



**MIDLANDS
ENGINE**

Economic Observatory

ECONOMIC IMPACT OF COVID-19 ON MIDLANDS ENGINE TRADE

23RD OCTOBER 2020

Executive Summary

- The latest available data from HMRC shows in the year ending Q2 2020, the Midlands Engine **exported £50.2bn** worth of goods, a decrease of 9.7% (-£5.4bn) compared to the year ending Q2 2019. This was a greater percentage change than the UK overall (-9.0%).
- The highest proportion of exports from the Midlands Engine was machinery and transport at nearly £34bn – 67.6% of total. This makes up a higher percentage of exports than the UK (38.0%). Compared to the year ending Q2 2019 this has decreased by 9.1% (-£3.4bn).
- In the year ending Q2 2020, the Midlands Engine **imported £57.4bn** worth of goods, a decrease of 14.9% (-£10bn) compared to the year ending Q2 2019. This was a greater percentage change than the UK overall (-12.0%).
- The high proportion of imports to the Midlands Engine was machinery and transport at £25.8bn, which is 45.0% of total imports, a higher percentage than the UK figure of 37.1%. This SITC section has decreased since the year ending Q2 2019 by 15.0% (-£4.5bn) for the Midlands Engine.
- The Midlands Engine had a trade deficit of £7.1bn in the year ending Q2 2020. However, when compared to Q2 2019 this has decreased from nearly £11.8bn.
- In the year ending Q2 2020, the highest value of **exports** from the Midlands Engine was to the **European Union at £22.8bn** - accounting for **45.4%** of the total. However, this has decreased by 14.7% (-£3.9bn) from the year ending Q2 2019. This is followed by North America and Asia & Oceania, both at £10.3bn, accounting for 20.5% each.
- In the year ending Q2 2020, the highest value of **imports** to the Midlands Engine was from the **European Union at £32.9bn** - accounting for **57.3%** of the total. This is a decrease of 17.7% (-£7.1bn) when compared to the year ending Q2 2019. This is followed by Asia and Oceania at £14.4bn accounting for 25.2%. This has decreased by 7.5% (-£1.2bn) from the year ending Q2 2020.
- The impact of COVID-19 on the automotive sector was so severe that **in April car production fell 99.7%** and across the UK just 152 cars were built for export compared with 57,315 in April 2019 and 45 cars for the domestic market. It is more difficult to forecast the recovery of the automotive sector. International lockdowns squashed consumer demand. Following that the UK lockdown put immense pressure on supply chains as operations were suspended. However, there are some green shoots with demand for UK cars in Asian markets already recovering. Key to ensuring a smooth return to production will be the survival of Tiers 2 and 3 in the supply chain.
- COVID-19 has driven an **increase in Midlands Engine's power and generation-related manufacturing exports of 4.4%**. This is linked to the skyrocketing demand for standby diesel and renewable generators as countries across the world built temporary health and community facilities in response to the pandemic. This will remain a growing sector as it also contains manufacturers of renewable energy componentry.
- Industrial machinery has taken a severe hit as a result of COVID-19. Unlike the automotive sector, the impacts of this could be longer lasting. The focus of most companies globally is survival and cost-reduction. It may be several months if not years until companies are able to make significant capital purchases. With that said, **exports of industrial machinery was £2.6bn in Q1 2020**. However, much of this machinery will have been ordered months if not years ago.
- Early indications are that the UK, despite COVID-19 and Brexit, is still a preferred destination for Foreign Direct Investment. However, investors are actively avoiding sectors that have been most impacted – namely automotive and industrial. **The Midlands Engine has attracted a notable volume of Foreign Direct Investment, equivalent to 13% of the UK's total FDI in 2018/19.**

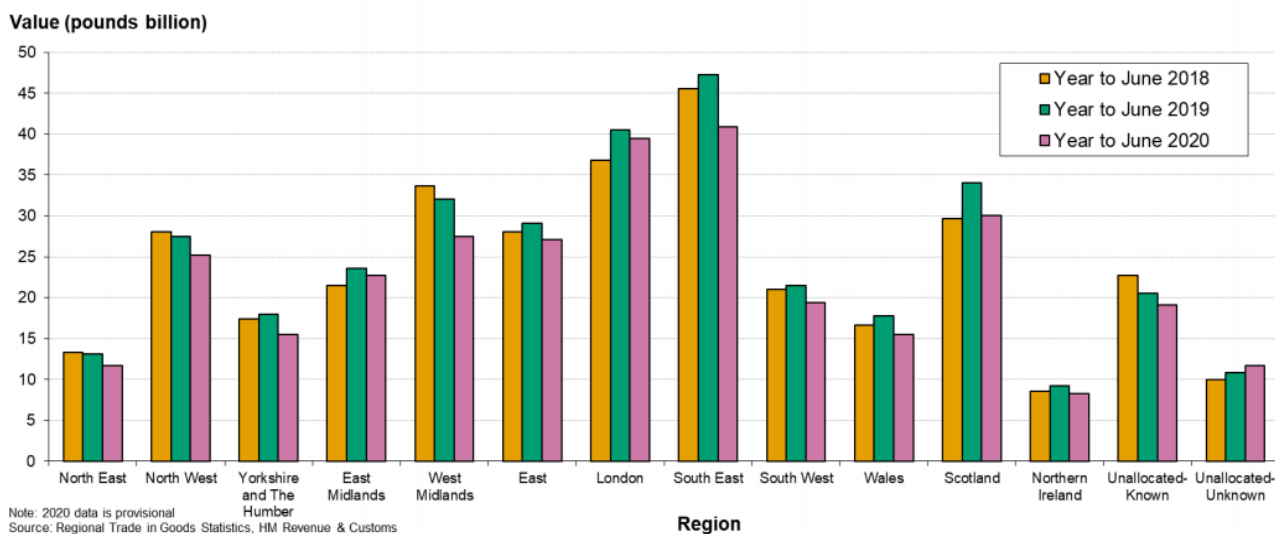
The Midlands Engine figures used in this report are based on the West Midlands and East Midlands Regions.

Midlands Engine Trade Statistics

Exports

- For the year ending Q2 2020 exports from the Midlands Engine was worth £50.2bn which is a decrease of 9.7% (-£5.4bn) when compared to Q2 2019.
- In the year ending Q2 2020, all the UK regions saw a decrease in the value of goods exported. The West Midlands had the second highest number decrease in exports across the UK regions by 4.6bn to £27.5bn and the East Midlands was the lowest region at -£766m to £22.8bn.
- The Midlands Engine accounts for 16.0% of UK exports (8.7% WM and 7.25% EM).

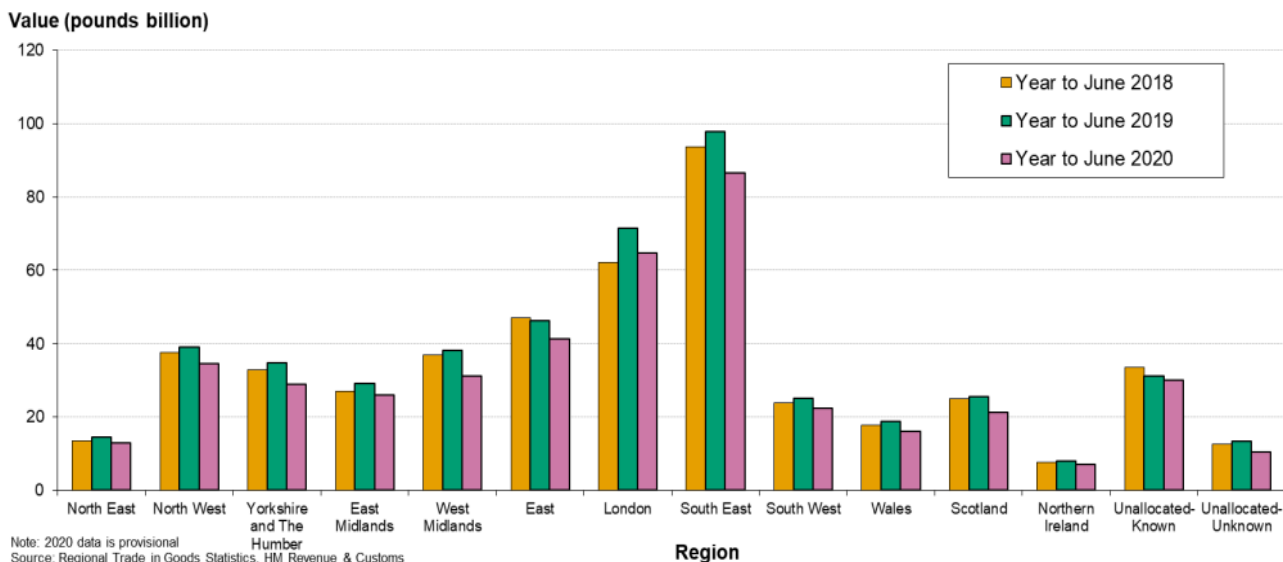
The following chart shows UK exports by region, year to Q2 2018, Q2 2019 and Q2 2020:



Imports

- For the year ending Q2 2020 imports to the Midlands Engine were worth £57.4bn which is a decrease of 14.9% (-£10bn) when compared to Q2 2019.
- The value of the West Midlands region imports decreased by 18.0% (-£6.9bn) when compared to year ending Q2 2019 down to £31.3bn in the year ending Q2 2020. The East Midlands imports decreased by 10.7% (-£3.1bn) since the year ending Q2 2019 to reach £26.1bn in the year ending Q2 2020. Over the same period, the UK decreased by 12% to £433.7bn.

