skills for technical skills are often highly paid and in management positions and are not prepared to take a salary cut. • However, it remains a positive story that many businesses are still looking to recruit additional staff.
Trading Conditions	• Exacerbated by the war, businesses continue to **struggle with drastically increasing costs** - including for energy, wages and materials. • This inflationary pressure is filtering through to large sections of the economy, notably **raising the cost of food and other essentials for households and businesses.** Firms across the Midlands are **calling for greater help on energy costs;** this was top of the list for requests to the Chancellor ahead of the Spring Statement in both the East Midlands and West Midlands. • The business issues of this crisis will **disproportionately affect the Midlands Engine**, given our strengths in energy-intensive industries like manufacturing, and our international trading acumen. • Despite the plethora of challenges, reports from across the region suggest a **resilient business base that is hungry for recovery and growth,** working in an attractive region for investment. Growth capital investor BGF has reported **record levels of investment activity in the East Midlands** over the last 12 months, while the British Business Bank has reported **strong appetite too in the West.**

1. Economic and Labour Market Impacts

Global and National Outlook

Global

The Russian invasion of Ukraine and the economic sanctions that have been placed on Russia have put global energy supplies at risk. Russia currently accounts for around 10% of the world's energy supply, including 17% of natural gas supplies and 12% of oil supply. If Russia decides to stop supplying Europe with energy, prices will only increase further. It may also lead to shortages of energy supply across Europe. Germany has already announced this week that it will begin gas rationing as it braces itself for a potential halt in energy deliveries from Russia due to disputes over payments. Germany, alongside a number of other European countries, is refusing to pay Russia in roubles; however, Russia has warned that it will not supply energy to Europe for free.

The first stage of gas rationing is to monitor imports and storage of energy. If supply begins to fall short and less draconian attempts to lower consumption do not work, then the government will cut off certain parts of German industry from the grid, giving preferential treatment to households. If Russia were to cut of its supply to Germany this could cause inflation in the largest European economy to reach between 7.5% and 9% this year. Whilst Germany may be Europe's largest consumer of Russian energy supplies, other European countries also receive large quantities of energy from Russia, with Russia dominating the gas pipeline flows to Europe.

China has announced its biggest city-wide lockdown since the beginning of the pandemic. The city of Shanghai will be locked down over 9 days, whilst authorities carry out Covid-19 testing. The important financial hub of 25 million people has been battling rising case numbers, although by international standards these are low, and the government has been resisting lockdown at risk of destabilising the economy. However, case numbers in Shanghai have reached the highest daily number of cases since the early days of the pandemic.

Whilst the city is under lockdown public transport will be suspended; firms and factories must halt operations or work remotely. Shanghai is China's commercial capital and, according to some metrics, the biggest city in the country; hence locking down the area will cause significant economic disruption. Therefore, the Chinese government has decided to lockdown the area in two stages, first the eastern side of the city and then the western side. This staggered approach will mean that half the city will remain functioning at a time. Whilst this may temper the economic impact of lockdown, there will still be an impact on the economy and further disruptions to global supply chains.

National

UK consumers borrowed a record amount in February 2022. According to the Bank of England, individuals borrowed a net £1.5bn on credit cards in February, the highest monthly amount since records began in 1993.

The cost of living crisis will be worsening from the 1st April 2022, as there will be additional utility and public service prices hikes. Currently there are number of issues worsening the cost of living crisis:

- **Inflation-** Already CPI inflation has hit 5.5%
- **Interest rates-** The Bank of England increased interest rates last month to 0.75%.
- **Petrol prices-** Petrol prices are still around 37% higher than they were this time last year.

From the 1st of April 2022 the following will begin to worsen the cost of living for many:

- **Energy bills-** Energy bills are expected to rise from the 1st April, as the electricity and gas price cap, which the majority of UK homes are on, rises by 54%.
- **National Insurance-** For those earning around more than £190 per week, national insurance contributions (NICs) will rise by 1.25%.
- **Income Tax –** Inflation has greatly outpaced last year's predictions, policy is now expected to be a £21bn tax rise, alongside other tax rises.
- **Broadband and Mobiles –** Around the 1st April, broadband and mobile price rises between 5% to 9%
- **Council Tax-** The majority of councils may raise council tax by the maximum allowed at 3%
- **Water Bills-** Depending on location and water supplier, prices are set to rise by an average of 2%.

The number of people on Universal credit (UC) has soared from pre-pandemic levels – with some areas of Birmingham seeing claims more than double. UC and other benefits, along with the state pension are set for a 3.1% rise; however, this will be smaller than the 8% increase in inflation that has been predicted by the Bank of England. Potentially, as families continue to see living costs rise, those on lower incomes could be pushed onto UC, in order to maintain their standard of living.

The government is considering delaying post-Brexit border checks on goods entering Britain from the EU for the fourth time, in order to prevent what industry has warned will be a supply chain disaster. However, British exports to the EU have been subjected to all of EU border checks since the first day of Brexit, whilst imports from the EU competitors have enjoyed a far smoother entry into the UK economy. The Office for Budget Responsibility (OBR) retains its assumption that leaving the EU will result in the UK's total imports and exports being 15% lower than had the UK remained a member state.

The Impact on the Midlands Engine from Russia's Invasion of the Ukraine

Just as the domestic economy began to settle down, recover and grow from what seems to be the worst of the pandemic, global military developments risk another economic crisis.

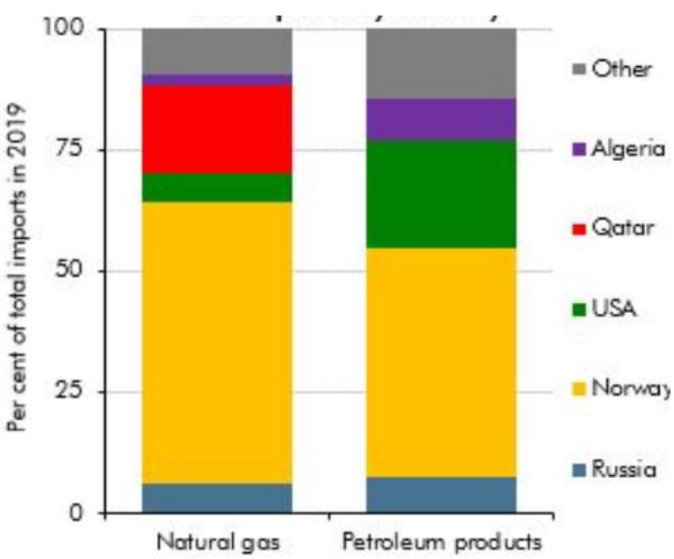
Although primarily a humanitarian crisis, there are **wider economic and business implications from the Russian invasion of Ukraine.** The full economic impact of the invasion on the UK and Midlands Engine will evolve over time and will depend on any resolutions reached.

The CBI undertook an initial economic impact analysis the day after the invasion, **outlining four main channels of impact for the UK economy.** The below sub-sections outline both the initial analysis and how these impacts are being realised in reality - a month on from the invasion.

1) Commodities

- **Higher energy prices are by far the greatest concern for the UK economy** which will likely result in further upward pressure on inflation and a modest hit to GDP growth over the next two years.
- Russia is a major producer in global energy markets, accounting for **17 per cent of gas and 12 per cent of oil production globally in 2019.**

UK Imports by Country:

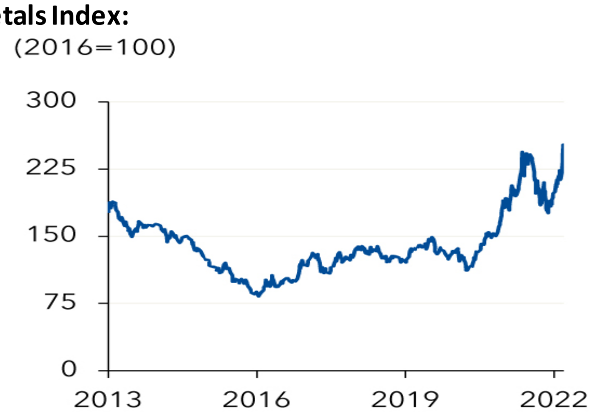


Source: OBR

- Around 5-6% of UK gas imports come from Russia. However, with Russia withholding resources over the last two years, the UK has been exposed to volatile international gas markets. **While our supply is unlikely to be affected, the price we pay for gas is, leading to rising energy bills this year.**
- And both the UK's domestic and foreign supplies of oil and gas are purchased at market prices, **which have risen sharply following the Russian invasion and international response.**

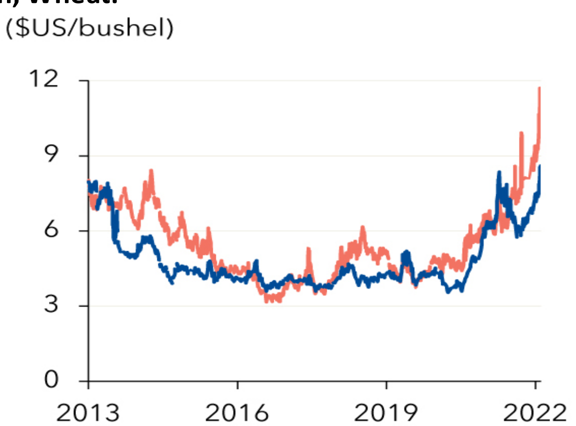
- **Higher prices and supply difficulties are also being experienced for non-energy commodities** such as industrial metals, foodstuffs and fertilisers:
- Russia & Ukraine supply a lot of raw materials (e.g. **steel, iron, aluminium, nickel, palladium, ceramics, clays**) into Europe, which then local manufacturers import for wider processing and production.
- This will damage **automotive, transport / logistics, aerospace, and underpinning metals and materials supply chains**; putting further pressure on Midlands Engine businesses already dealing with increasing material costs and rising labour costs due to the skills shortages.
- Food manufacturers have warned that **food costs could "leap like fuel"** due to the war's impact on the supply of foodstuffs such as sunflower oil, wheat and corn. It is thought that **national and local food security is under major threat**, likely to have damning effect on businesses and communities.

