MIDLANDS ENGINE

OBSERVATORY

MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

EDITION 34: FEBRUARY 2023

Executive Summary

Recent indicators suggest **some positive shifts in local and national economies** – particularly with **inflation falling and business confidence stabilising or rising.**

- The Consumer Prices Index (CPI) rose by 10.1% in the 12 months to January 2023, down from 10.5% in December
- The East Midlands Business Activity Index increased from 45.4 in December 2022 to 47.3 in January 2023; while the West Midlands increased from 48.9 in December 2022 to 49.0 in January 2023.
- Both Midlands regions also saw substantial increases in the Future Business Activity Index, reflecting more robust business confidence reported in other surveys: for example the Lloyds Business Barometer showed a surge in West Midlands business confidence (by 30 points to 48%) and a recovery to growth in the East Midlands.

Increased confidence and the **need to shift the narrative from challenge to opportunity in 2023** is a key message throughout this month's Midlands Engine Regional Economic Monitor, the February 2023 edition. This reflects that, while stark challenges remain in the current business environment – high energy costs, industrial action, labour and skills shortages, material costs and supply, and investment pressures – elements of confidence and success do exist within the region, spearheaded by businesses of all shapes and sizes.

However, the **immense pressure still faced by businesses, particularly from soaring energy costs, supply chain disruption and ongoing recruitment challenges, continues to have adverse consequences across the region**:

- The number of business deaths in the Midlands Engine were at an all time high in 2022 at 51,330. Deaths are now above births on an annual and quarterly basis, and a rise in Q4 2022 suggests they might go up again in the coming months after decreases in Q2 and Q3 2022.
- Examples from Midlands businesses state that they are actively delaying investments to protect cashflow.
- A recent BDO survey of Midlands businesses showed that 51% of respondents view supply chain disruption, such as delayed materials and a lack of supplies, as the biggest challenge over the next six months.

Some sectors and individual businesses are being hit harder than others, **and there is also likely to be spatial differences across Midlands places.** This is highlighted in several parts of this month's monitor, including the review of Centre for Cities' Cities Outlook, analysis of the quarterly GDP release, the specific Business Intelligence by Sector page, and inclusion of CITB's construction labour demand forecasts.

The latest labour market statistics show a continued trend of gradual improvement, with employment edging up and economic inactivity edging down (albeit claimants continuing to rise). There are further signs that demand is starting to weaken, with vacancies falling, redundancies edging up and short-term unemployment rising. This points to some of the tightness in the labour market starting to ease but as a worst case this could be the early signs of a wider slowdown in the labour market.

- The latest job postings data shows that the number of postings across the Midlands dropped 25.6% over the last six months to just over 1.2 million. Despite employer demand narrowing, those seeking work - wanting a job , currently remains heightened.
- There were 267,440 claimants aged 16 years and over in the Midlands Engine area in January, an increase of 2,080 (+0.8%, UK +0.5%) claimants since the previous month. Youth claimants also increased, by 350 (+0.7%, UK + 0.2%).
- An assessment of over 50's by University of Birmingham (WM-REDI) in the labour market is also summarised.

A range of other data and intelligence related to the Midlands Engine is also presented throughout the monitor, highlighting challenges and opportunities for the region to tackle and capitalise on. For example:

- Quarter on quarter analysis to Q2 2022 shows that overall Gross Domestic Product (GDP) contracted by 0.3% in the West Midlands region and contracted by 1.1% in the East Midlands region, while England was flat at 0.0%.
- Census 2021 data on qualifications re-affirms challenges across and within the Midlands, including the East Midlands having the lowest concentration of workers with higher education qualifications, and the West Midlands with the highest proportion of workers who have no formal qualifications.
- The continued impact of Brexit on Midlands businesses: for example, a West Midlands study has found that approximately two in five (43%) businesses reported that importing goods from the EU was more difficult as a result of Brexit, with one in five (23%) reporting significant difficulty.
- More positively, deal activity in the Midlands returned its strongest year to date in 2022, according to a report from Experian Market IQ. The company's latest M&A Review said there were 1,068 transactions in the region, up by 2.3% year-on-year and a total value of £26.8bn, up by 22.6%.

A year on the Levelling Up White Paper, all of the above and more (whether positive or negative) will be important considerations to ensure inclusive economic growth and levelling-up is a success for the Midlands Engine.

1. Economic Outlook

Global and National Outlook

Global

Turkish-Syrian Earthquake

Tens of thousands of people have been killed and more have been injured by a huge earthquake which struck Turkey near the Syrian border. **The first quake was registered as 7.8 in magnitude, classing it as a "major" earthquake, quickly followed by a second quake measuring 7.5 in magnitude.** The movement of the 62-mile-long tectonic plate fault line has caused significant infrastructure damage. Civil war-torn Syria has seen significant damage and has struggled to receive aid, as a large proportion of the damage is in rebel-held areas where aid agencies have little access.