The following chart shows for the UK imports by region, year to Q2 2018, Q2 2019 and Q2 2020:



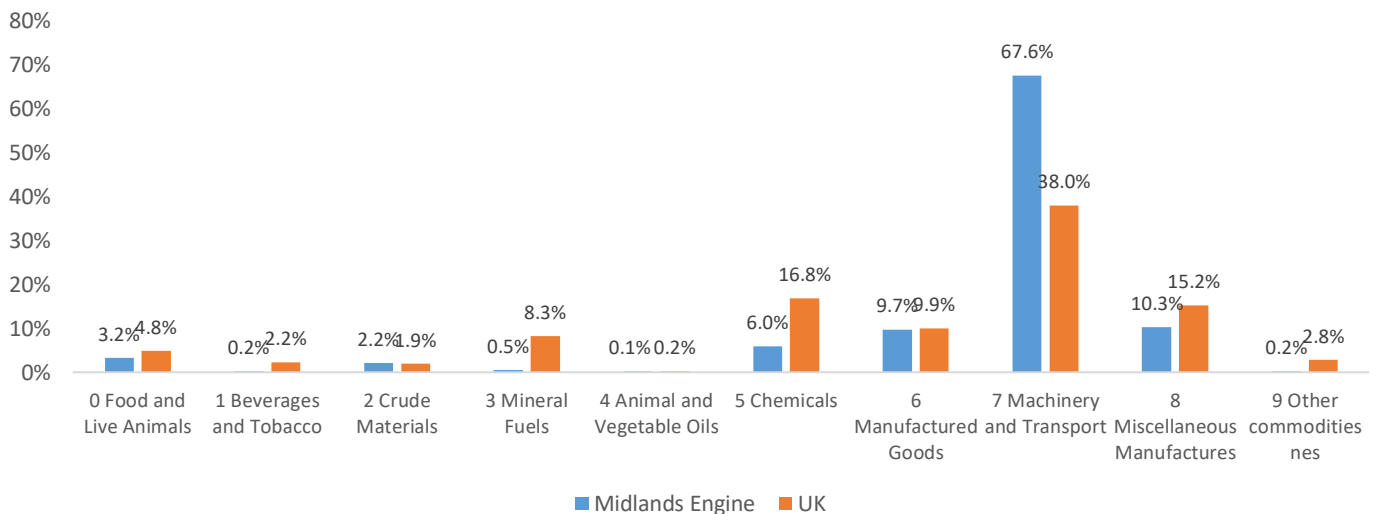
Midlands Engine Trade Statistics

Exports by SITC sections

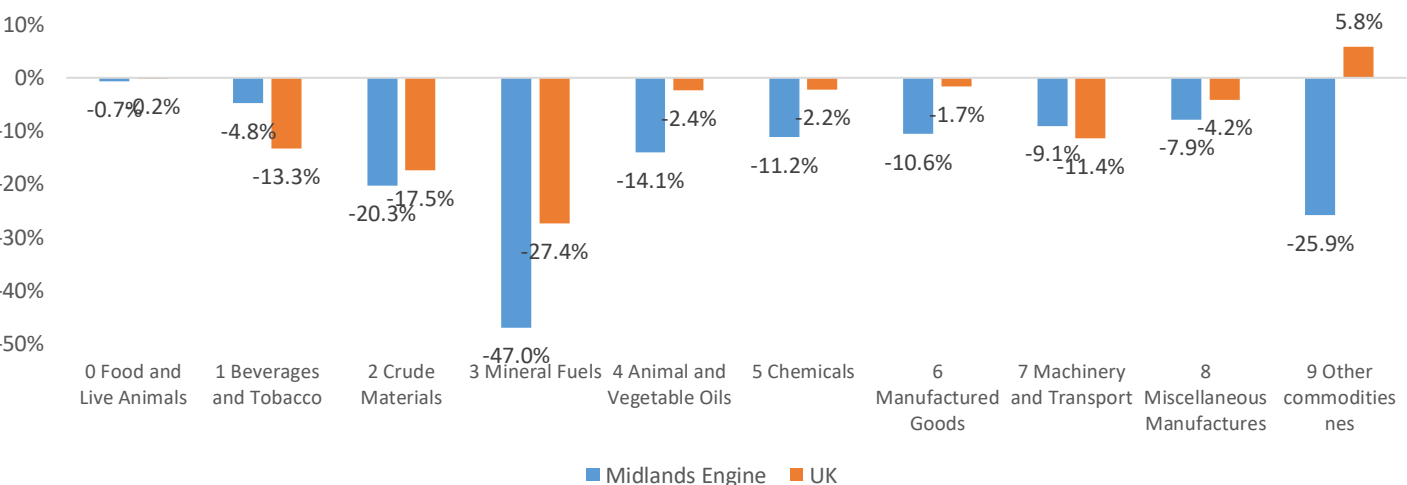
- The Standard international trade classification, abbreviated as SITC, is a product classification of the United Nations (UN) used for external trade statistics (export and Import values and volumes of goods), allowing for international comparisons of commodities and manufactured goods.
- The highest proportion of exports from the Midlands Engine was machinery and transport at nearly £34bn – 67.6% of total. This makes up a higher percentage of exports than the UK (38.0%). Compared to the year ending Q2 2019 this has decreased by 9.1% (-£3.4bn). A further 10.3% (£5.2bn) of goods exported from the Midlands Engine come from miscellaneous manufactures, followed by 9.7% (£4.9bn) for manufactured goods.
- Midlands Engine exports in mineral fuels decreased by the largest proportion over the 12 month period by 47.0%, taking the value of exports from £504m to £267m.

The following charts show a breakdown of exports by SITC Section. The first chart shows the exports as a percentage of total exports for the Midlands Engine, and the second chart shows the percentage change between year ending Q2 2019 and year ending Q2 2020:

Exports by SITC (% of total exports)



Exports by SITC (% change on previous year)



Source: HM Revenue & Customs, UK Regional Trade in Goods Statistics Quarter 2 2020 – Released September 2020