Metals Index:



Source: IMF

Corn, Wheat:



- Global price rises are **driving higher inflation that will affect the Midlands economy through eroding household incomes and reducing consumption.** The OBR's predicted inflation will now average **7.4% this year and peak at 8.7%.**
- Growth forecasts have also been slashed: according to CEBR, the war will **deal a £90bn blow to the UK economy.**

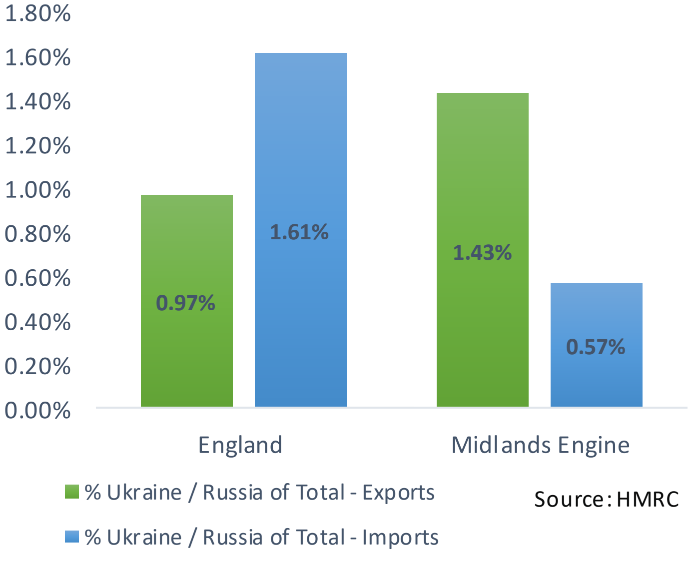
The Impact on the Midlands Engine from Russia's Invasion of the Ukraine

2) Trade and Investment

- CBI reflect that, overall, Russia and Ukraine represent **relatively small export markets for the UK**—around 1% for Russia, even less for Ukraine. However, any escalation of sanctions against Russia that resulted in disruption to international payments would take a toll on **international trade for individual businesses.**
- **UK exports to Russia are worth around £4.3bn per year**, dominated by business services, cars, telecoms, pharmaceuticals and financial services. **Imports are worth £11.6bn per year**, dominated by energy and other commodities.
- **UK exports to Ukraine are worth around £750m per year**, with imports worth £1bn, dominated by foodstuffs and steel.

- The Midlands Engine region **exports around £650m worth of goods exports to Russia and Ukraine a year.** This represents 1.43% of all the region's goods exports, the **highest proportion of all regions – suggesting the region is more reliant on Russia and Ukraine markets than other places in the UK.** This is driven by the region's automotive strength.
- This reflects a small proportion of overall exports, **but individual businesses that do trade with this part of the world will be affected**, not least those in automotive and wider manufacturing supply chains.
- The **Midlands Engine also imports over £300m** of goods a year from Russia and Ukraine, comparatively a lower percentage than other regions.

Trade with Russia & Ukraine: % of Total:



- Examples of Midlands; **businesses unable to receive payment from Russian customers** have already been reported, in some cases leaving large holes in crucial revenue streams. The story in other sectors is linked to commodities, and the **inaccessibility or highly inflated cost of key materials.**

- Going forwards, trade is likely to be disrupted as a result of the conflict for four reasons according to the Institute for Government:

I. Firms will face **logistical issues in getting goods to and from Russia,** with some exemptions for essential goods such as food, medical equipment and humanitarian goods. Specifically, **certain routes around the Black Sea are particularly disrupted**, while road transport across Europe is also an issue, as Ukrainian lorry drivers return home to fight Russia.

II. Sanctions include a ban on the export of 'dual-use' goods and technology to Russia and may be extended further. **Financial sanctions, including locking some Russian banks out of the SWIFT money messaging system,** also make payments for international transactions difficult.

III. International **businesses have withdrawn from Russia due to reputational concerns**, as well as the difficulties imposed by current and future sanctions. Large firms already doing this include Apple, General Motors and Jaguar Land Rover.

IV. The steep **devaluation of the ruble** means that **imports will become significantly more expensive for Russian households and firms**, ultimately reducing their total demand for those goods and services.

3) Financial Conditions

- Stock prices globally have already been adversely affected by uncertainty over Ukraine, **with billions knocked off the value of the FTSE 100** and a run to safe-haven assets like the dollar and US government bonds.
- In general **financial links between Russia and the rest of the world are relatively limited**: according to J.P.Morgan, the total exposure of foreign banks to Russian corporates and banks (based on BIS locational banking statistics) is **relatively small at $89bn. Of this, UK banks have a total exposure of $13.7bn.**
- The Midlands Engine is not likely to be more affected than anywhere else by changes in global financial markets, but **potentially more so by the impacts of high inflation and reduced growth expectations.**

4) Sentiment and Confidence

- A noticeable impact on business sentiment across the Midlands and wider UK is likely, with **knock-on impacts on consumer spending and business investment.**
- Indeed, Midlands businesses have reported their **initial concern of the impacts of the crisis,** particularly related to supply difficulties and price rises.
- There is also **higher risk of cyber-attacks.**
- There are wider concerns from business leaders about the **Government's 'bandwidth' to deal with the multiplicity of ongoing issues.**

Energy Crisis

Effects on Business

Energy "poverty" in a business sense reflects decreasing competitiveness and corporate profit through increased business costs, such as sustained and rising fuel prices. Industrial pricing of energy is structurally uncompetitive in the UK across all users; this clearly not just a new issue, with industry suffering for many years. Industrial energy prices for large industrial consumers are **up to 50-90% higher in the UK compared to EU competitor countries**, acknowledged by the Department for Business, Energy and Industrial Strategy (BEIS) in a recent EII consultation. For large industrial consumers, **costs are 40-70% higher.**

The current energy cost crisis is exacerbating the structural issues with industrial energy markets, raising prices and making Midlands and UK manufacturers even less competitive. **Costs are reportedly doubling** in some instances, which will ultimately only result in **price rises or business contractions / failures**. This was a major problem even before Covid and Russia's invasion of Ukraine; but is now getting worse. The impact can be split into two major categories:

1) **Immediate**: Companies that have not hedged the cost of their energy supply (fixed it), and are thus experiencing immediate-term energy price rises. This must either be passed on to customers or subsumed into company's operations.
2) **Delayed:** It is true that many companies – even SMEs – have hedged the cost of their energy supply. But these contracts will run out, many later this year or next year, which creates huge uncertainty for short/medium-term business planning and order quotes in the near future. Businesses essentially have no certainty of their cost inputs from when their energy hedge contract comes to an end, making accurate quoting for new orders into next year extremely difficult.

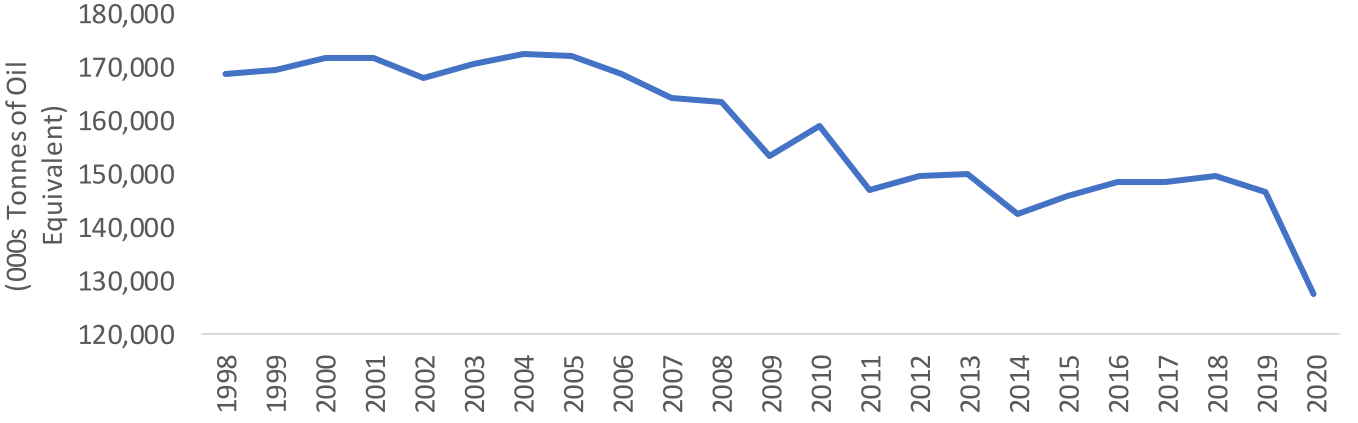
Some key knock-on effects to business and the wider economy include:

- **Rising fuel costs limit investment and innovation into digital, circular, and decarbonised manufacturing** methods. Consequently, increasing the risk of carbon and valuable job leakage, threatening to deliver a green industrial revolution and levelling up.
- **Rising fuel costs damage business competitiveness**, especially in comparison to UK business and their EU counterparts like France or Germany. The same is for electricity, where a 2018 UCL study found that UK businesses pay as much as 33% more than the rest of Europe.
- Furthermore, reports of energy costs doubling highlight structural issues with industrial energy markets, resulting in **price rises or business contractions / failures**.

UK Industry Energy Consumption

Consequences of rising energy costs within the UK can in part be reflected within the overall trend for industry energy consumption, which has been decreasing steadily since 1998. In 1998 energy consumption was 168,658 tonnes, whilst in 2020 it was 127,512 tonnes, displaying a decrease of 24.4% over a 22-year period. Notably, including a steep decline since 2019 into the 2020 period of 13%.

Total Industry Energy Consumption in the UK from 1998 to 2020:



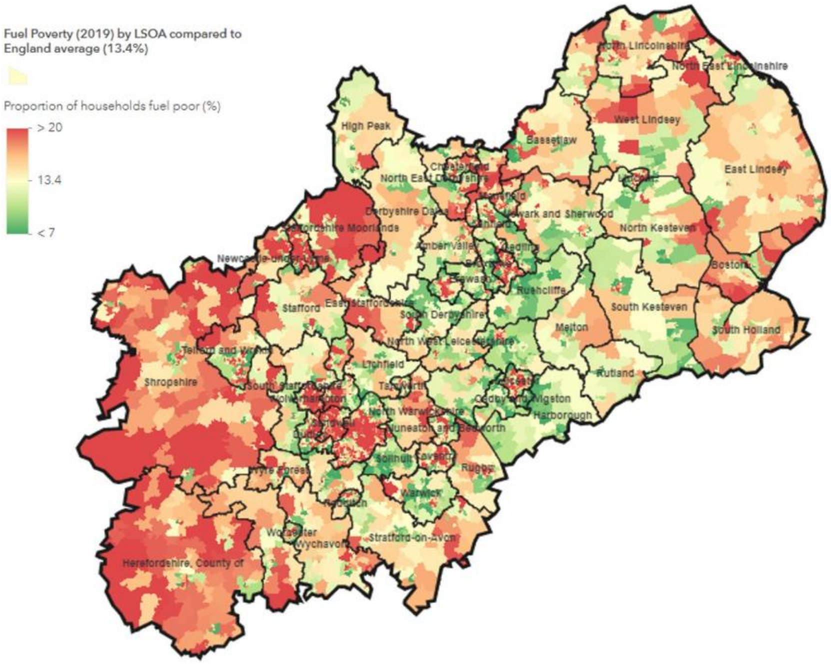
Source: Digest of UK Energy Statistics (DUKES): energy 2021

Energy Crisis

Energy Poverty

The Department for Business, Energy & Industrial Strategy (BEIS) defines that energy poverty, or fuel poverty, in England is measured using the **Low-Income Low-Energy Efficiency (LILEE) indicator**. A household can be considered fuel poor if they are living in a property with a **fuel energy efficiency rating of D band or below**, and when they spend the required amount to heat their home, they are **left with a residual income below the official poverty line**.