Tensions between Superpowers

There have been escalating tensions between the world's two largest economies. The rise in tensions comes following the US discovering a Chinese balloon which had travelled into US air space. The US claims that the balloon was potentially being used for spying; however, China stated that the balloon was simply a weather balloon which had been blown of course. Eventually, the US shot down the balloon alongside a number of other unidentified flying objects over American airspace as a precaution. **Despite this and the on-going trade war between the two since 2018, trade between the two hit a record high last year. This shows that despite the on-going trade war between the two nations they are also highly reliant upon each other**. However, the trade measures against China, China's 'zero policy' on Covid and now the further escalation of tensions is leading to many US manufacturers shifting production outside of China.

National

Scotland First Minister Resignation

Nicola Sturgeon has confirmed she is resigning as Scotland's First Minister. Sturgeon stated that the pressures of the job had taken its toll, especially during the Covid-19 pandemic. The First Minister stated that she did not think leaders should remain in power for too long and after 8 years of leading the SNP it was time to stand down.

Interest Rates

On the 2nd February the Bank of England (BoE) **raised interest rates by 0.5% to 4%. The BoE raised interest rates in an effort to cool the economy and reduce demand, in an effort to slow rising prices**. Alongside the rise in interest rates the BoE announced that inflation has likely peaked and will rapidly reduce in the coming months to around 4% later in the year. The BoE warns that inflation may increase again towards the end of the year if gas prices were to soar again.

Council tax rises

Research from the County Council Network has found that 84 councils out of 114 who have published their 2023/24 budget proposals so far plan to raise council tax by the maximum permitted (+4.99%). **The increase in council tax will mean the average band D household will see their bills rise by £99, though this will vary across the country.** With inflation at 10.5%, many councils are facing multi-million-pound funding gaps, which have built up under this period of high inflation and which they need to close to balance their budgets.

Ford layoffs

The car manufacturer, Ford, has announced plans to cut 1,300 jobs in the UK over the next two years. This is a fifth of its total UK workforce. It is part of a major restructuring programme which will see Ford cut 3,800 jobs overall across Europe. **The car manufacturer is cutting back on development staff as it faces an uncertain economic future and prepares for the transition to electric vehicles.** Most of the cuts in the UK will be at its research site in Dunton, Essex. **Ford is partially reshoring jobs back to the US as President Biden introduces the Inflation Reduction Act, offering $370bn worth of subsidies for companies to set up greener production and supply chains in the US.**

Consumer Price Inflation

The main findings from the latest ONS release of the Consumer Price Inflation were:

- **The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 8.8% in the 12 months to January 2023, down from 9.2% in December 2022.** The largest upward contributions to the annual CPIH inflation rate came from housing and household services.
- On a monthly basis, the CPIH **fell by 0.4%** in January 2023.
- The Consumer Prices Index (CPI) **rose by 10.1%** in the 12 months to January 2023, down from 10.5% in December 2022.
- On a monthly basis, CPI **fell by 0.6%** in January 2023, compared with a fall of 0.1% in January 2022.
- The largest downward contribution to the change in both the CPIH and CPI annual inflation rates between December 2022 and January 2023 came from transport, and restaurants and hotels.
- Core CPIH (excluding energy, food, alcohol and tobacco) **fell to 5.3%** in the 12 months to January 2023 from 5.8% in December 2022, the annual CPIH goods index **eased slightly from 13.4% to 13.3%** over the same period, while the annual CPIH services index **fell from 5.8% to 5.2%.**

Source: City-REDI University of Birmingham

The Centre for Cities Outlook 2023 provides insights into the latest economic data on the UK's cities and largest towns. This year the publication focuses on the scale and geography of economic inactivity across the country.

A Lost Year of Levelling Up

Levelling Up has never been about tackling short-term issues; the agenda is attempting to address deep-rooted challenges. However, the past 12 months have been dominated by short-term problems such as the cost of living crisis, NHS backlogs, worker shortages and strikes, all compounded by political turmoil. And this is before the impact of the predicted recession in 2023 is felt.

Now, **a year since the publication of the Levelling Up White Paper, very little has happened**. Since then, there have been more fiscal constraints since its publishing with much more focus being placed on the Levelling Up Fund and how inflation saw this modest pot shrink further. In terms of the current parliament, the government should focus on:

- **Expanding and deepening devolution**.
- Getting royal assent for a Levelling Up and **Regeneration Bill** that is fit for purpose.
- **Setting out a programme for delivering the White Paper spending commitments** in areas such as research and development.