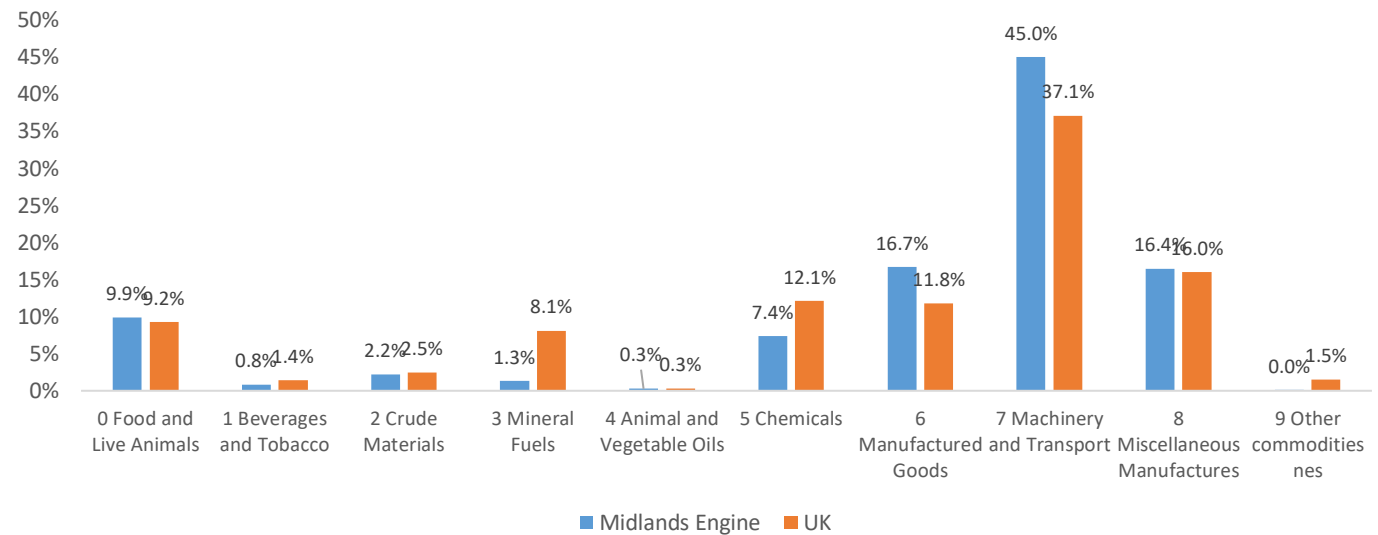
Midlands Engine Trade Statistics

Imports by SITC sections

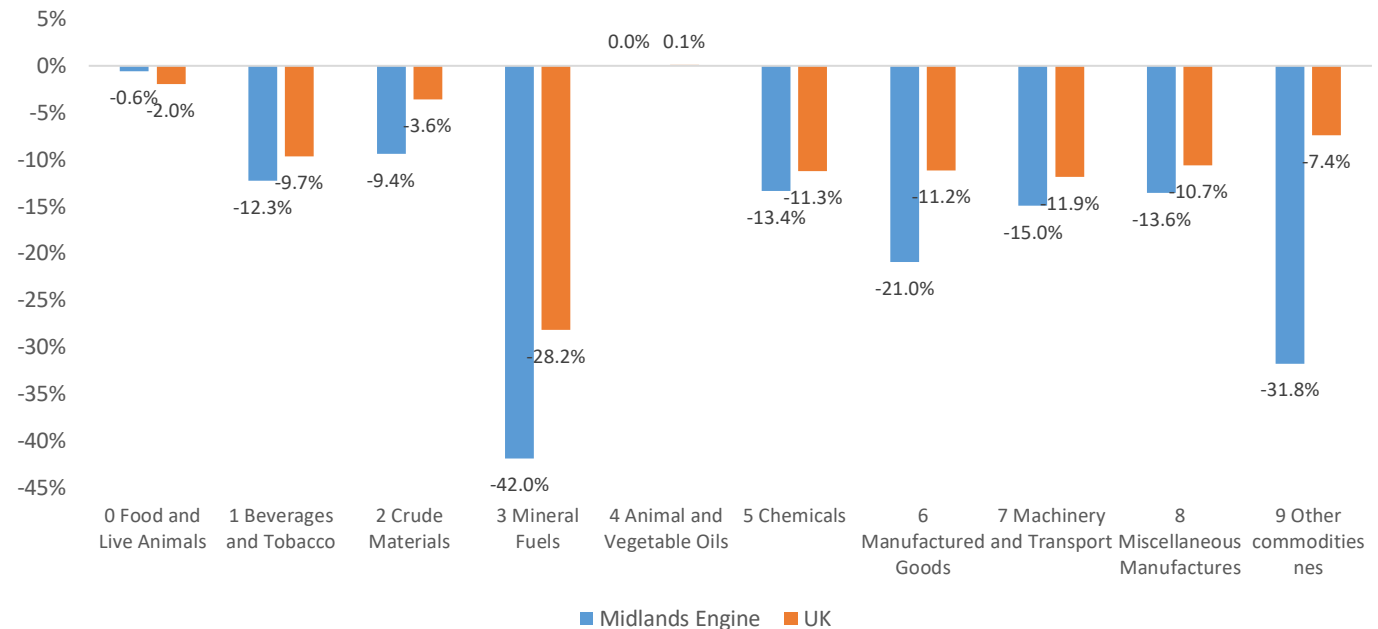
- The high proportion of imports to the Midlands Engine was machinery and transport at £25.8bn, which is 45.0% of total imports, a higher percentage than the UK figure of 37.1%. This SITC section has decreased since the year ending Q2 2019 by 15.0% (-£4.5bn) for the Midlands Engine.
- Midlands Engine imports in mineral fuels decreased by 42.0% over the 12 months, this is the largest percentage of any sector. This was followed by other commodities with a 31.8% decline, and then manufactured goods with a decline of 21.0%.

The following charts shows a breakdown of imports by SITC Section. The first chart shows the imports as a percentage of total for the Midlands Engine, and the second chart shows the percentage change between year ending Q2 2019 and year ending Q2 2020:

Imports by SITC (% of total exports)



Imports by SITC (% change on previous year)



Source: HM Revenue & Customs, UK Regional Trade in Goods Statistics Quarter 2 2020 – Released September 2020

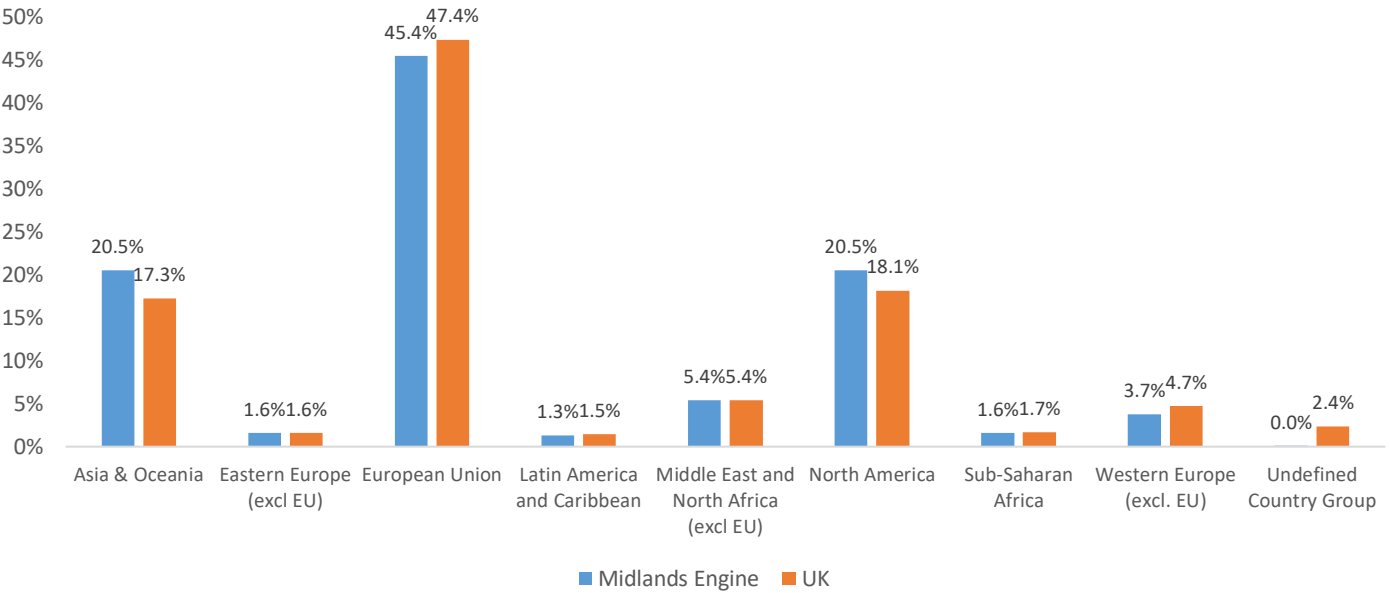
Midlands Engine Trade Statistics

Exports by Country Group

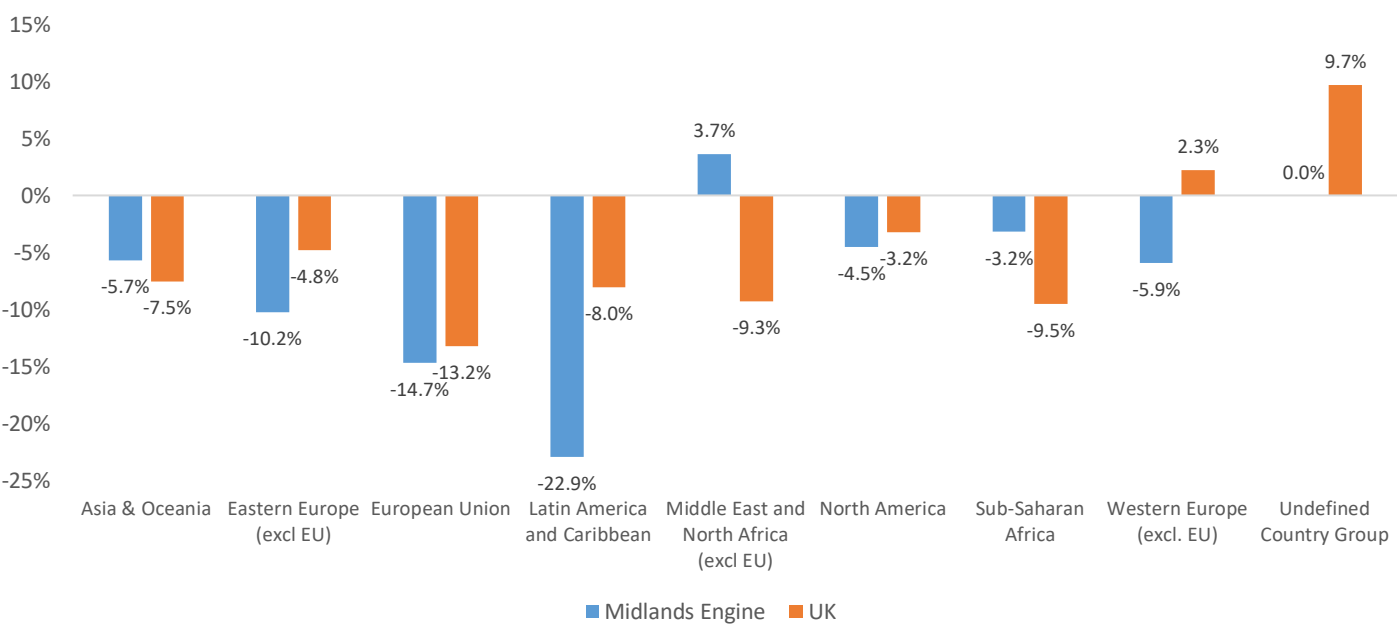
- In the year ending Q2 2020, the highest value of **exports** from the Midlands Engine was to the **European Union at £22.8bn** - accounting for **45.4%** of the total. However, this has decreased by 14.7% (-£3.9bn) from the year ending Q2 2019. This is followed by North America and Asia & Oceania, both at £10.3bn, accounting for 20.5% each.