Fuel Poverty across the Midlands Engine when compared to the England rate:



In 2019, there were over 4.3 million households of which **698,894 households were fuel poor** in the Midlands Engine. This equates to **16.1% of households in the Midlands Engine** which was above the England Rate of 13.4%.

Across the nine English regions, the **West Midlands had the highest rates of fuel poverty at 17.5%,** the second highest was Yorkshire and The Humber at 16.8%. The **East Midlands had the fourth lowest rate at 13.9%** and the South East was the lowest at 7.5%. There were seven local authorities with a fuel poverty rate above 20% in 2019. Of these, four are in the West Midlands (Stoke-on-Trent at 21.8%, Birmingham at 21.2%, Wolverhampton at 21.1% and Sandwell at 20.9%) and three in London.

Rising Energy Bills

The Joseph Rowntree Foundation, found that rising energy bills will especially 'devastate' the poorest families. Their analysis found that households on low incomes will be spending an average 18% of their income after housing costs on energy bills after April. However, for single adult households on low incomes this rises to 54% with an increase of 21% since 2019/2020, with lone parents and couples without children will spend around 25% of their income on energy bills, an increase of almost 10% in the same period. This will be impactful for the Midlands as between 16-19% of local areas in the West Midlands and 10% of local areas in the East Midlands were in the bottom 10% of areas for household income after and before housing costs.

Effects on People

Energy poverty for people, like any type of poverty can have negative effects on individuals and lowering their quality of life – forcing individuals to live without necessities like indoor thermal comfort. In some cases, even leading to death. Some key effects on people:

- **Fuel poverty can lead to more deaths in the winter months i.e., Excess Winter Deaths.**
- People living under poverty are forced to make tough decisions, like **choosing to pay for energy bills or food**.
- There are **poorer health outcomes for individuals with cold homes**, placing a strain on the NHS.
- There are **associations between cold homes and poor educational performance in children**, partly caused by higher rates of sickness and absence from school. Similarly, **children living in cold homes are more likely to lack an adequate environment to do their homework.**
- Moreover, a systematic review examining **housing improvements and socio-economic outcomes indicated that improvements in the warm of a home could reduce absence of work**, which was **likely to have a positive impact on work-related health.**

In the Midlands Engine in the 2019/2020 winter period there were **7,900** excess winter deaths including Covid-19. In the same period, England had **36,150** deaths which included Covid-19. The Midlands Engine makes up **21.9%** of excess winter deaths which involved deaths including COVID-19 in England. Since 1991 in the Midlands Engine, excess winter deaths reached lows of **3,520** in 2013/2014 to peaks of **9,230** in 2017/2018; **all within a period of 4 years.**

Business Activity

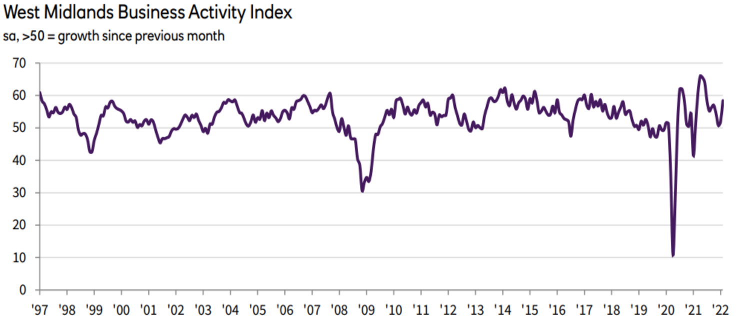
Business Activity Index

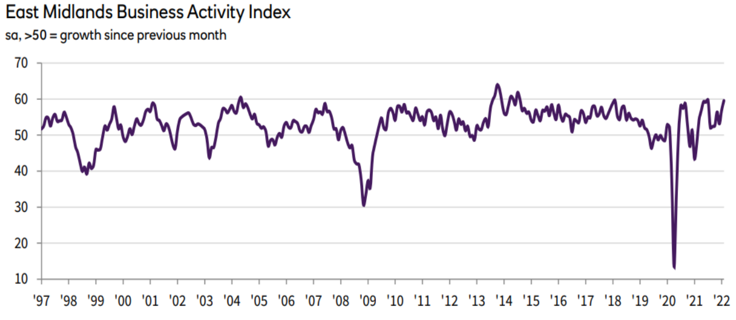
The **West Midlands Business Activity Index increased from 51.9 in January 2022 to 58.4 in February 2022**, this was the fastest rate of growth in eight months. This increase was associated with a **strong improvement of demand conditions** amid the end of restrictions.

The **East Midlands Business Activity Index increased from 56.9 in January 2022 to 59.6 in February 2022**. The latest increase in business activity was marked overall and the fastest for seven months. Firms stated that **greater new orders and stronger client demand** following the easing of Covid-19 restrictions drove the expansion in output. The rate of growth was only slightly lower than the UK average.

The overall UK Business Activity Index increased from 54.2 in January 2022 to 59.9 in February 2022.

The West Midlands and East Midlands Business Activity Index trends:





Source: IHS Markit, NatWest PMI, March 2022

Of the 12 UK regions, the West Midlands and the East Midlands were fifth and sixth lowest respectively for the Business Activity Index in February 2022.

Demand

The **West Midlands New Business Index increased from 52.4 in January 2022 to 58.7 in February 2022**. The growth was sharp and the strongest since August 2021. The **East Midlands New Business Index increased from 58.0 in January 2022 to 60.3 in February 2022**. This sharp increase was linked to stronger client demand from new and existing customers.

Exports

The **West Midlands Export Climate Index increased from 52.3 in January 2022 to 54.6 in February 2022**, this was the **strongest improvement** since November 2021 and also the rate of growth outpaced its long-run average. **The East Midlands Export Climate Index increased from 52.7 in January 2022 to 53.7 in February 2022.**

Business Capacity

The **West Midlands Employment Index increased from 56.2 in January 2022 to 56.3 in February 2022**. The **East Midlands Employment Index decreased from 59.4 in January 2022 to 56.7 in February 2022** as some companies noted that **challenges of retraining and hiring new staff remained.**

The **West Midlands Outstanding Business Index increased from 50.8 in January 2022 to 51.7 in February 2022**. The **East Midlands Outstanding Business Index increased from 55.2 in January 2022 to 56.4 in February 2022.**

Prices

The **West Midlands Input Prices Index increased from 83.4 in January 2022 to 83.6 in February 2022**, the overall rate of inflation **accelerating to the second highest** since data collection started in January 1997. The **East Midlands Input Prices Index increased from 84.0 in January 2022 to 84.2 in February 2022**, inflation rates were the **third steepest on record**.

The **West Midlands Prices Charged Index increased from 67.0 in January 2022 to 68.5 in February 2022.** For the sixth month in a row, the rate of output price inflation reached a **series record** (since November 1999). The **East Midlands Prices Charged Index decreased slightly from 65.9 in January 2022 to 65.8 in February 2022.**

Outlook

The **West Midlands Future Activity Index decreased from 80.3 in January 2022 to 76.7 in February 2022. The East Midlands Future Activity Index decreased from 77.2 in January 2022 to 73.2 in February 2022.** Although the level of optimism has dropped to a three-month low for both regions, **firms remained upbeat towards growth prospects** in the next twelve months.

Out of the twelve UK regions, the West Midlands was the fourth highest and the East Midlands was sixth lowest for the Future Business Activity Index in February 2022.

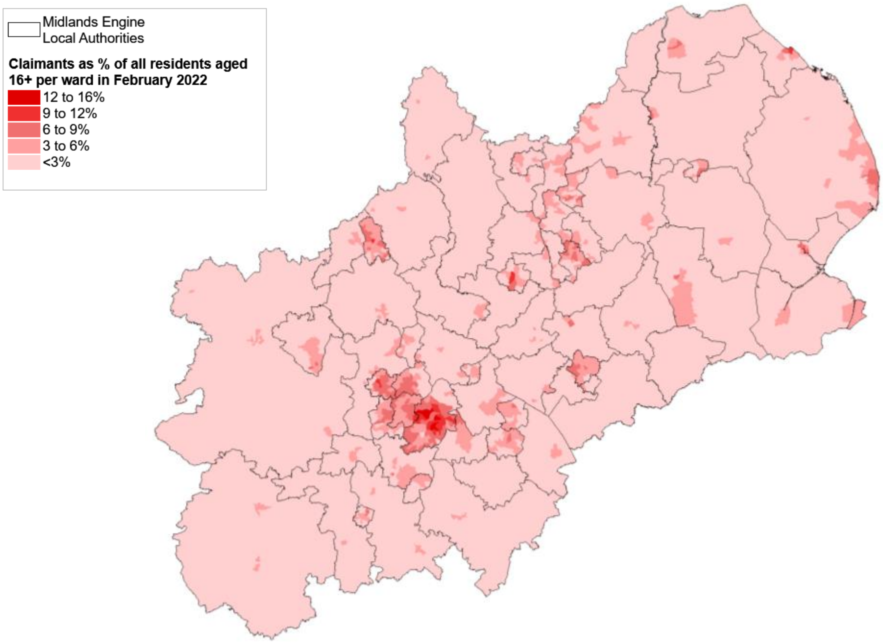
Source: [IHS Markit, NatWest PMI, March 2022](#).

Labour Market Impacts: Claimants

There were **304,535 claimant**s aged 16 years and over in the Midlands Engine area in February 2022, which is an **increase of 7,140 claimants since January 2022**. This equates to an increase of 2.4% for the Midlands Engine area, compared to a 1.8% increase across the UK. **There are 82,995 (+37.5%, UK +42.6%) more claimants when compared to March 2020**.