Whilst the significance of Levelling Up in the next parliament may well depend on what Labour decides to do with Gordon Brown's report on the Commission of the UK's future. The Core argument of the Brown report, and is shared by the Levelling Up White Paper, is that national economic stagnation, high regional inequality and the centralisation of the British state are all connected – recommending greater devolution. Their policies should include:

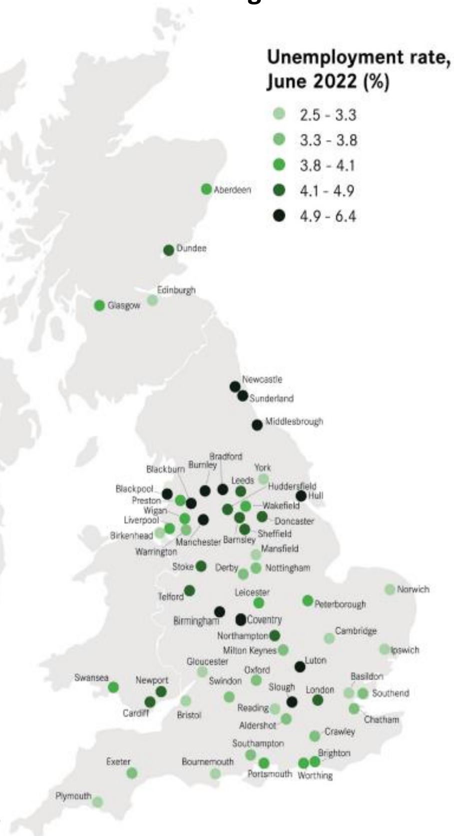
- **A 10-year, £14.5bn package to pull up Birmingham, Glasgow and Manchester in particular.**
- **Transport for London-style powers** for all large cities.
- An **increase in national skills funding from 5% to 7% of GDP**, as in the case of Sweden.

The UK's Army of Hidden Unemployed People

Official unemployment figures mask substantial numbers of hidden workers in cities and large towns, particularly in the North of England, underscoring the need to set out levelling up policies to tackle the struggles of places outside of the Greater South East.

The UK jobs market appeared buoyant in 2022 with unemployment at record lows, with only **3.7% (1.2m)** of the working-age population classed as unemployed by October. **This is not only lower than pre-pandemic levels, but the lowest rate in Britain since the early 1970s.**

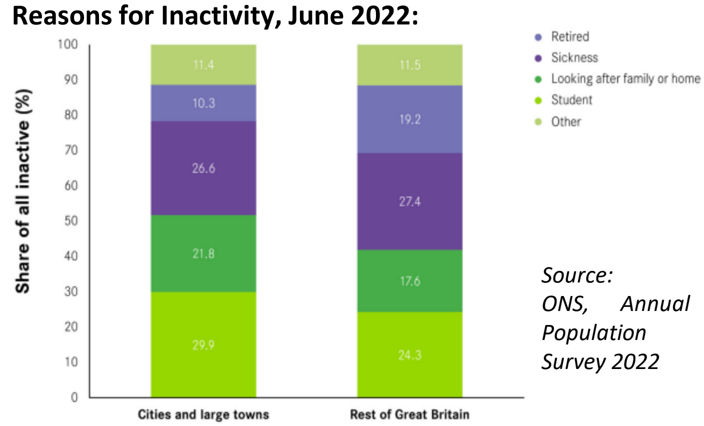
Regional unemployment in cities and large towns:



Source: ONS, Annual Population Survey 2022

There is a geography to unemployment – cities and towns in the North or the Midlands had higher unemployment rates than those in the Greater South East. **However, in places which fared the worst like Birmingham and Middlesborough, unemployment was around 6% which is very low in the context of the last four decades**.

Reasons for Inactivity, June 2022:



Source: ONS, Annual Population Survey 2022

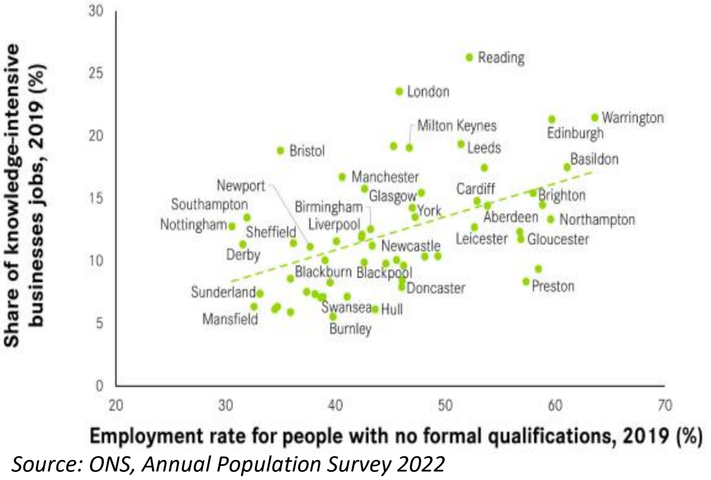
The cause of such low unemployment was not a booming jobs market – but people classed as 'inactive' as they were withdrawing from the jobs market despite increases in vacancies. **Nationally, there are 3.5m people who are involuntary inactive – almost three times the number who are unemployed**. **Nearly two million live in cities**, about **60%** in total – including Mansfield in the Midlands (**12.7%**), ranked **6** for highest involuntary inactive.