The following charts shows a breakdown of exports by country group. The first chart shows the exports as a percentage of total for the Midlands Engine to that country group, and the second chart shows the percentage change between year ending Q2 2019 and year ending Q2 2020:

Exports by Country Group (% of Total)



Exports by Country Group (% change on previous year)



Source: HM Revenue & Customs, UK Regional Trade in Goods Statistics Quarter 2 2020 – Released September 2020

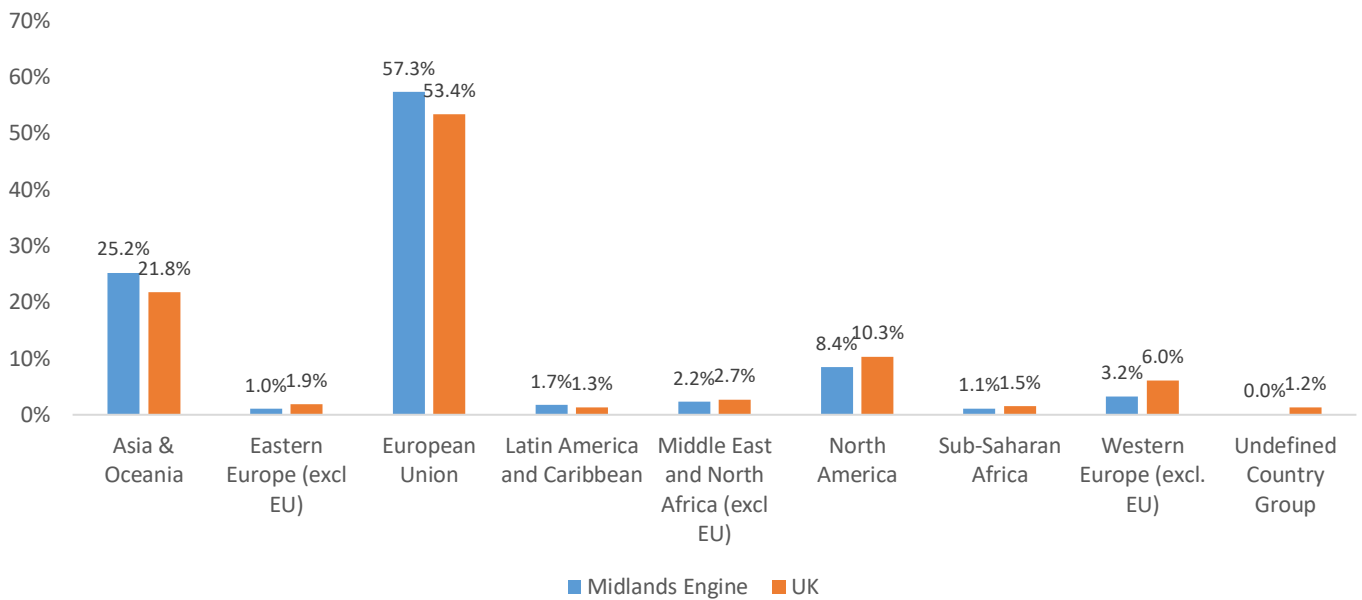
Midlands Engine Trade Statistics

Imports by Country Group

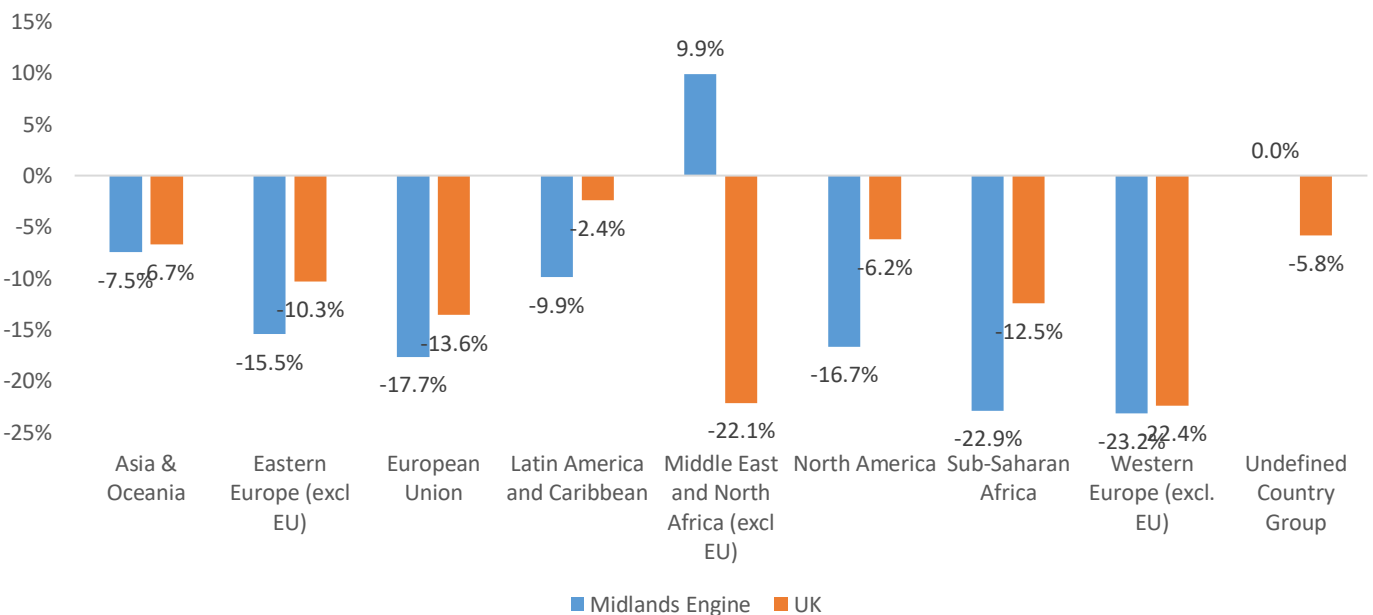
- In the year ending Q2 2020, the highest value of **imports** to the Midlands Engine was from the **European Union at £32.9bn** - accounting for **57.3%** of the total. This is a decrease of 17.7% (-£7.1bn) when compared to the year ending Q2 2019. This is followed by Asia and Oceania at £14.4bn accounting for 25.2%. This has decreased by 7.5% (-£1.2bn) from the year ending Q2 2020.

The following charts show a breakdown of imports by country group. The first chart shows the imports as a percentage of the total for Midlands Engine from that country group, and the second chart shows the percentage change between year ending Q2 2019 and year ending Q2 2020:

Imports by Country Group (% of Total)