The number of claimants as a percentage of residents aged 16 years was 3.6% in the Midlands Engine (UK 3.3%) in February 2022 – remaining above the pre-pandemic levels of 2.7% (UK 2.4%) in March 2020.

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



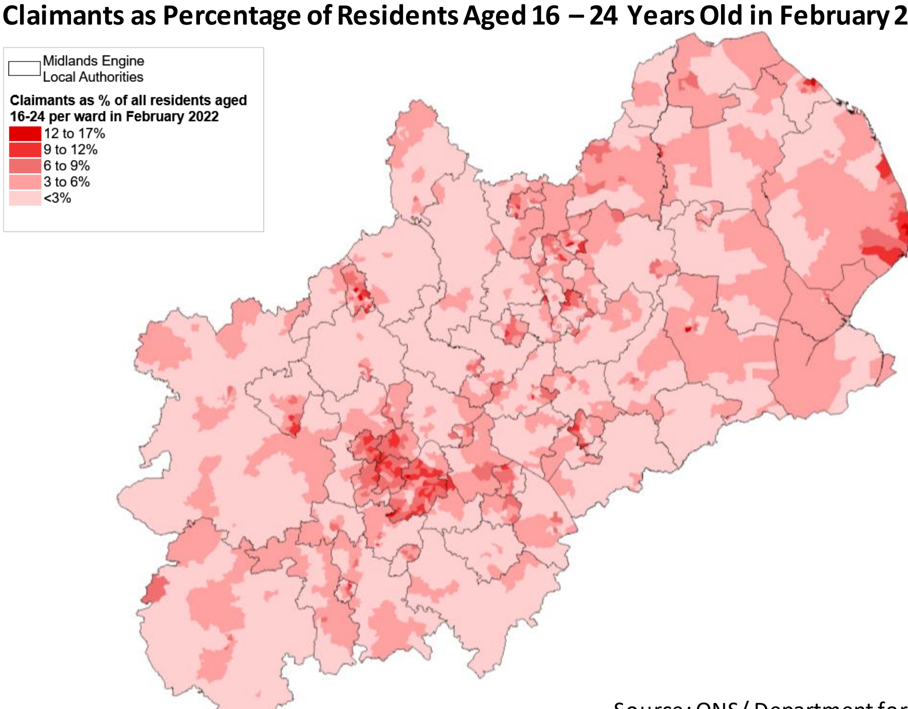
Out of the 1,511 wards within the Midlands Engine, **430 were at or above the UK proportion of 3.3%** for the number of claimants as a percentage of the population aged 16 years and over in February 2022.

The wards with the highest number of claimants as a percentage of the population aged 16 years and over were based in Birmingham, with Handsworth the highest with 15.2%. This is followed by Birchfield at 15.0% and then Lozells at 14.5%.

There were 51,735 claimants aged 16-24 years old in the Midlands Engine area in February 2022 – an increase of 1,670 claimants since January 2022. This equates to an increase of 3.3% with the UK increasing by 2.5%. Since March 2020 (44,195 claimants), **the number of claimants aged 16-24 years old has increased by 7,540** (+17.1%, UK +19.1%).

The number of claimants as a percentage of residents aged between 16 and 24 years old was 3.8% (UK 3.4%) in March 2020, which has increased to 4.5% in the Midlands Engine and 4.1% for the UK in February 2022.

Claimants as Percentage of Residents Aged 16 – 24 Years Old in February 2022:



Out of the 1,511 wards within the Midlands Engine, **610 were at or above the UK proportion of 4.1%** for the number of claimants as a percentage of the population aged between 16-24 years old in February 2022.

The wards with the highest the number of youth claimants as a percentage of the population were based in Portland (Mansfield) at 16.8%. This is followed by Handsworth (Birmingham) at 13.1% and then Joiner's Square (Stoke-on-Trent) at 12.7%.

Source: ONS/ Department for Work and Pensions, March 2022

Over 50s and the Labour Market

Recent trends show that activity of over 50s, aged between 50-70, in Great Britain who either left or lost their jobs at the **beginning of the Covid-19 pandemic have made the decision to not return to work; lowering the labour market participation rate.** Some reasonings for this including participants retiring sooner than intended thus reversing historical trends for this age group in the previous 10 years.

In the Midlands Engine, 38.5% (4m) of residents were aged 50 years and over, above the UK rate (38%).

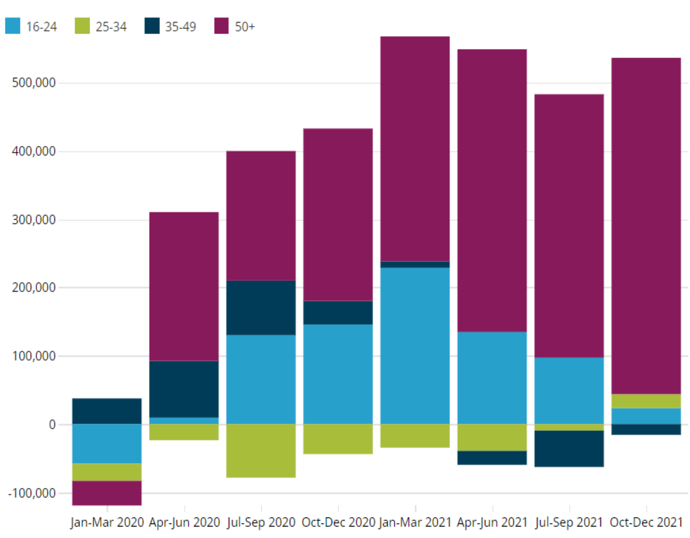
The Over 50s Lifestyle Study (covering 8th 13th February 2022), reported that **after losing or leaving a job 85% of West Midlands respondents and 84% of East Midlands respondents had not returned to paid work.** While 14% for West Midlands and 11% for East Midlands had returned as an employee and 1% and 5% respectively had returned as self- employed.

Among those who had returned to paid work**, 24% of West Midlands respondents and 31% of East Midlands respondents had returned full-time.** 72% of West Midlands respondents and 52% of East Midlands respondents had returned part-time.

UK-Wide Findings:

Economic inactivity for those aged 50 years and over began to rise from the start of the pandemic, **increasing 0.9 percentage points from an economic inactivity rate of 55.8% in Q1 (Jan – March), to 56.7% in Q2 (Apr – June) 2020**. Between **Q2 2021 and Q4 (Oct – Dec) 2021**, the economic inactivity for those aged 50 years and over **continued to rise to 57.1%.**

As seen in the below chart people aged over 50 years have seen an increasing trend in economic inactivity throughout the pandemic:



The overall economic inactivity rate since the start of the pandemic in Q4 2019 to Q4 2021 increased by 522,000 persons, 94% of the increase was because of those aged 50 and over.

Specifically, adults in this age group were more likely to leave professional **(22%),** administrative and secretarial **(17%),** and associate professionals and technical **(13%)** occupations. Moreover, employees were more likely to leave jobs in human health and social work activities **(13%),** wholesale and retail trade **(12%),** and public administration and defence **(11%)** industries.

Within these industries participants especially left paid work for reasons like the coronavirus pandemic **(15%),** illness or disability **(13%),** and due to stress or mental health reasons. Likewise, participants also left simply because they did not want to work anymore **(11%)** with some reporting to leave due to a change in lifestyle **(10%).**

Retirement was the most common reason for leaving paid work **(47%),** with participants aged 60 years and over were twice as likely to give this reason **(56%)** than those in the lower age bracket, aged 50 to 59 years **(28%).** Out of these participants within the study, around **6 in 10 (59%)** said that they would not consider returning to work in the future.

Although, when asked what would stimulate their return to work, participants stated that working from home **(10%),** flexible working hours **(9%)** and employment which fit around caring responsibilities **(4%)** were cited. On the other hand, the majority stated that none of the options would encourage **(79%)** them to return to the labour market.

Likewise, when prompted approximately **39%** of participants would consider returning to paid work in the future. Of which, participants said that they would return for social company **(54%),** for money **(52%),** whilst stated that they would return for a job that suited their skills and experience **(45%).** Further analysis showed that when choosing a new job flexible working **(36%)** appeared as an important aspect of choosing a new job, second to working from home **(18%)** followed by something which would fit around caring responsibilities **(16%).**

Among the target group the majority of adults also stated that they would rather return to part-time work, with those aged 60+ being more likely to want to return to part-time work **(79%)** in comparison to those in their 50s **(59%).** Despite this, adults aged 50 to 59 were significantly more likely to want to return to full-time work **(15%)** in comparison to those 60 and over **(3%).**

Source: ONS Early Insights and Reasons for Workers Over 50 Leaving Employment Since the Coronavirus Pandemic, March 2022

Good Growth for Cities Index

PwC have updated the annual Good Growth for Cities Index. This year the Index covers a list of broad measures of economic wellbeing – factors which the **public identifies as the most important to their work and finance**, and are therefore essential for economic success. An overall score has been provided along with scores for 12 indicators.

Broad Key findings:

- The pandemic narrowed the gaps between the highest and lowest ranking cities this year.
- A bigger driver of improvement is work-life balance.
- Small cities are leading the UK recovery.
- Some groups like young people are benefiting more from the recovery, in comparison to women and those from ethnic minority groups.

Regional Spotlight for the Midlands

When measured against the priorities chosen by the public, five out of the eleven cities in the Midlands achieved scores above the UK average, with Milton Keynes in the top ten of this year's index. Three new cities were added to the Midlands region: Lincoln, Northampton and Peterborough were introduced into this year's index, notably utilising the [Travel to Work Area (TTWA) boundaries]() to reflect labour market areas.

For the most part, cities in the Midlands performed well on the following criteria:

- **Safety**: Where six out of eleven cities scored above average.
- **Transport**: Where four out of eleven cities scored above the national average, with the rest at least average.
- **Income distribution**: Where four cities scored above the Index average and the rest at least average. Yet, this positive performance is also coupled with lower scores in jobs, with five cities scoring below the national average.

2021 and 2022 GVA Growth Rate by Region:

Region	2021 GVA growth rate	2022 GVA growth rate
South West	8.2%	6.1%
South East	7.9%	5.9%
East of England	7.8%	5.7%
London	7.4%	4.7%
Scotland	7.1%	4.9%
East Midlands	6.9%	4.8%
West Midlands	6.9%	4.8%
North West	6.8%	4.5%
Yorkshire and The Humber	6.7%	4.5%
North East	6.7%	4.5%
Northern Ireland	6.4%	4.1%
Wales	6.3%	4.0%

Assessing the potential economic recovery from Covid-19:

- The average annual economic growth rate measured by GVA for cities in the Midlands region is **6.9%** in 2021, the East Midlands being in **fifth** place and the West Midlands being in **sixth** out of all English regions. This is below the UK average rate of **7.3%**.
- Peterborough and Milton Keynes are expected to grow the most in contrast to other cities in the Midlands, with a growth rate of **7.4%** in 2021.
- In comparison, cities such as Leicester grew by just **6.5%** in 2021. Its low proportion of its economy in sectors which see strong bounce-backs contribute to its low growth rate in 2021.
- Out of the three new cities into the Midlands region, Peterborough is expected to see the strongest economic growth rate in 2021 growing at **7.4%**.