Adding those who are registered as unemployed and those who are involuntary inactive takes the national hidden unemployment rate from **3.7% to 12.1%, an increase from 1.2m to 4.7m people**; nearly the population of Manchester and Birmingham combined. **Likewise, this also reveals a large North-South divide than unemployment figures suggest, with 9 out of 10 places with the highest hidden unemployment rate in the North**, showcasing a legacy of its industrial past.

Recent trends in inactivity rates have created new problems in some Southern cities whilst compounding existing ones in the North. Between December 2019 and October 2022, **the total number of people in the jobs market shrunk by 370,000** despite low unemployment and worker shortages – largely attributed to the Covid-19 pandemic. This moved the inactivity rate from **20.2%** of the working-age population to a six-year high of **21.7%,** making the UK a clear international outlier. Reasons for this could include **students delaying entry into higher education or early retirement** with national data for October 2022 suggesting that **these two reasons combined explain, at most, a third of the overall increase**. However, this is not true for all places like Derby where rates decreased.

Other reasons included poor health **(28% of inactive individuals, or about 2.5m people)** and low skills levels **(about half of people with no qualifications are economically inactive, against 11% of those with Level 4 and above)** led to higher levels of hidden unemployment. Issues which are more disproportionate in the North.

Employment rate for low-skilled people and strength of the economy:



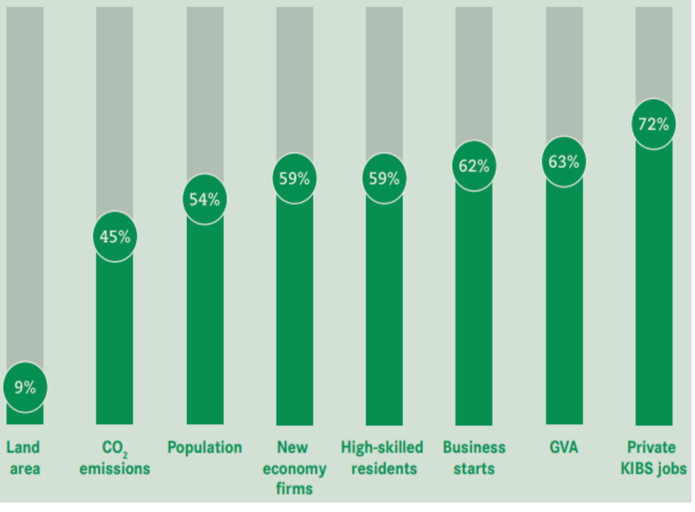
Source: ONS, Annual Population Survey 2022

However, skills and health are only part of the equation. **Employment rates are also determined by the strength of a local economy**, with low-skilled people still being more likely to be employed within economically stronger cities (with a high share of knowledge-intensive jobs). In addition, weaker economies also suffer from lower job postings and higher job shortages.

City Monitor

Overall, there is a considerable variation in the economic performance of cities and towns across the UK.

Cities as a share of the National total:



Cities account for only **9% of land, but 63% of output and 72% of knowledge in the private sector**.

Productivity – there is a clear split in productivity across the country, with all ten cities with higher-than-average national productivity being in the South**. Average GVA per hour in Great Britain was £33.60**, whilst this was **£44.10** in the Greater South East in 2020 – the only region with above average productivity. This was led by cities where the average GVA per hour was 30% higher than non-urban areas in the region.

Private Sector Jobs Growth – in 2021, **59% of all private sector jobs were located in cities**. Between 2020 and 2021, 25 cities saw increases larger than the British average including Northampton **(6.5%)** in fourth place followed by Telford **(4.4%)** in tenth place in the Midlands.

Innovation – the 'new economy' encompasses emerging knowledge-intensive sectors like FinTech and advanced manufacturing – with the new economy mostly clustering in cities. However, their distribution is uneven with **48% of these firms being located in the Greater South East**, and 7 of the top 10 cities also being located there.

Wages – the average weekly wage in cities was £661 in 2022 – higher than the UK average of £621 – as a result of strong performance in a small number of cities.

Employment & Skills - Birmingham made it to the sixth place with the lowest employment rate in 2022 at **69%**, lower than the UK average of **75.4%**. Mansfield **(11.7%)**, Leicester **(10.6%)** and Birmingham **(10%)** were also amongst the highest percentage cities of people with no formal qualifications.