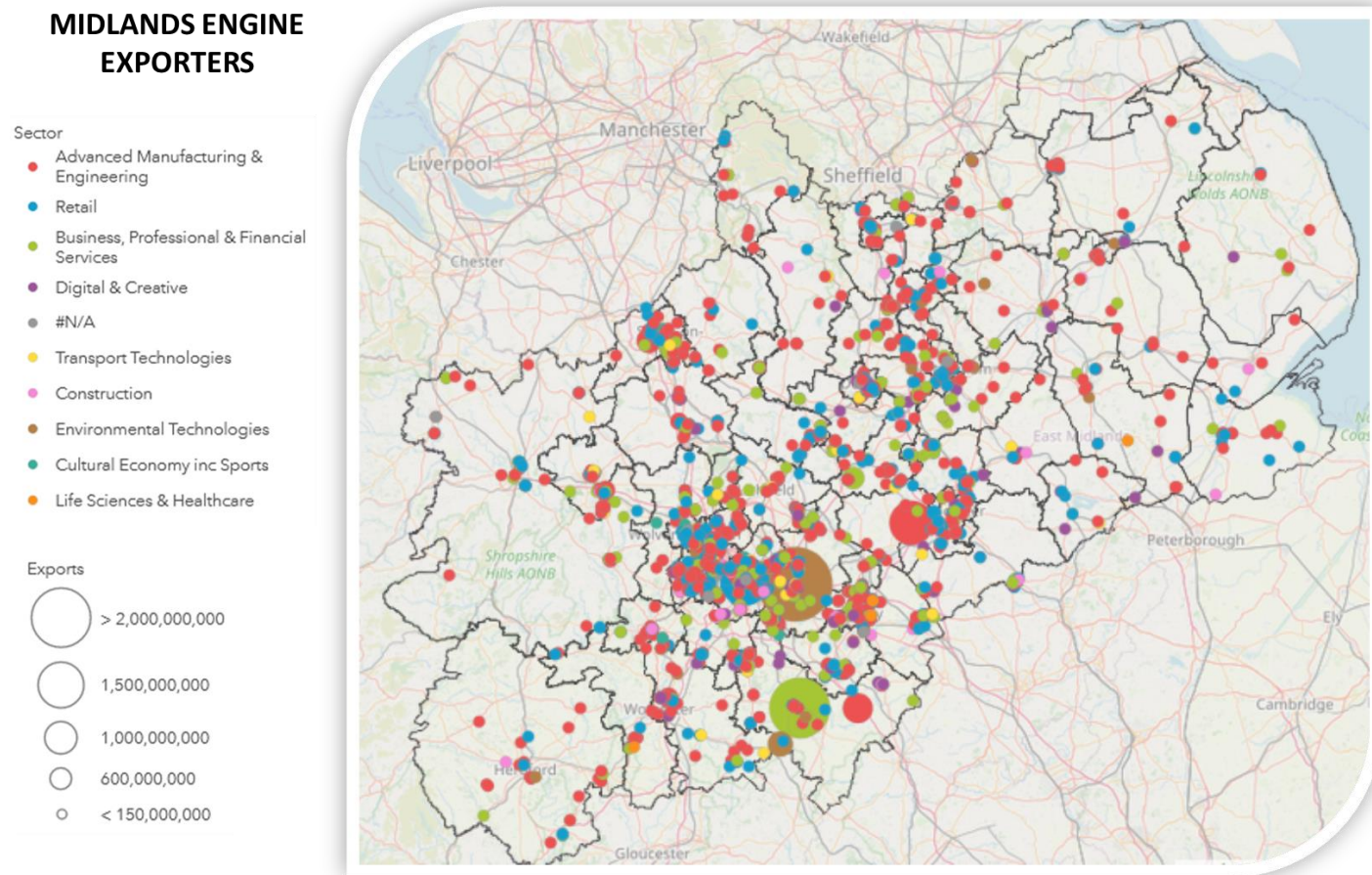
Imports by Country Group (% change on previous year)



Top Midlands Engine Exporting Companies

- Figures sourced from Duedil show that there are over 2,000 exporting businesses in the Midlands Engine, with 1,289 exporting businesses in the West Midlands, and 869 in the East Midlands.
- Across the Midlands Engine, the exports came to a total of £32.8bn.
- 1,060 of the exporting businesses in the Midlands Engine are from the advanced manufacturing & engineering sector, making up 49.2% of all exporting businesses. Combined, the exports from this sector make up over £15.7bn across the Midlands Engine.
- The sector with the next highest amount of businesses exporting is retail. This sector makes up 20.4% (439) of total exporters in the Midlands Engine, totalling up to over £5.2bn worth of exports.
- Other sectors where there were a large number of exporting companies across the Midlands Engine include:
 - Business, professional & financial services, where there are 323 (15.0%) exporting businesses from the across the Midlands Engine. The exports from this sector total up over £5.7bn.
 - Digital & creative, with 140 (6.5%) exporting businesses in the Midlands Engine. The total value of exports from this sector was just over £800m.
- 46 companies in the Midlands Engine export over £100m annually. Together these make up 52% of the total value of exports in the region.

The below map shows the location of the individual exporting companies, and their size in terms of value of exports:



Source: Duedil, October 2020, <https://www.duedil.com/>

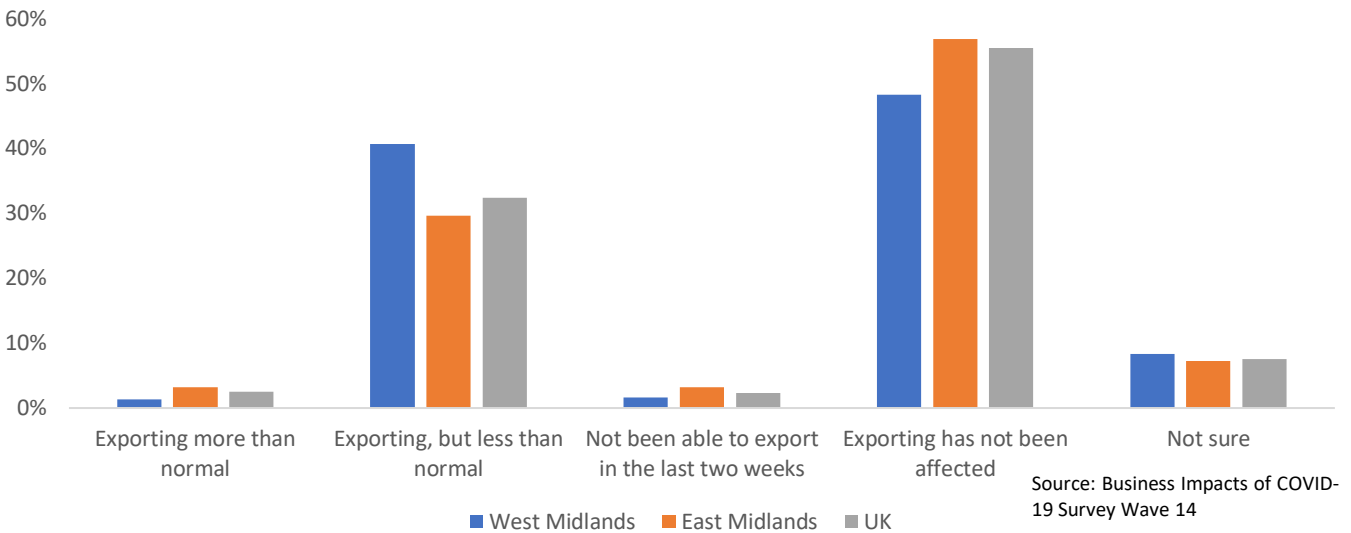
COVID-19 impact on Trade

Business Impacts of COVID-19 Survey Wave 14

Of firms that export, and continue to trade (excluding 'not sure'):

- 32.4% of UK businesses reported that they were exporting less than normal. The figure for the East Midlands was 29.6% which is lower than the national average, however the West Midlands was above the national average with 40.6%.
- A further 3.2% of those from East Midlands said they were unable to export in the last two weeks¹, a higher percentage than the UK average of 2.5%. In contrast, the West Midlands was below the national average with 1.6%.

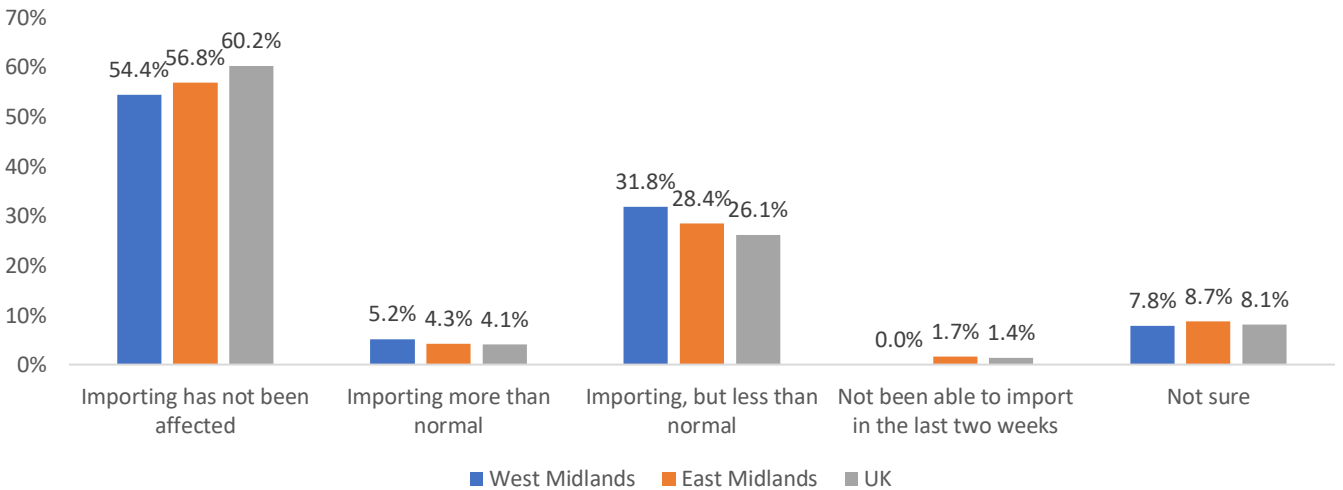
The following chart shows the impact of COVID-19 on exports for the West Midlands, East Midlands and the UK:



Of firms that import, and continue to trade (excluding 'not sure'):

- 26.1% of UK businesses reported that they were importing less than normal. The figure for both the East and West Midlands regions was higher for this period at 28.4% and 31.8% respectively.
- A further 1.7% of East Midlands businesses said they were unable to import in the last two weeks¹, a higher percentage than the national average of 1.4%. In contrast, the figure for the West Midlands was <1%.