The reported placed a spotlight on the city of Birmingham:

Birmingham has been successful at attracting inward investment, although city leaders are aware that it has not been sufficiently inclusive. The city plans to tackle these inequalities with a **decade of inclusive growth**, with the decade being sandwiched between two major events for Birmingham: the **Commonwealth games** in summer 2022 and the opening of **HS2** in the early 2030s. To drive the growth agenda, Birmingham is pursuing a levelling-up strategy that aims to boost the city economy by **£9bn a year, creating 75,000 jobs** through focus on five strategic "levelling up accelerators":

- Longer-term, more efficient **single pot funding** and increased devolved powers for the city to enable increased freedom for investment.
- The **East Birmingham Inclusive Growth Strategy** and approach to drive regeneration and tackle deprivation for **250,000** of Birmingham's poorest residents.
- Birmingham's **early intervention and prevention model** to offer support services to residents across the age range that prevent them needing crisis services.
- **Regional connectivity**, including both **green and digital infrastructure**, and comprehensive, **affordable transport network.**
- **Retrofitting of social housing at scale** across the three cities of Birmingham, Coventry and Wolverhampton to decrease carbon emissions, improve housing standards and create green jobs.

Source: [PwC Good Growth for Cities](), 2022

2. Business Intelligence

Local Business Intelligence By Sector

SECTOR	KEY INSIGHTS
Logistics & Transport	• Investment in industrial and logistics assets in the Midlands **almost doubled** from its previous high in 2020 (£1.6bn) to **£3.1bn in 2021**, latest figures show. • The key investment deal of the year was Aberdeen Standard Investments' acquisition of the speculatively built 532,500 sq ft warehouse Hinckley 532 from IM Properties for £103m, **which was let to Amazon on a 20 year lease from the beginning of 2020.** • Colliers reports in its latest Industrial & Logistics Viewpoint that as well as record investment demand for distribution warehouses in the Midlands, the region also produced a **record of 19.7 million sq ft of take up during the yea**r, up 9.4% on the previous record in 2020, and almost 40% of the take-up across the UK. Some 66% of the space that was taken up was Grade A space. • **Demand for bigger buildings is becoming more dominant**, with nearly 10 million sq ft of space taken up in the 400,000 sq ft plus size band – a record five-year record high.
Manufacturing	• Manufacturers are **increasing their prices at record levels** in the face of escalating inflationary pressures which show little sign of abating, according to a new report. • A survey by Make UK and business advisory firm BDO showed that **prices for the UK and exports increased for the fourth successive quarter.** • The survey of almost 300 firms was held before the invasion of Ukraine and the substantial increases in energy and raw material costs, which are **likely to have pushed price increases even higher, said the report.** • The survey's wider findings suggest a **"mixed start" to 2022 for UK manufacturers.** • Another survey, by the Manufacturing Growth Programme, suggests **that supply chain improvement and longer-term assistance are at the top of the wish list for UK manufacturing SMEs.** • The industry has suggested that there was little in the way of support for manufacturers in the Spring Statement – particularly support for high energy costs. • The **West Midlands Made Smarter programme is now in the final stages of completing Phase 1 and has been deemed a success**, has been well received by those taking part and BEIS targets have been met. Phase 2 of Made Smarter is due to Start in April 2022, this is expected to be a three-year programme; while it is hoped an East Midlands Made Smarter will eventually be realised. • The **number of cars built in the UK last year fell to the lowest total since 1956.**
Retail	• PWC / Local Data Company data on retail shop closures shows that, collectively the **Midlands regions saw 1,169 openings and 2,822 closures in 2021, a net change of 1,653**. • The West Midlands saw 641 openings and 1,676 closures in 2021, a net change of 1,035. When examining multiple retailer percentage closures by region, the **West Midlands was the second worst performing region second at -5.4% net closures.** • The East Midlands saw 528 openings and 1,146 closures in 2021, a net change of 618. For multiple retailer percentage closures, the **East Midlands performed better than any other region at -4.1% net closures.** • This impact on cities is a key driver as to why the West Midlands heavily underperformed, given **the size and negative impact of Covid on retail in Birmingham city centre**. • The big net declines in key retail categories (fashion, banks) reveal **changes in how consumers transact:** the shift to online, accelerated by consumer behaviour during lockdowns. This continues to be the biggest denominator for closures in retail and services.
Health & Life Sciences	• Despite its strengths in health and life sciences, Midlands is reportedly falling short of its potential, as seen by **concurrent growth in other regions**. According to the Office for Life Sciences, the West Midlands is the only UK region with a drop in life sciences employment in the last 10 years, and the East Midlands has had modest growth too. This can be attributed to a range of factors including a **lack of external funding; lack of space and incentives for growth; fragmented ecosystem; skills shortfall**; and a lack of big brands.

Manufacturing Outlook

Make UK's Q1 2022 Manufacturing Outlook report provides an update on the activities of UK manufacturers.

Output

Mounting pressures for manufacturers since the run-up to the end of last year has led to challenges which translate to reduced expectations in the new year. Results of Q1 2022 show the balance figure of output at moderately below expectations at **24%**, whilst this figure shows growth in the industry, this is now the second consecutive quarter where output growth has been cut, tumbling from a high of **42%** in Q3 2021. The figure for output is expected to reach **44%** in Q2 2022.

Orders

Total orders balance for Q1 2022 indicates growing demand at a sustainable pace. The latest balance of **42%** is only **1%** less than its previous level last quarter suggesting steady expansion. However, resulting impacts of recent quarterly trends between output and orders exemplify supply-shortages getting worse, rather than better. Fortunately, output growth is expected to meet the growth of orders next quarter, suggesting if manufacturers are right, the next few months may be marginally easier.

Following the UK orders record-breaking balance of 48% in Q3 2021, UK orders have continued to slow down, reporting at **30%**. Although, unreliable and expensive logistics have made domestic trade more attractive even as the domestic market begins to slow down with expectations of it reaching **43%** in Q2 2022. Export orders reported a balance of **18%**, the lowest balance since Q1 2021. This is following the end of the Brexit transition period last year where orders failed to keep up with domestic and international markets shielding away from UK markets. Imports from non-EU countries have increased as manufactures look to alternative sources to meet their input needs, with expectations of export orders expected to reach **32%** in Q2 2022.

Employment and Investment

Employment and investment intentions metrics have both seen moderate increase in the positivity of their balance of change figure this quarter, raising by **4%** and **6%** respectively.

Employment in the industry has received a lot more focus over the last few quarters as the labour shortage in manufacturing continue to weigh on businesses' ability to raise output levels to their post-pandemic recovery potential. Employment in the industry has received a lot more focus over the last few quarters as the labour shortage in manufacturing continue to weigh on businesses' ability to raise output levels to their post-pandemic recovery potential.

Whilst a balance figure of **26%** is strong, it must be stressed that this employment growth focuses following deep gouges in employment levels which occurred during the height of the pandemic, the expectations are to reach **30%** in Q2 2022.

Following a disheartening dip in investment intentions between Q3 and Q4 of last year, the industry sees a downward trend cease and enjoy some moderate growth at **27%** in Q1 2022. The industry closely watches the Chancellor, and hopes, to see an extension or other pro-investment amendment to the existing, but time-limited, Super Deduction investment policy.

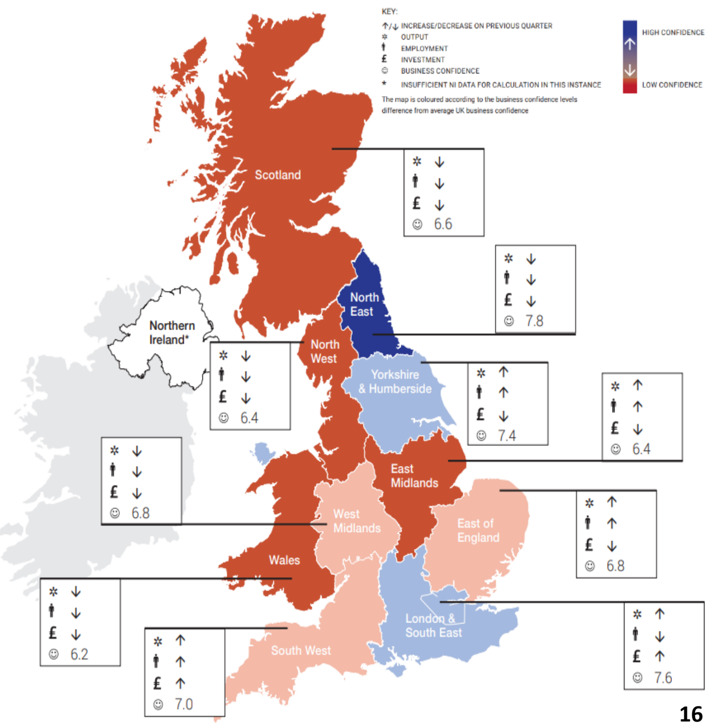
Price & Margins

The biggest challenges manufacturers are facing right now revolve around cost. **Prices for UK goods have expanded at the fastest rate**, reaching **58%** in Q1 2022, with expectations of **56%** in Q2 2022. Manufacturers reported decreasing margins of -**21%** in Q1 2022 with hopes of recovery to **1%** in Q2 2022.

National & Regional Confidence

The report found that firms' confidence in business conditions and the UK economic environment remains high in historical terms. However, following from the slow-down of last quarter, manufacturers have lowered their enthusiasm for the future. Despite this both average business and economy confidence remains positive (above the "5" inflexion point) showing mental resilience of manufacturers. The East Midlands was at a **6.4** inflexion point and the West Midlands was at **6.8**.

Firms confidence in business conditions and the UK economic environment:



Local Business Intelligence

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

East Midlands Overview – EMC

A good performance against a backdrop of uncertainty.

A first glance, and the results of the economic survey for the start of 2022 look encouraging. **UK orders are strongly up on last quarter.** Overseas sales and orders, strongly up. Businesses continue to recruit and overall confidence in prospects for turnover and profitability also ticked upwards. So why is there not more bullish sentiment in our conversations with businesses?