Source: Centre for Cities, 2023

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• While stark challenges remain in the current business environment – **high energy costs, industrial action, labour and skills shortages, material costs and supply, and investment pressures** – elements of confidence and success do exist. • This has been highlighted in recent barometers such as NatWest's Purchasing Managers Index – reporting a **slowing of the economic downturn across the East Midlands and West Midlands** – as well as Lloyds Bank's Business Barometer, which showed **business confidence across the UK at a six-month high in January and a further high in February across some regions.** • According to latest Lloyds' Barometer, **business confidence in the West Midlands surged during February, by 30 points to 48% - making it the most positive of all UK regions.** The January edition of the Barometer reported WM businesses' top target areas for growth in the next six months as **evolving their product and service offering (45%) and diversifying into new markets (35%)** - The latest Barometer said **confidence in the East Midlands rose by eight points to 18% in February**. The January edition reported that EM businesses' identified their top target areas for growth in the next six months as **diversifying into new markets (33%) and evolving their product and service offering (31%) and investing in their team (29%).** • Furthermore, **deal activity in the Midlands returned its strongest year to date in 2022, according to a report from Experian Market IQ.** The company's latest M&A Review said there were **1,068 transactions in the region, up by 2.3% year-on-year and a total value of £26.8bn, up by 22.6%.** The Midlands was the UK's busiest region for dealmaking outside of London and the South East, with an involvement in 12 per cent of total value and 15 per cent of the total volume of all UK deals. • A clear message coming from the Midlands business community is **shifting the narrative from challenge to opportunity this year.**
Cost of Living / Doing Business	• However, local businesses are still facing huge pressures, particularly from **soaring energy costs, supply chain disruption and ongoing recruitment challenges.** Growth Hubs and other business support organisations are having repeated conversations with businesses facing increases in energy costs; with further examples of businesses experiences **sixfold increases in energy bills.** • Where possible, these additional costs are being passed on or absorbed, but this is not always possible if businesses are going to remain competitive and viable. The worst impact of this is company closures, and **corporate insolvencies are continuing to hit a year-on-year high, with a perfect storm of economic turmoil and increasing numbers of creditors pursuing debts pressurising company directors into closing their businesses voluntarily.** - **Analysis by law firm Shakespeare Martineau** shows that the Midlands regions accounted for 14% of company administrations in 2022. 101 West Midlands firms and 76 East Midlands firms filed for administration last year, with construction, manufacturing and retail the worst hit. • Less severe but still important is the **impact of rising costs on cashflow and investment.** Examples from Midlands businesses state that they are **actively delaying investments to protect cashflow, and** also some experiencing a slowdown in demand / orders which stems from a general customer nervousness to commit to purchases, or even to plan future demand. • There is a common sentiment that **Midlands businesses have been very resilient** throughout the current costs' crisis, but while inflation looks to be coming down, **the issue is far from over**.
Levelling Up	• February marked a year since the Government's flagship Levelling Up White Paper. • While the document and its ambition were widely lauded, analysis a year on – from Centre for Cities and the Institute for Government among others - has **largely focused on there being much more to be done in terms of funding, policy and devolution delivery.** • Suggestions on action to truly deliver levelling up policy from these organisations (and others such as Onward and academia), include **expanding and deepening devolution, tackling crime and support high streets; and above all raising the amount of investment committed to levelling up, and distributing this within a much more coherent strategic way.** • The upcoming **Spring statement may provide an opportunity to deepen the governments commitment to Levelling Up**; supporting places across the Midlands to greater prosperity. • Despite welcome ambition and some funding announcements, current evidence suggests there has been **little progress on levelling-up since its inception**, but it's a clear opportunity for the Midlands Engine geography – including as highlighted in Lambert Smith Hampton's latest "Opportunity Index", in which **4 of the top 10 towns / cities for future opportunities relating to levelling-up are in the Midlands (Nuneaton, Telford, Lincoln and Wolverhampton).**

2. Economic and Labour Market Impacts

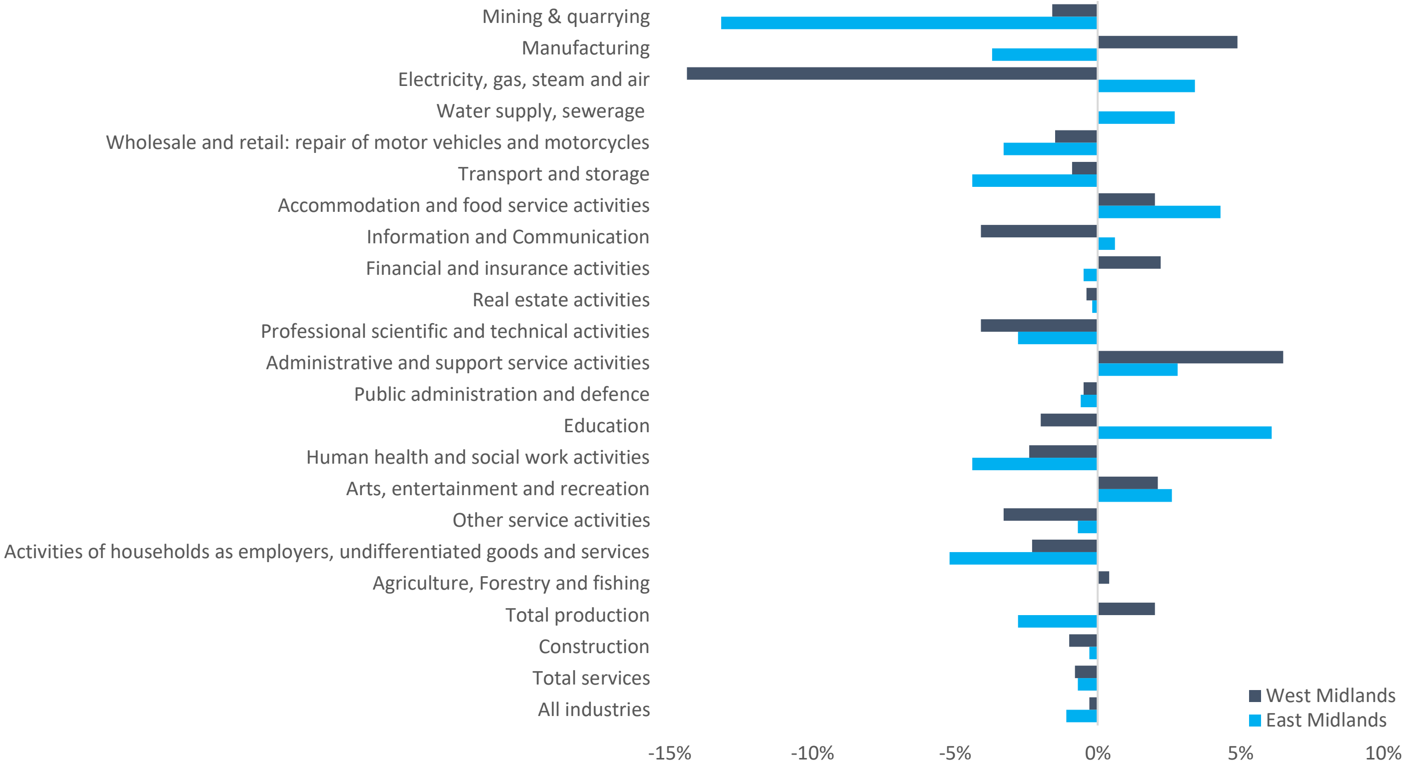
Quarterly Regional Gross Domestic Product