The following chart shows the impact of COVID-19 on imports for the West Midlands, East Midlands and the UK:



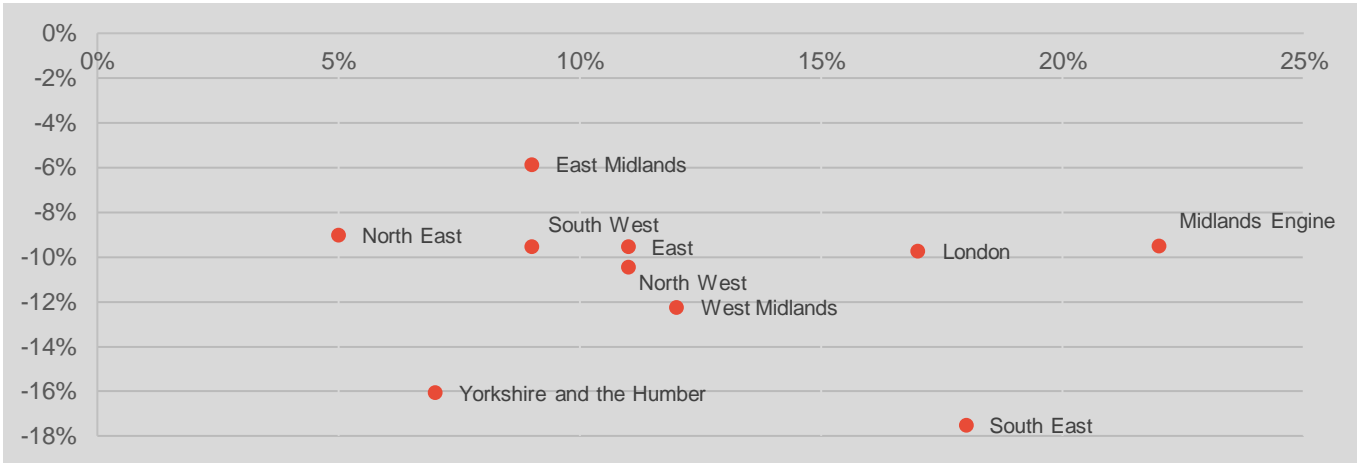
¹BICs Wave 14: Businesses were asked for their experiences for the reference period 7 to 20 September 2020. However, for questions regarding the last two weeks, businesses may respond from the point of completion of the questionnaire (21 September to 4 October 2020).

COVID-19 Impact on Exports

The initial impact of COVID-19 on regional exports has hit the Midlands Engine in line with several other regions.

- The latest regional export data available is for Q1 2020. In order to determine the early impacts of COVID-19 on exports, Q1 2020 has been compared against Q1 2019. This approach has been used as many exported products are seasonal so this allows a like-for-like comparison.
- The x-axis shows the market share for each of the English regions in the year 2019, with Midlands Engine at 22%. The y-axis shows the percentage drop in total exports by value between Q1 2019 and Q1 2020.
- The following chart shows that in Q1 2020, the Midlands Engine lost £1.4bn in exports year on year, a decline of 9.5%. This was in line with several other regions and a stronger export performance than many. It is notable that the smallest drop was in the East Midlands.

Regional Market Share vs Q1 2019/2020 export growth

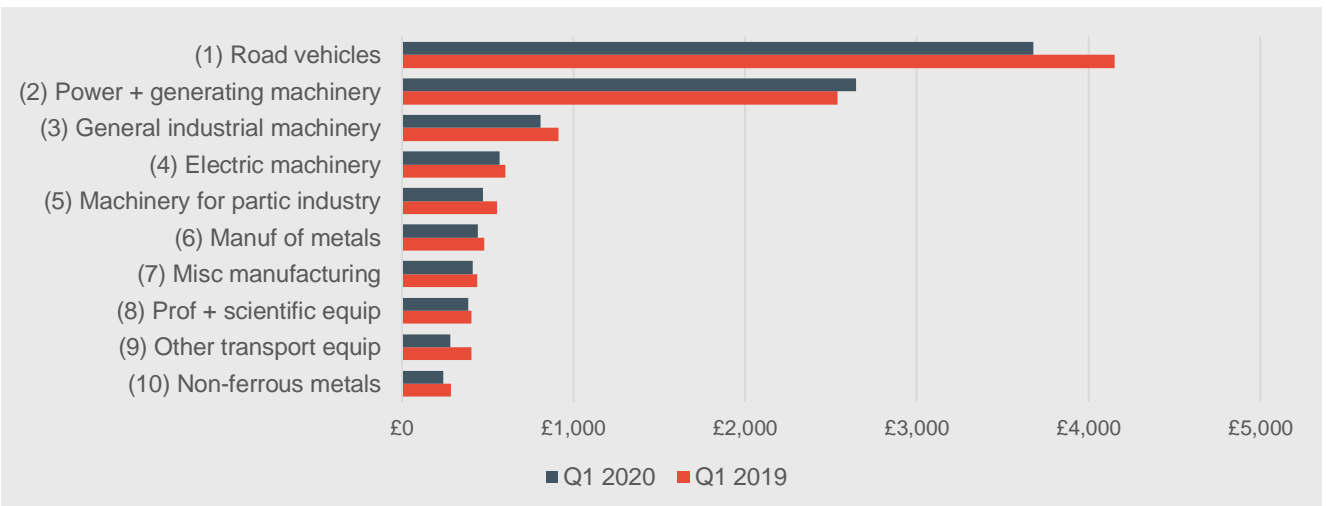


Source: HMRC RSA data, Hatch analysis

There has been a COVID-19 related contraction in 9 of the 10 largest Midlands Engine export product groups

- The top ten product groups which can be seen in the below chart, made up 76% of all exports by value in 2019.
- It is widely recognised that the automotive sector is a leading sector not just in the Midlands Engine (20% of all exports in 2019), but also nationally.
- Power and generating machinery has been growing quickly and is now 2/3 the value of automotive exports. This has been driven by some major manufacturers in renewable energy componentry and, as discussed later, standby power generation which is a regional specialism with growing international demand.
- The top ten includes several types of industrial machinery. When taken together, these products make-up 21% of the region's total export base. All of these products share a similar demand profile in that they constitute major capital investments by international companies and will be heavily influenced by economic conditions.

Q1 2019 vs Q1 2020 exports for the largest product groups (£millions)



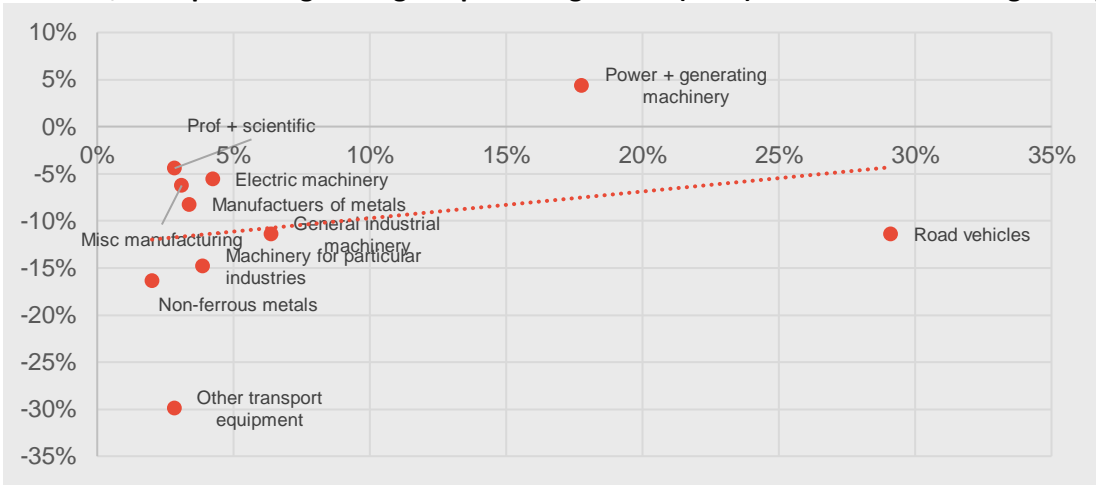
Source: HMRC RSA data, Hatch analysis

COVID-19 Impact on Exports

However, the most significant losses are related to products that constitute a smaller proportion of the total Midlands Engine export base.

- As the previous page illustrated, between Q1 2019 and Q1 2020 there was a loss in nine of the top 10 export product categories.
- To isolate the greatest losses by impact the chart below shows the percentage of total of Midlands Engine exports on the x-axis against the quarter on quarter between 2019/20 loss on the y-axis.
- The chart also shows that the steepest losses are in product categories that contribute a smaller proportion to the Midlands Engine export total.
- This analysis shows that the Midlands Engine export base (at least in Q1 2020) has built-in resilience as the most important export categories have, so far, not been as greatly impacted.
- Over the following pages we discuss three product groups in more detail: road vehicles, power and generating machinery and industrial machinery.