There are a couple of reasons for this. Firstly, the improvements come off the back of a weak final quarter to 2021. Back in November there was uncertainty around Omicron and how the country would respond, and inflationary pressures were slowing down plans for investment. Many of the QES indicators are relative to what has come before – for example, asking whether sales have gone up, gone down or remained the same from the last quarter. This means after a slow quarter one would hope to see decent improvements. Secondly, some of the key leading indicators are struggling. **Net Cashflow movement is down into negative territory, suggesting the squeeze is coming on again with inflationary pressures from all directions. Price increases are up on already almost sky-high levels and investment in machinery is down, limiting one of the tools that businesses have to respond to increases in demand and the need to introduce efficiencies.**

What's behind this mixed picture? We spent much of 2021 trying to figure out the impact of the pandemic while the coronavirus continued to move the goalposts with new variants. **We also continued to learn more about the longer-term impacts of the UK leaving the EU – which issues were part of a learning curve and which may hint at more structural limitations in the new way of working.** While on this last point we're yet to see the rebound in exporting figures, as we reached the end of the year it felt that things were finally becoming clearer. The unknowns that we entered 2021 with were transitioning to knowns – things that can be planned for and dealt with. Just as we were getting into the swing of 2022, new unknowns arrived.

First and foremost, the terrible events in Ukraine represent a humanitarian crisis not seen in Europe for 80 years.

While the economic impact is obviously secondary in this, it is real and one that, right now, we just don't know how it will play out. **The supply of oils and gas, zinc, copper, steel, nickel, wheat and many other commodities are all being disrupted or in some cases, halted.** Beyond the obvious increases in energy costs, this will have many other direct short-term impacts – for example car manufacturers pausing operations due to raw material shortages – but also the potential for as yet unknown medium and longer-term impacts. These new unknowns have undoubtedly impacted confidence and slowed the growth we would have hoped to see in our Q1 survey. The impact throughout the remainder of 2022 is not yet clear and much will depend on what happens next in Ukraine.

Full report on the EMC QES can be found here.

Manufacturing - Make UK

The main concerns reported by the region's manufacturers can be summarised as:

- Recruitment and retention of staff;
- Supply chain problems; and
- Spiralling input costs – particularly energy.

Midlands Engine Monitors over the last two years have reported a wide range of supply chain problems – **some related to Brexit, others a function of Covid related disruption.** The present international situation in Ukraine is felt likely to **worsen** these challenges. These problems have caused many manufacturers to review their supply chain arrangements.

This does not necessarily mean that we will see a wave of 'onshoring' of supply, but it may mean a **change in emphasis from 'Just-In -Time' to 'Just-In-Case' as manufacturers reconfigure supply chains in order to promote greater resilience to supply chain disruption.** This is likely to entail holding more stock in inventory to cushion the impacts of potential disruption to supply.

Manufacturers enjoy no 'price cap' protection from rising energy costs and many are significant users of energy. Energy costs have become a growing concern within the sector.

Indeed, Make UK has been promoting collective purchase of energy in order to help manufacturers manage this major source of input price pressure. These pressures are also being felt in **upward pressure on wages in the context of the 'cost of living crisis' as it unfolds.**

Recruitment and retention problems are now widespread within the manufacturing sector – reported by a majority of Make UK members in recent surveys. This is also reflected in much higher levels of staff turnover being reported by manufacturers compared to pre-Covid.

Small Business – FSB

In the first quarter of 2022, Midlands small businesses have continued to face **acute challenges** on a number of broad fronts. These include:

- increasing costs due to domestic and international trading conditions – energy, fuel, labour, raw materials, finished goods and inflationary pressures;
- increasing costs due to legislative changes – rise in National Insurance Contributions, increases to the base rate, expiry of support regimes (e.g. Coronavirus Statutory Sick Pay Rebate Scheme);
- shortage of mobile talent – i.e. workers with the skills required, at all levels, to sustain and grow business operations;
- late payment – this persistent, poor business practice has worsened in line with deteriorating economic conditions during the past two years..

In the Midlands, we have seen additional, specific 'pinch points' around changes to duties on 'Red Diesel' (which came as a shock to many dependent operators), **plus localised flooding which in many at risk locations compromised business operations and brought additional, unforeseen disruption and cost increases to local small businesses.**

The January publication of the Federation of Small Businesses' quarterly 'Small Business Index' (SBI), a survey of SME sentiment across a range of indicators, broadly evidenced a decline in confidence levels amongst SMEs in both the West and East Midlands in the three months to the end of 2022.

Despite this, growth aspirations remained positive, demonstrating the resilience and resourcefulness of many of our small businesses.

At the time of compiling this information, data was being compiled for the SBI, Q1 2022. This will of course cover a period where the additional uncertainty and concerns over the war in Ukraine will feature, potentially dampening further the confidence and optimism of our Midlands small business owners.

Farming – NFU

The situation in Ukraine has once again highlighted the international connectedness of global markets – particularly for commodities like grain – a major export from Ukraine. The NFU suggest that this is likely to promote a **greater focus on the maintenance of food security in the coming months.**

In common with other business sectors, farmers report increasing input costs – particularly as a function of the ongoing fuel price spike. The cost of living crisis is also expected to create upward pressure on wages.

Fuel prices are also highlighted as a concern from a rural economy and community perspective – due to the **reliance of many rural communities on non-discretionary car travel in order to access employment, education and other services.** It is therefore suggested that there is an important urban-rural dimension to the cost of living crisis to which policy makers must be sensitive.

Labour supply problems are not as evident in farming at the moment – largely due to the seasonal nature of demand for labour within the sector. This will change as we more into the Summer and a wider range of labour intensive crops must be harvested.

Business and Insights and Conditions Survey

The Office for National Statistics (ONS) have published the final results from [Wave 52 of the Business Insights and Conditions Survey (BICS)](#).

Trading Status

95.6% of responding West Midlands businesses and 97.3% of responding East Midlands businesses reported their business trading status as currently trading.

Increase in Demand

20.6% of West Midlands businesses and 19.1% of East Midlands businesses reported **increases in demand** for goods or services sold over the last month.

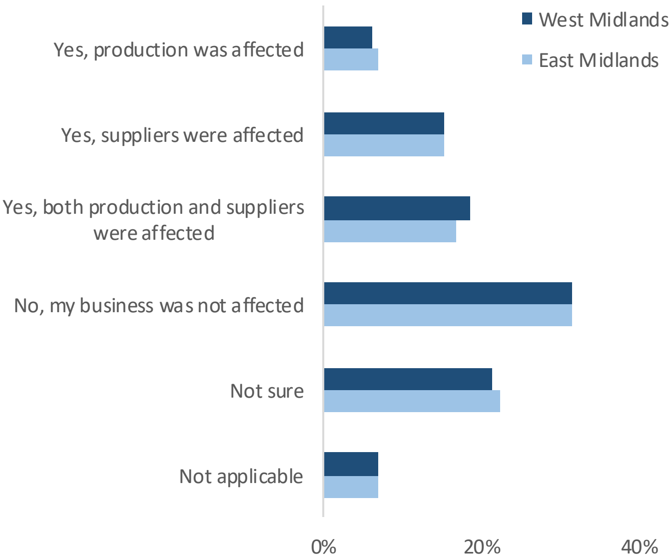
Prices

49.9% of West Midlands businesses and 51.3% of East Midlands businesses reported the prices of materials, goods or services brought over the last month compared with normal price fluctuations had increased more than usual. For both regions, 28.5% of businesses reported prices did not change any more than normal.

However, when looking at prices of materials, goods or services sold, the figures seemed to have flipped from prices brought as 23.5% of West Midlands businesses and 21.4% of East Midlands businesses reported the prices of materials, goods or services had increased more than usual. While 55.1% of West Midlands businesses and 57.1% of East Midlands businesses reported prices sold did not change any more than normal.

Energy Prices

As seen in the following energy prices chart, 31.6% of West Midlands businesses and 31.5% of East Midlands businesses reported they had not been affected by recent increases in energy prices.



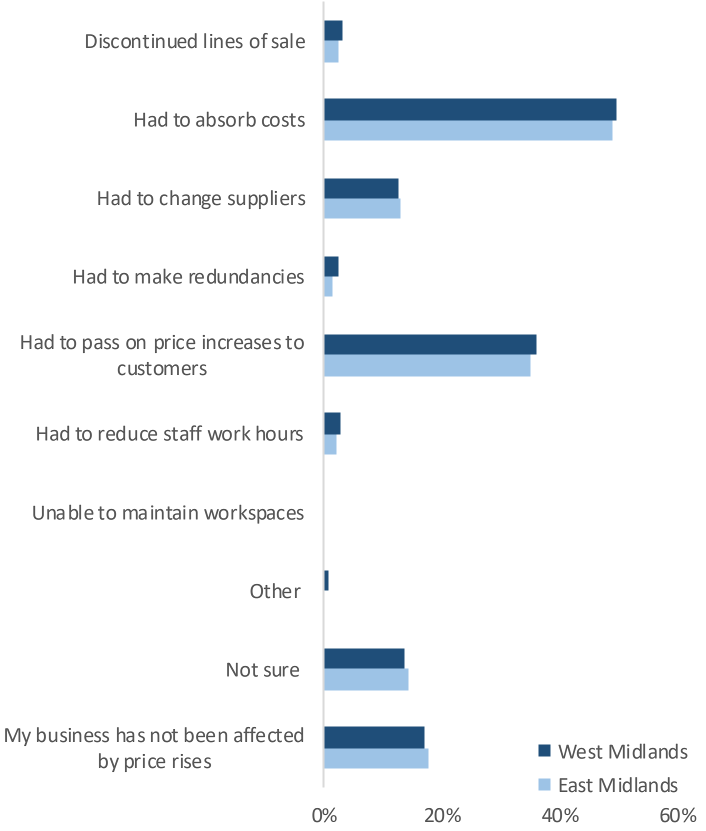
20.6% of West Midlands businesses and 19.9% of East Midlands businesses reported that electricity prices were on a variable rate. 18.3% of West Midlands businesses and 18.8% of East Midlands businesses reported that gas prices were on a variable rate.

4.3% of West Midlands businesses and 5.1% of East Midlands businesses reported that fixed electricity prices were expiring by March 2022. 3.4% of West Midlands businesses and 4.8% of East Midlands businesses reported that fixed gas prices were expiring by March 2022.

Impact of Prices

50% of West Midlands businesses and 49.2% of East Midlands businesses reported that due to price rises they have had to absorb costs.