Quarter on quarter analysis shows that **overall Gross Domestic Product (GDP) contracted by 0.3% in the West Midlands region and contracted by 1.1% in the East Midlands region**, while England was flat at 0.0% in Q2 2022. There was a mixed picture across the English regions, where 3 experienced growth (London, East of England and the Yorkshire & The Humber), 1 was flat (North West) and 5 regions contracted.

The latest quarter on quarter GDP percentage change shows for **the West Midlands region that the overall services sector and construction sector along with 12 industries contracted** in Q2 2022. While 1 industry (water supply, sewerage) was flat at 0% and the overall agriculture, forestry and fishing sector**, total production sector and 5 industries recorded growth** in GDP.

The latest quarter on quarter GDP percentage change shows for the **East Midlands region that the overall services, construction and production sectors and 11 industries contracted** in Q2 2022. While the agriculture, forestry & fishing sector was flat at 0.0% and **7 industries recorded growth in GDP.**

The following chart shows quarter on quarter GDP percentage change for industries and overall sectors in the West Midlands region and East Midlands region in Q2 2022:



Quarter on same quarter a year earlier analysis shows GDP growth of 0.7% in the West Midlands and growth of 0.3% in the East Midlands in Q2 2022, both below the England-wide growth of 4.0%. All regions had growth in Quarter 2 2022 when compared with the same quarter in 2021. Although, growth rates varied from 9.5% in London down to 0.3% in the East Midlands.

When looking at **GDP percentage change quarter on the same quarter from the previous year** in Q2 2022 for the **West Midlands, overall GDP for 3 sectors increased**, with the construction sector having the highest rise at 14.8%. Within all the sectors, **7 industries increased in GDP**, with accommodation & food services activities having the highest rise by 22.5%. In contrast, **the overall production sector decreased by 6.9% and 11 industries decreased**, with the highest fall in GDP in electricity, gas, steam & air by 21.2%.

For the **East Midlands, out of the four sectors, only the services sector increased in GDP**, which was by 2.1%. While within all the sectors, **10 industries increased in GDP**, with accommodation & food services activities having the highest rise by 33.5%. In contrast, the **agriculture, forestry & fishing sector decreased by 1.2%, production sector decreased by 2.9% and the construction sector decreased by 8.5%**. **Across all industries, 8 decreased**, with the highest fall in GDP in activities of households as employers, undifferentiated goods & services by 13.1%.

ONS: [GDP, UK regions and Countries: April to June 2022]() – released February 2023. Please note, these estimates are designated as experimental statistics while they are still in development, and should be interpreted with some caution.