Q1 2019/2020 percentage change vs percentage value (2019) of total Midlands Engine export base

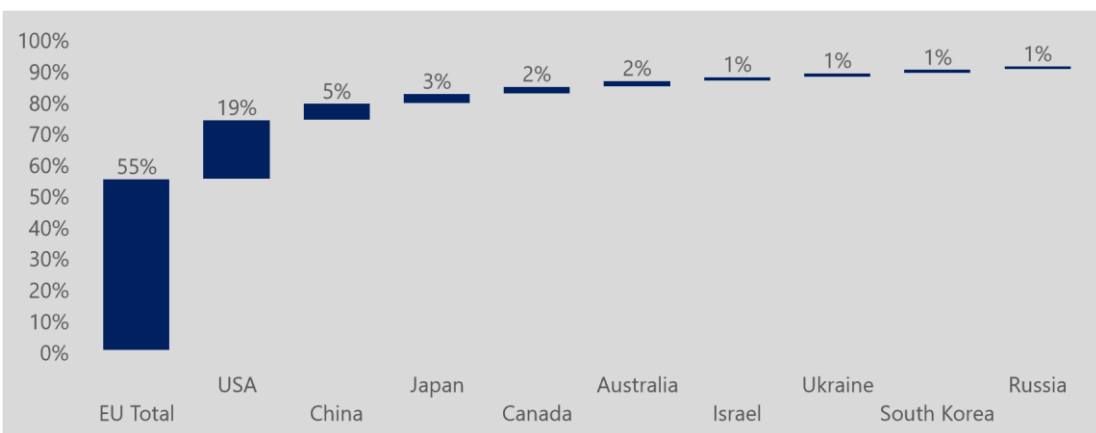


Source: HMRC RSA data, Hatch analysis

Road Vehicles: 80% of all cars produced in the Midlands Engine are for export

- The Midlands Engine car production sector is primarily geared towards exports. An estimated 80% of all cars and around 60% of all commercial vehicles (CVs) built in the region are for export.
- Since 2016 there has been a decline in the number of exported units for both cars and CVs. This has been a function of weakened consumer demand and business confidence overseas, growth in the overseas capacity of some UK suppliers (both OEMs and Tier1) as they prepare for Brexit and a shift from diesel in Europe that has particularly impacted demand for CVs.
- Despite this the EU has remained the dominant export market for Midlands Engine built vehicles with the highest share of UK premium brand exports.
- It is against this context that COVID-19 impacted the sector with a total lockdown of assembly lines for an average of 45 days.

Top 10 export markets for Midlands Engine cars and CVs



Source: Society for Motor Manufacturers and Traders, Hatch Analysis

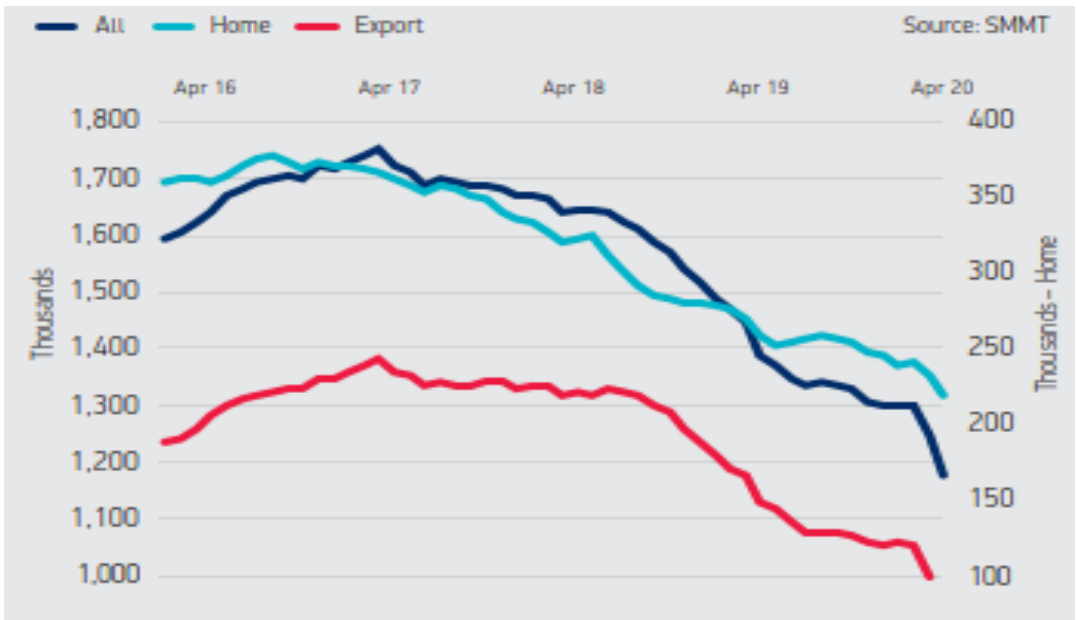
Source: Hatch, Midlands Engine Covid 19 Impact Assessment Report

COVID-19 Impact on Exports

Road Vehicles: Since COVID-19 there has been an almost total collapse in car production for export

- The impact on the automotive sector was so severe that in April car production fell 99.7% and across the UK just 152 cars were built for export compared with 57,315 in April 2019 and 45 cars for the domestic market.
- Since then both of the region’s major OEMs have restarted production and the reopening of global markets has provided early indication that there is pent-up international consumer demand for UK cars with sales rising in Asia.
- However, in order to recover export volumes, regional supply chain issues will need to be addressed. There is anecdotal evidence that several of the region’s Tier 1 suppliers (who benefited during the pre-Brexit period) have not necessarily shared payments down to Tier 2 and 3 suppliers during the lockdown period, which has created significant liquidity issues and put some elements of the supply chain in jeopardy.

Volume of cars being manufactured over time



Source: Society for Motor Manufacturers and Traders, Hatch Analysis

Road Vehicles: Despite the drop-off in volumes, the top ten countries the Midlands Engine OEMs and component manufacturers supply to has not changed

- In Q1 2020, Midlands Engine exports of road vehicles was £3.7bn.
- A critical dimension to the automotive sector post- COVID-19 recovery will be the status of Free Trade Agreements (FTA) before 31st December. Agreements have been reached with South Africa, Morocco, South Korea and Israel; so as of yet, none of the key markets for car and CV exports.
- Status of FTAs for the non-EU markets will become critical for two reasons. First, the EU FTA may take longer to negotiate with recent news being the two sides are at an impasse. Second, the decline in new registrations as a result of COVID-19 was more pronounced in the EU (at -78%) than in other markets. For example the reduction in new registrations has been just -48% in the US and -43% in China with early indications that both markets are picking up through the summer months.

Top 10 export markets for Midlands Engine automotive manufacturing in Q1 2020 (after EU)

1.	United States
2.	Switzerland
3.	Japan
4.	Norway
5.	Ukraine
6.	Russia
7.	China
8.	Iceland
9.	Zimbabwe
10.	UAE

Source: HMRC, SITC by Midlands Engine port, Hatch Analysis

COVID-19 Impact on Exports

Power and generating-related manufacturing: COVID-19 has driven an increase in Midlands Engine's power and generation-related manufacturing exports of 4.4%

- In Q1 2020, Midlands Engine exports of power and generating-related products was £2.6bn.
- One of the unexpected by-products of COVID-19 has been the sharp increase in demand for standby diesel and renewable power generators globally. This specifically has driven increased demand for power and generator-related products manufactured in the Midlands Engine in Q1 2020.
- Tens of thousands of standby-generators have been purchased to power new temporary healthcare facilities, temporary housing to enable social distancing and to provide ancillary power to residential blocks where people are working at home.
- Many of the top ten importing countries in Q1 2020 built extensive temporary facilities in response to COVID-19. In some cases (Norway) the exports were linked to ongoing contracts for major renewable power components.

Top 10 export markets for Midlands Engine power and generation-related manufacturing in Q1 2020 (after EU)

1.	Singapore
2.	Hong Kong
3.	Qatar
4.	Norway
5.	Turkey
6.	Israel
7.	China
8.	United States
9.	Japan
10.	UAE

Source: Society for Motor
Manufacturers and Traders.
Hatch Analysis

Industrial Machinery: There has been a significant fall in machinery exports, across all categories, and it will take time for exports to recover

- In Q1 2020, despite the fall in export volumes, industrial machinery as a group exported £2.7bn.
- Five of the top ten export product groups are forms of machinery (General Industrial, Particular Industry, Electrical and Miscellaneous) or the metalwork to support the manufacturing of machinery. Collectively they represent 21% of all exports and declined 10% between Q1 2020 and Q1 2019.
- The machinery manufactured in the Midlands Engine will serve every industry, from consumer goods to high tech companies around the world. However, almost every business that purchased Midlands Engine machinery will have seen a drop in demand for products as a result of COVID-19.
- As B2B players, machinery companies will not recover until global customers see an uptick in business within their end markets.
- During the 2008 financial crisis investment in machinery by global companies declined in step with GVA. However during the recovery phase, investment in machinery lagged behind GVA recovery by nine to 12 months across all industries.
- This would suggest that the decline in machinery exports may continue for several quarters until firms globally become confident enough to make significant capital investments.