How businesses have been affected by price rises (if any):



Capital Expenditure

54.8% of West Midlands businesses and 57.1% of East Midlands businesses reported that capital expenditure has not been affected.

Scrapped Capital Assets

1.1% of West Midlands businesses and 1.8% of East Midlands businesses scrapped capital assets earlier than intended.

Business Insights and Conditions Survey

Worker Shortages

38.1% of West Midland businesses and 38.6% of East Midlands businesses reported to currently experiencing a **shortage of workers.**

Vacancies

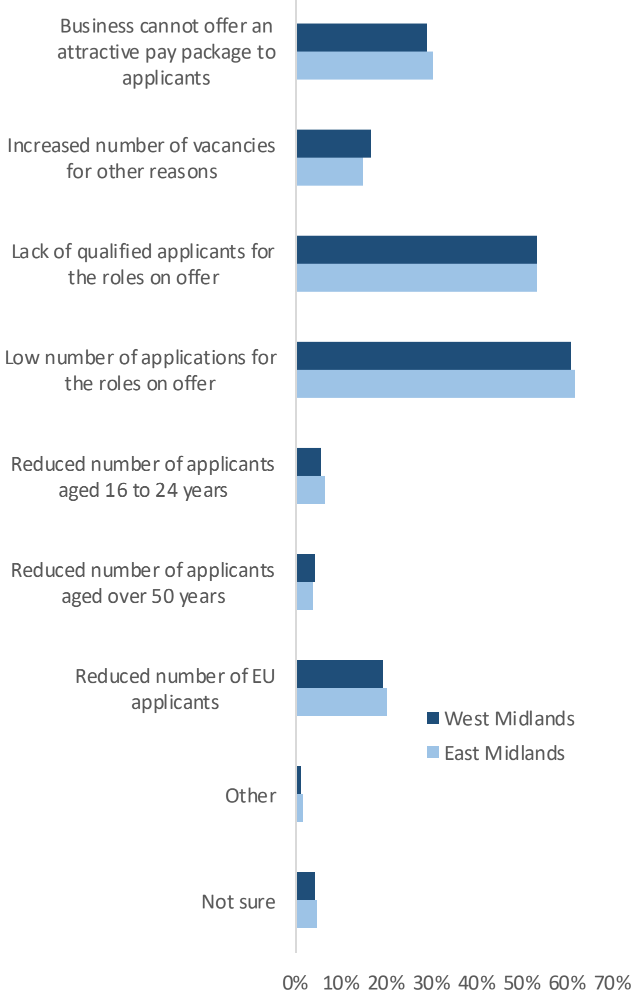
28.7% of West Midlands businesses and 29.8% of East Midlands businesses reported there was no difference in the ability to fill vacancies.

For both regions, 2.3% of businesses reported vacancies were easier to fill.

43.9% of West Midlands businesses and 44% of East Midlands businesses reported vacancies were harder to fill.

Of the businesses that reported vacancies were harder to fill over the last month compared to normal expectations for the year, 60.9% in the West Midlands and 62% in the East Midlands stated the reason was **due to low number of applications for the roles on offer.**

Reasons why vacancies were harder to fill across the Midlands:



EU Workers and Non-EU Workers

23.1% of West Midlands businesses and 22.2% of East Midlands businesses reported the number of workers from within the EU had stayed the same.

For both regions, less than 1% reported that the number of workers from within the EU had increased.

15.2% of West Midlands businesses and 15.9% of East Midlands businesses reported that the number of workers from within the EU had decreased.

17.6% of West Midlands businesses and 16.5% of East Midlands businesses reported the number of workers from outside the EU had stayed the same.

2.2% of West Midlands businesses and 1.6% of East Midlands businesses reported that the number of workers from outside the EU had increased.

3.6% of West Midlands businesses and 3.5% of East Midlands businesses reported that the number of workers from outside the EU had decreased.

Supply Chains

9.3% of West Midlands businesses and 7.2% of East Midlands businesses reported changes to the supply chains had occurred due to the end of the EU transition period. 46.7% of West Midlands businesses and 42.2% of East Midlands businesses reported the changes were made as a result of new UK trade agreement – rates are above the businesses who said it was not due to the trade agreement (25.4% and 37.3% respectively).

1.9% of West Midlands businesses reported no extra costs due to the end of the EU transition period. In Contrast, 35.6% reported other costs. 2.0% of East Midlands businesses reported no extra costs due to the end of the EU transition period. In Contrast, 37.1% reported other costs.

4.0% of West Midlands businesses and 2.9% of East Midlands businesses were not able to get materials, goods or services needed from the EU over the last month.

In the West Midlands there was a response rate of 25.9% and in the East Midlands there was a response rate of 27% where businesses have a presence in the region. There was a response rate of 24.8% for the West Midlands and 26.9% of East Midlands where businesses are headquartered in the region. Survey reference period: 21st February to 20th March 2022. Survey live period: 7th March 2022 to 20th March 2022. As response rates are low and the data is unweighted and should be treated with caution.

3. Women in Leadership

Women in Business Leadership in the Midlands

Midlands Engine commissioned research on women in leadership. Building on national research, the report uses regional business statistics and interviews to build a picture of the Midlands Engine.

Women are 50% of the population, but **only hold 15.8% of directorships in the top 350 public and private companies** in the Midlands. Insights into women in leadership in the region have been produced by research from the University of Wolverhampton to better understand the current **representation of women on boards and women-owned businesses in the Midlands region**. The report also identifies barriers to gender diversity and inclusivity, and recommends interventions to support gender diversity in leadership.

Women-led businesses are least prevalent in the East and West Midlands, North East and Yorkshire & the Humber in England.

Distribution of women-led businesses across UK regions

Regions	2015	2016	2017	2018	2019	2020	Average % 2015-2020	Location Quotient
East Midlands	**7.5%**	**7.0%**	**5.9%**	**7.0%**	**7.0%**	**7.4%**	**7.0%**	**0.97**
East of England	10.4%	10.9%	9.3%	10.8%	10.6%	11.2%	10.5%	1.12
London	12.9%	11.4%	9.9%	12.2%	10.7%	11.2%	11.4%	0.85
North East	3.0%	3.2%	2.7%	3.0%	2.4%	2.7%	2.8%	0.70
North West	8.9%	8.5%	8.3%	8.3%	8.2%	7.4%	8.3%	0.75
South East	16.7%	14.1%	12.7%	15.8%	16.1%	15.7%	15.2%	1.11
South West	12.3%	12.0%	11.9%	11.8%	12.1%	11.3%	11.9%	1.41
West Midlands	**8.3%**	**7.8%**	**7.4%**	**9.4%**	**7.4%**	**8.0%**	**8.1%**	**0.91**
Yorkshire & the Humber	6.4%	6.2%	4.8%	7.5%	7.8%	7.1%	6.6%	0.80
Scotland	6.7%	10.9%	17.0%	7.1%	10.1%	8.3%	10.0%	1.22
Wales	3.4%	3.0%	3.9%	3.5%	3.5%	3.5%	3.5%	0.74
Northern Ireland	3.4%	5.1%	6.4%	3.5%	4.2%	6.2%	4.8%	1.69
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

Source: Longitudinal Small Business survey 2015-2020 and Office for National Statistics 2020 Mid-year estimates

17.2% of all UK small businesses are women led, with 1.2% and 1.4% of these located in the West Midlands and East Midlands, respectively. This is a lower proportion than the rest of England except the North East and Yorkshire & the Humber.

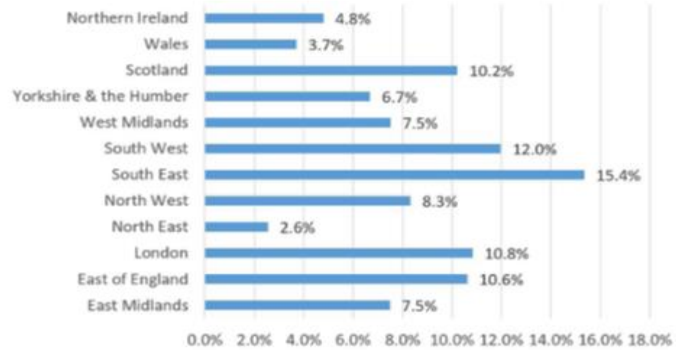
Number of small businesses and business density rate by UK region in 2020

	Number of all small businesses LSBS 2020	Density -all small businesses per 10,000 adults 16-64	Number of women-led business LSBS 2020	Density of women-led businesses per 10,000 female adults 16-64
East Midlands	**542**	**1.80**	**97**	**0.64**
East of England	777	2.04	147	0.77
London	738	1.22	146	0.49
North East	167	1.00	35	0.42
North West	587	1.28	97	0.42
South East	1,153	2.05	205	0.73
South West	869	2.56	148	0.87
West Midlands	**582**	**1.58**	**104**	**0.57**
Yorkshire & the Humber	505	1.47	93	0.54
Scotland	636	1.82	109	0.61
Wales	255	1.32	46	0.47
Northern Ireland	474	4.02	81	1.36

The East and West Midlands have relatively lower business density rates for all small businesses (1.80 and 1.58) and women-led businesses (0.64 and 0.57).

The proportion of women with majority ownership of a business in the East and West Midlands is 7.5% each, which is lower than most of the regions in England except for the North East and Yorkshire & the Humber.

Average Regional Distribution of Small Businesses with Majority Women Ownership



The funding gap is more evident for small businesses solely or jointly led by women in the Midlands. Regions with high levels of Gross Value Added have a higher prevalence of women-led businesses.