Business Activity

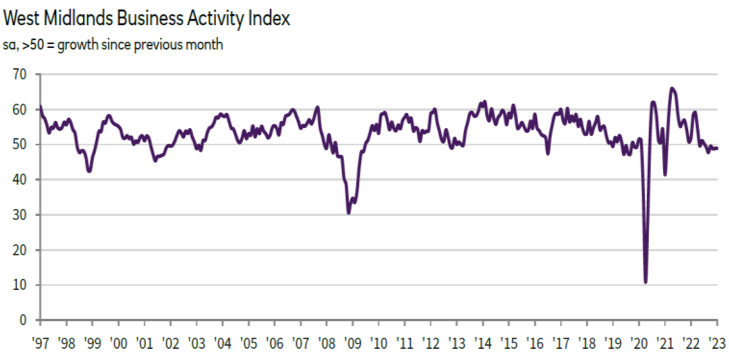
Business Activity Index

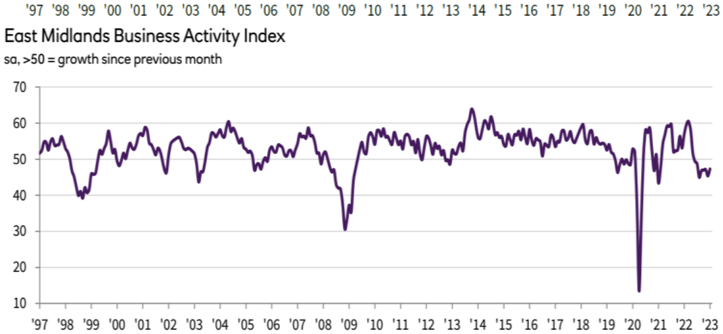
The **West Midlands Business Activity Index slightly rose from 48.9 in December 2022 to 49.0 in January 2023** – although, remaining below the 50-growth mark for the sixth month. Some firms lowered output due to reduced new business, while others reported growth with tentative signs of an improvement in demand.

The **East Midlands Business Activity Index increased from 45.4 in December 2022 to 47.3 in January 2023**, although the index remains below the 50-growth mark for the eighth month. Firms indicated that weak client demand and reduced customer spending along with strong inflationary pressures was behind the decline in activity.

The UK Business Activity Index decreased from 49.0 in December 2022 to 48.5 in January 2023.

Business Activity Index trends:





Source: NatWest West Midlands & East Midlands PMI, February 2023

Of the 12 UK regions, the West Midlands and the East Midlands were third highest and sixth lowest respectively for business activity in January 2023.

Demand

The **West Midlands New Business Index increased from 46.9 in December 2022 to 49.8 in January 2023,** remaining below the 50-growth mark for eight months. **The East Midlands New Business Index increased from 42.6 in December 2022 to 46.2 in January 2023,** remaining below the 50-growth mark for the ninth month. Firms across both regions reported lower client demand due to economic uncertainty along with reduced customer spending and strong inflation. Although, firms in the West Midlands indicated that marketing efforts and new contract wins had supported some sales.

Exports

The **West Midlands Export Climate Index increased from 48.2 in December 2022 to 49.7 in January 2023.** Figures remain below the 50-growth mark for the sixth successive month. The **East Midlands Export Climate Index increased from 48.6 in December 2022 to 50.2 in January 2023**, ending five months of decline.

Business Capacity

The **West Midlands Employment Index increased from 50.8 in December 2022 to 52.2 in January 2023.** The East Midlands Employment Index increased from 48.8 in December 2022 to 50.4 in January 2023.

The **West Midlands Outstanding Business Index increased from 46.0 in December 2022 to 46.6 in January 2023**. The **East Midlands Outstanding Business Index increased from 42.6 in December 2022 to 47.3 in January 2023**.

Prices

The **West Midlands Input Prices Index decreased from 72.0 in December 2022 to 70.8 in January 2023.** The **East Midlands Input Prices Index decreased from 74.8 in December 2022 to 73.7 in January 2023**. The latest figures still show sharp input costs (i.e. food, labour, fuel, materials) but the rate of inflation had eased.

The **West Midlands Prices Charged Index decreased from 65.2 in December 2022 to 62.9 in January 2023.** The **East Midlands Prices Charged Index decreased from 63.4 in December 2022 to 62.3 in January 2023.**

Outlook

The **West Midlands Future Business Activity Index increased from 65.3 in December 2022 to 76.5 in January 2023**. The greatest increase in confidence and also the strongest overall optimism across all regions in January 2023. Optimism in firms for the upcoming 12 months was linked to marketing efforts, investment, new product launches, contained inflation and an improvement in demand supporting business activity.

The **East Midlands Future Activity Index increased from 59.8 in December 2022 to 64.8 in January 2023**, which is the highest level seen since May 2022. East Midlands firms were optimistic for the next 12 months due to planned investment and hopes of new customers and stronger client demand.

Out of the 12 UK regions, the West Midlands and the East Midlands were the highest and fourth lowest respectively for the Future Business Activity Index in February 2023.