Top 10 export markets for Midlands Engine automotive manufacturing in Q1 2020 (after EU)

1.	United States
2.	Norway
3.	Hong Kong
4.	Singapore
5.	China
6.	Russia
7.	Switzerland
8.	Australia
9.	Philippines
10.	Canada

Source: HMRC, SITC
by Midlands Engine port,
Hatch Analysis

COVID-19 Impact on Service Exports

COVID-19 impact on the export of services is not yet known

- It is not possible to assess the impact of COVID-19 on the export of services for the Midlands Engine as data is only available at the national level for 2019.
- At a national level the UK exported £327bn of services in 2019. However, over half of the services exported were from London with the Midlands Engine estimated at 16% of all service exports. (ONS 2017 data).
- Early evidence suggests that there has been between a 30-40% drop in the export of business services globally (OECD) as businesses cut non-core spending and focus on the reduction in costs.
- The increase in restructuring work and insolvency support for domestic firms has allowed many professional services firms to redeploy staff who were previously working on international work. Major law firms have seen international deal-making and cross-border infrastructure project work dry up. The advertising and branding sectors have seen “no business coming in at all” whether from domestic or international clients.
- The financial services sector has experienced a large upswing during COVID-19 with banks estimated to have earned significant fees raising corporate debt as companies shore up balance sheets and much of this work has been cross-border.
- Travel and transport services have been severely impacted with several UK based businesses seeking administrative orders as international demand falls.

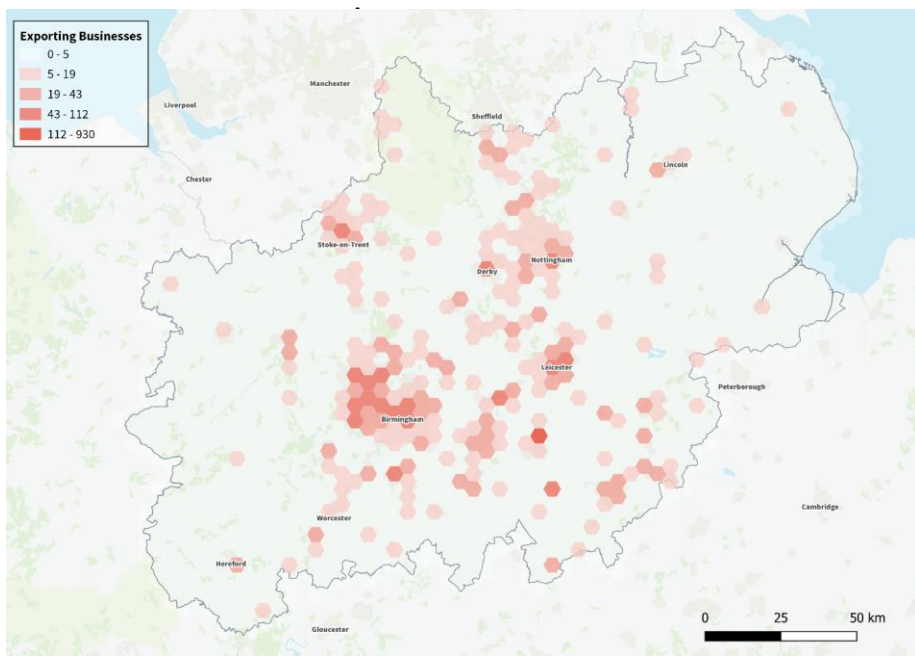
Top 5 service exports for UK nationally in 2019

Rank	Type of service	£ billion	% of total services exports
1	Other business services	113.0	34.5%
2	Financial services	63.3	19.3%
3	Travel services	39.5	12.1%
4	Transport services	31.2	9.5%
5	Telecommunication, computer and information	23.4	7.1%
Total services exports		327.8	100.0%

Source: ONS Balance of Payments, 20 July 2020 Release, Hatch Analysis.

- The majority of Midlands Engine exporters are based in city conurbations with major facilities in Rugby and Daventry.
- It would be possible to identify exporters by major product grouping to determine if there are clusters of export products (like machinery) that may take a longer time to recover in order to provide targeted support to both the main manufacturers and the supply chains.

Map of Midlands Engine



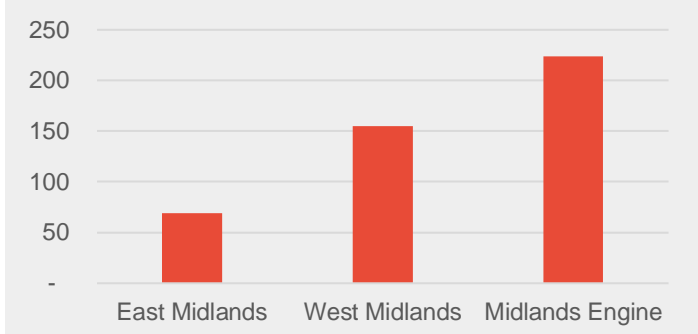
Source: HMRC (2018), Hatch Analysis

COVID-19 Impact on Foreign Direct Investment

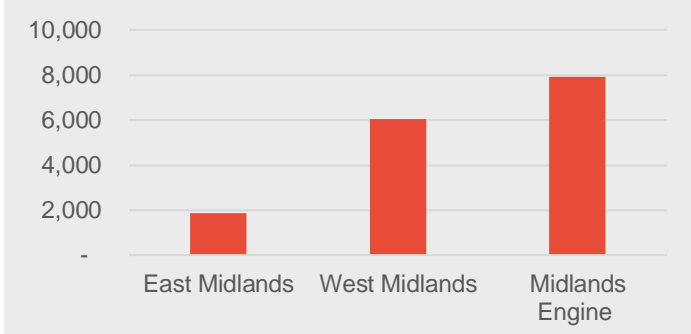
Midlands Engine has a strong track record in attracting Foreign Direct Investment

- The Midlands Engine has attracted a notable volume of Foreign Direct Investment, equivalent to 13% of the UK's total FDI. This reflects both the range of high-quality firms and projects that are investment-ready as well as the agencies like the Midlands Engine that has played a pivotal role in attracting investors.
- In 2019 there were over 200 FDI projects delivered across the Midlands Engine, many of which are still underway. Notable investment projects included Indian IT company choosing Birmingham as its European HQ. Additionally, the region's hosting of major global events like the 2022 Birmingham Commonwealth Games and Coventry City of Culture 2021 will help to sign-post the region to international investors which provides a competitive edge in a post-COVID-19 world.
- The only regions that secured more FDI were London and the South East.

FDI Projects (2018/19)



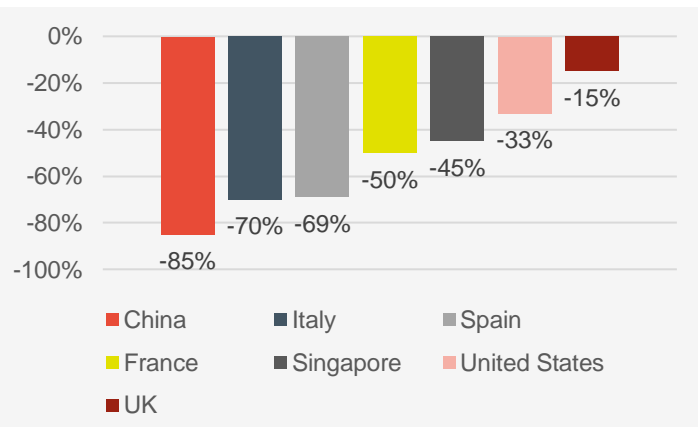
Jobs Supported by FDI Projects (2018/19)



Source: HMRC (2018) Regional Trade in Goods Statistics dis-aggregated by smaller geographical areas

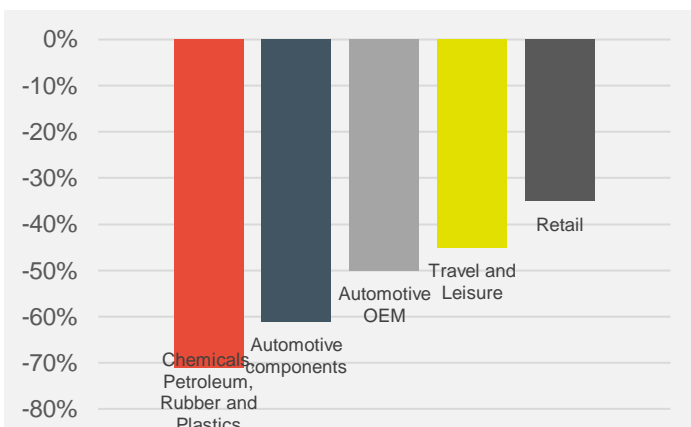
UK FDI rate is holding up well relative to other countries

Year on year decrease in FDI, Q1 2020



Source: Bureau van Dijk, pulled 18 August 2020

Industries showing greatest decline in UK FDI, Q1 2020



Source: Bureau van Dijk, pulled 18 August 2020

- Early data is showing that in the UK Greenfield FDI (new projects that are often real-estate or infrastructure-related) are down 48% on the year. Cross-border announced and completed M&A deals are down 34% and venture capital inward investment is only down 7%.
- With that said, there are several industry categories that foreign investors (whether through greenfield, M&A or VC) are not investing in the UK since COVID-19; it should be noted that several of these are industries integral to the Midlands Engine.

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