Economic Context and Women-led Small Business

Regions	GVA	Women-led Business[6]
East Midlands	**5.8%**	**7.0%**
East of England	8.6%	10.5%
London	23.7%	11.4%
North East	2.9%	2.8%
North West	9.6%	8.3%
South East	14.9%	15.2%
South West	7.4%	11.9%
West Midlands	**7.4%**	**8.1%**
Yorkshire & the Humber	6.6%	6.6%
Scotland	7.6%	10.0%
Wales	3.5%	3.5%
Northern Ireland	2.2%	4.8%

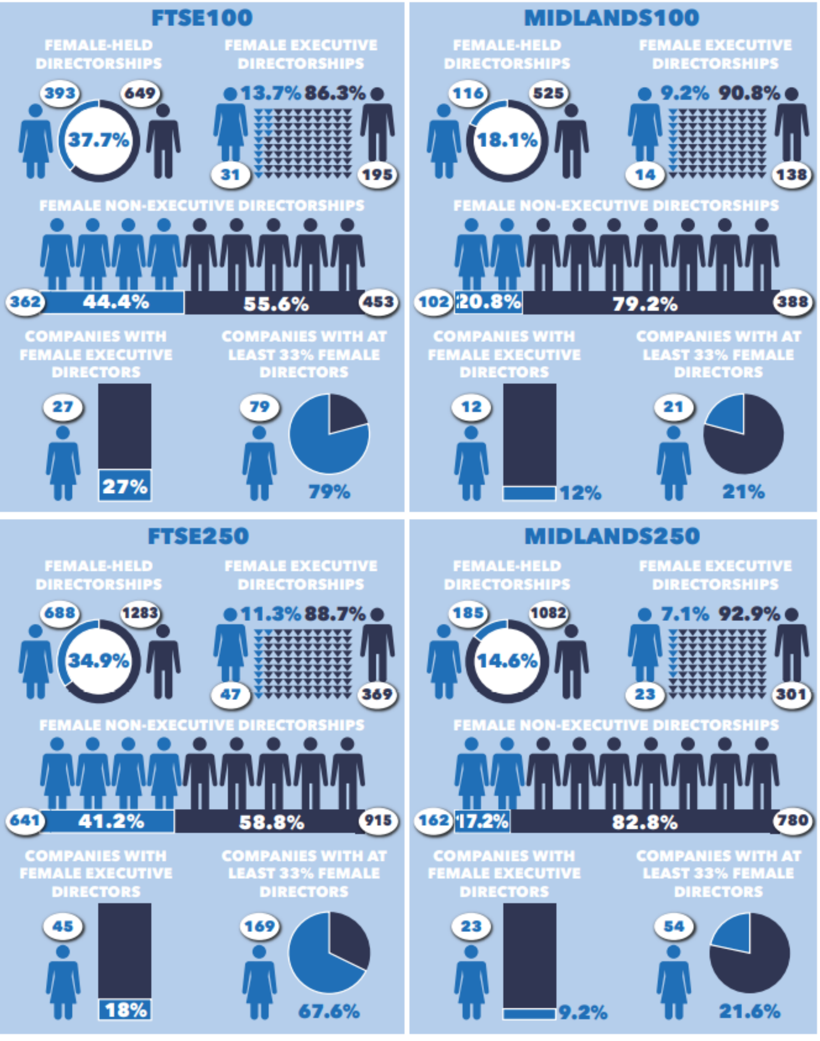
Having women within leadership positions has been shown to be **beneficial for businesses**. Gender diversity in leadership positions **creates a 25% increase in a business' performance**. Whilst not all studies show this trend, those that did not tended to be countries which are more gender-unequal which reflects complex social behaviour. Gender diversity in the boardroom can improve dynamics which in turn **improves decision making and governance**. It also **increases innovation, and can drive consumer spending** as customers are increasingly aware of business' gender, ethnicity, and environmental policies. The evidence suggests that **£250 billion could be added to the UK economy** if women were to start and grow businesses at the same rate as men.

Source: Women in Business Leadership in the Midlands, March 2022

Women in Business Leadership in the Midlands

There has been an increase of women in leadership across the UK. **In 2011, only 12.5% of board seats in the FTSE100 were held by women**. In 2020, there were no all-male boards in the FTSE100 **and women held 34.5% of directorships**. However, countries who set quotas for women on boards, such as Norway, France, and Italy, have seen higher rates of female-held board seats (36%). In the top 100 companies by turnover in the Midlands, **18.1% of directorships are held by women compared by 37.7% of women held directorships in FTSE100 companies**. In the **Midlands250, 14.6% of directorships were held by women** compared to 34.9% of FTSE250 companies. Female executive directorships in **the Midlands100 and Midlands250 account for 9.2% and 7.1% respectively**, which is lower than the FTSE100 (13.7%) and the FTSE250 (11.3%). 48% of the largest 350 Midlands companies have male-only boards. This shows that the region must make progress to even match the UK average for women on boards.

The East and West Midlands have a **low ratio of female entrepreneurs, at only 49 female entrepreneurs per 100 male**. 17.2% of all UK small businesses are women led with the **West and East Midlands having a lower proportion of these, with only 1.2% and 1.4%** respectively.



Recommendations:

This research provides a series of contextually grounded recommendations for 'what works' at an individual, organisational, and regional level to help promote women into leadership.

Regional Level:

- **Changing the cultural mindset**: Instead of assuming women cannot do a job, leaders should embrace difference and seek to eliminate barriers that have excluded women.
- **Celebration of role models and success stories**: Role models are vital to encourage women's aspiration and confidence in the possibility of becoming a leader or an entrepreneur.
- **Resources and support networks**: organising and promoting women's support networks are vital to foster a community that would support, motivate, and encourage women.

Organisational Level:

- **Flexible working hours**: work will be focused on productivity rather than time spent in the office. Career progression should no longer be accessed through time spent in the office but based on productivity and impact.
- **Targets and benchmarks**: Companies should regularly audit their progress and benchmark performance. The focus should be to change systems and structures to eliminate barriers to women in leadership.

Individual Level:

- **Women-targeted funding and training**: Start-up programmes and funding should be tailored to the needs of women to promote take-up.
- **Be an ally**: Amplify the voices of women, listen to what women have to say, speak up in your own business and social circles about women and female leaders.

Source: Women in Business Leadership in the Midlands, March 2022

Women in Work Index 2022

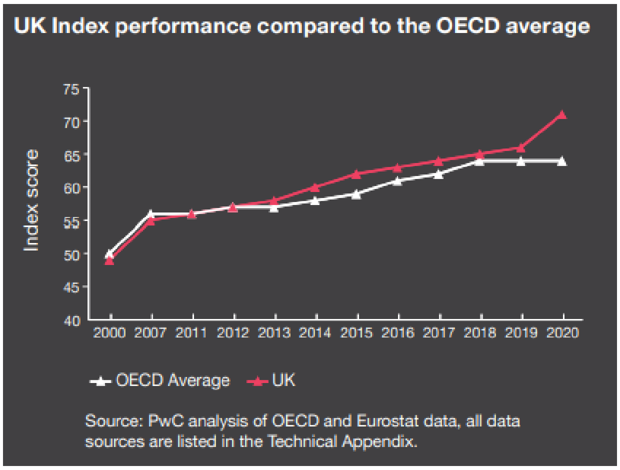
The COVID-19 pandemic and the global transition to Net Zero offers both opportunities and challenges for employment practices across the world. New jobs will be created and old ones lost, so effective policies are needed to ensure that women and other disadvantaged groups are not left behind. Currently, **progress towards equality for women at work has been set back by the pandemic by at least two years**. Research finds that **5.1 million more women were unemployed** and **5.2 million fewer were participating in the labour market** in 2020.

The UK could **gain £124 billion or 6% of UK GDP by increasing female employment rate by 6%** to match Sweden's. Closing the gender pay gap could **increase women's earning by £72 billion a year** in the UK if women's earnings matched their male counterparts.

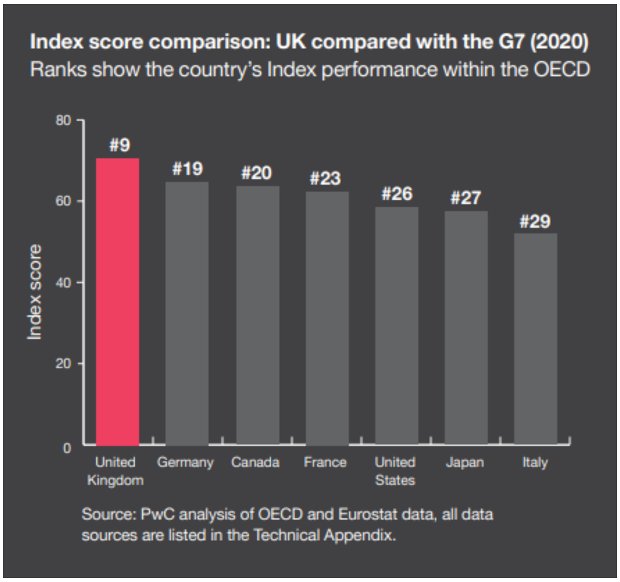
When women have children, an employment gap opens between men and women regarding pay, promotion, and under employment. **Mothers of children under 13 were 3% more likely to have left employment** between the first and third quarter of 2020 than fathers. For men and women without children under 12, the gap was less than half a percentage point.

In the UK, women from Ethnic Minority groups are more likely to be unemployed and paid less than White women. **Women from Ethnic Minority groups are more than a decade behind White women in terms of unemployment and are proportionately worse off now than in 2011. The unemployment rate for Ethnic Minority women is 2.6 times that of White women (9.2% vs 3.5%).** The unemployment rate for Ethnic Minority women rose sharply for certain groups, **especially for Bangladeshi and Black ethnic groups, rising to 16.5% (+9.4) and 11.8% (+5.6) respectively.**

UK performance against the OECD



The UK's PwC index score compared to the G7 (2020)



Source: PwC, Women in Work Index 2020, March 2022

The UK increased in PwC's rankings by seven places from 16th to 9th. This is the largest increase of all OECD countries, and was driven mainly by **improvement in the gender pay gap which fell from 16% to 12%.** The gender pay gap in the Midlands fell from 18% to 16%, which is still larger than the UK average.

However, ONS 2021 data shows the **UK's gender pay gap widened again from 12% to 14% in 2021**, halving the gains made in 2020. At the same time, **the median weekly earnings for men fell by 1.6% due to a reduction in hours worked**. It remains to be seen whether this has a long term impact, with more men taking on childcare and domestic responsibilities.

The Midlands has seen improvements in its female labour force rate, which now is 75%, above the UK average of 74%. Female **employment in full time roles rose by 2% to 66%,** which is still below the OECD average of 76%. The East Midlands is one of the lowest ranking regions for female labour participation, dropping from 5th to 11th, only one place above the West Midlands at 12th. The West Midlands has seen a decrease in its participation rate gap to 9%, matching the East Midlands. The unemployment rate has remained at 5% in the West but increased to 5% in the East.

The transition to Net Zero provides opportunities for increased employment and economic growth. **Jobs will be created mainly in utilities, construction and manufacturing.** These sectors **employ 31% of the male workforce but only 11% of the female workforce**. Individuals from **racial and Ethnic Minority backgrounds account for only 22% of employment in the global energy sector**. Therefore there is a need for policy initiatives to support women and other minorities into these roles. Without intervention, **the total employment gap between men and women will widen by 1.7% by 2030**. Interventions should balance giving women the right skills, as well as ensuring that the world of work better suits women and other disadvantaged groups.

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