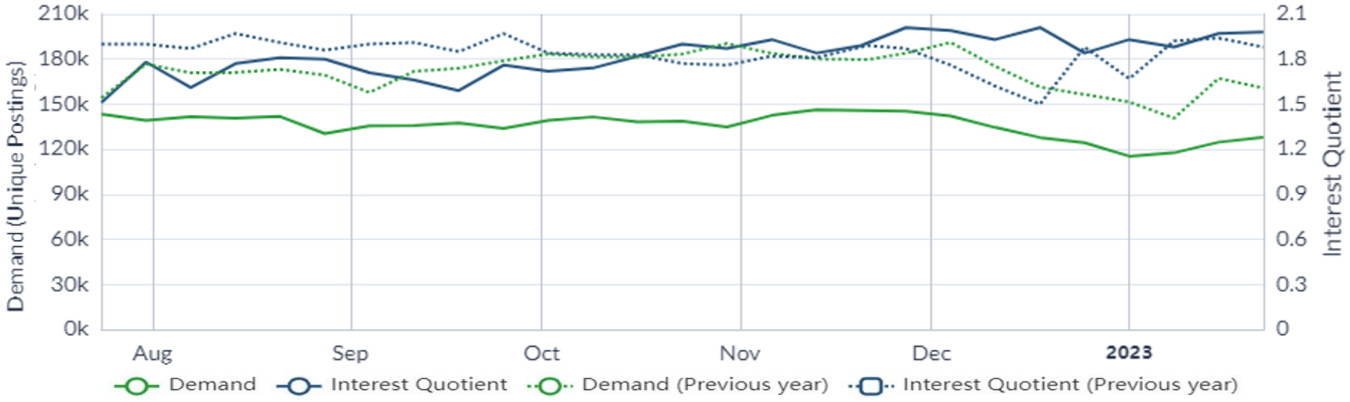
Source: NatWest UK regional PMI report for January 2023, released February 2023. Located on the Midlands Engine Hub is an [Interactive Regional Business Activity Dashboard]()

Labour Market and Job Postings

The latest labour market statistics show a continued trend of gradual improvement, with employment edging up and economic inactivity edging down. There are further signs that demand is starting to weaken, with vacancies falling, redundancies edging up and short-term unemployment rising. This points to some of the tightness in the labour market starting to ease but as a worst case this could be the early signs of a wider slowdown in the labour market.

The latest job postings data shows that the **number of postings across the Midlands dropped 25.6% over the last six months to just over 1.2 million**. Despite employer demand narrowing, those seeking work - wanting a job , currently remains heightened.

Overall Demand and Interest for the Midlands:



Nevertheless, **advertised median salary across the Midlands has increased by 7.7%** year-on-year to £28,500; 5.1% below the national median advertised salary of £30,000.

Salary Trends for the Midlands:

Sectors Hiring in the Midlands:

Job posting demand was greatest for roles in logistics & warehousing, engineering and IT.
These sectors accounted for 28% of all job postings in the last six months.

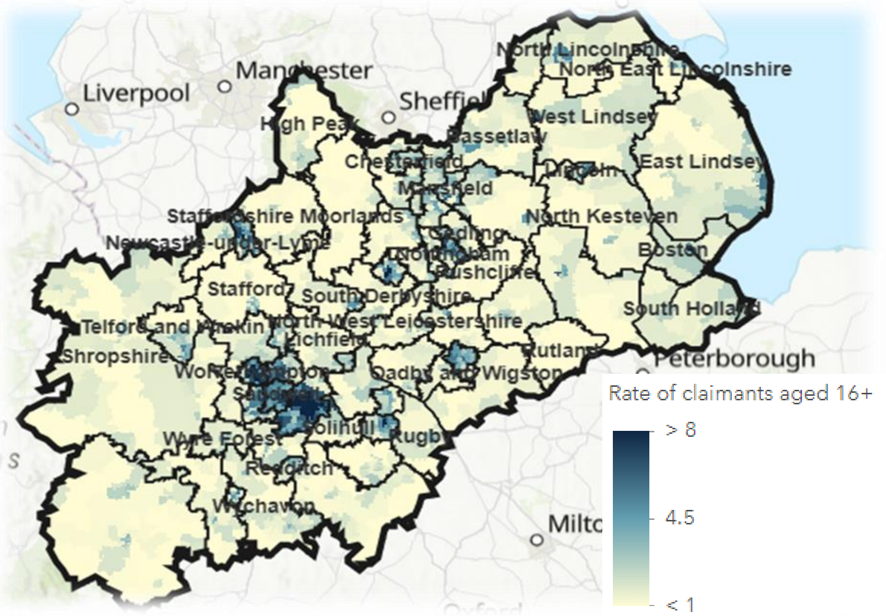
Source: Adzuna Limited Job Posting Intelligence, February 2023.
Please note, the Interest Quotient uses jobseeker data to quantify the level of interest in particular roles.

Labour Market Impacts: Claimants

There were **267,440 claimants aged 16 years and over** in the Midlands Engine area in January, an increase of 2,080 (+0.8%, UK +0.5%) claimants since the previous month. **There are 45,900 (+20.7%, UK +20.0%) more claimants when compared to March 2020**. East Lindsey and North East Lincolnshire had lower levels of claimants than March 2020 (-425, and -300 respectively).

The number of claimants as a percentage of residents aged 16 years was 3.2% in the Midlands Engine (UK 2.8%) in January 2023 – remaining slightly above the pre-pandemic levels of 2.7% (UK 2.4%) in March 2020.

Claimants as a Percentage of Residents Aged 16 Years and Over in January 2023:



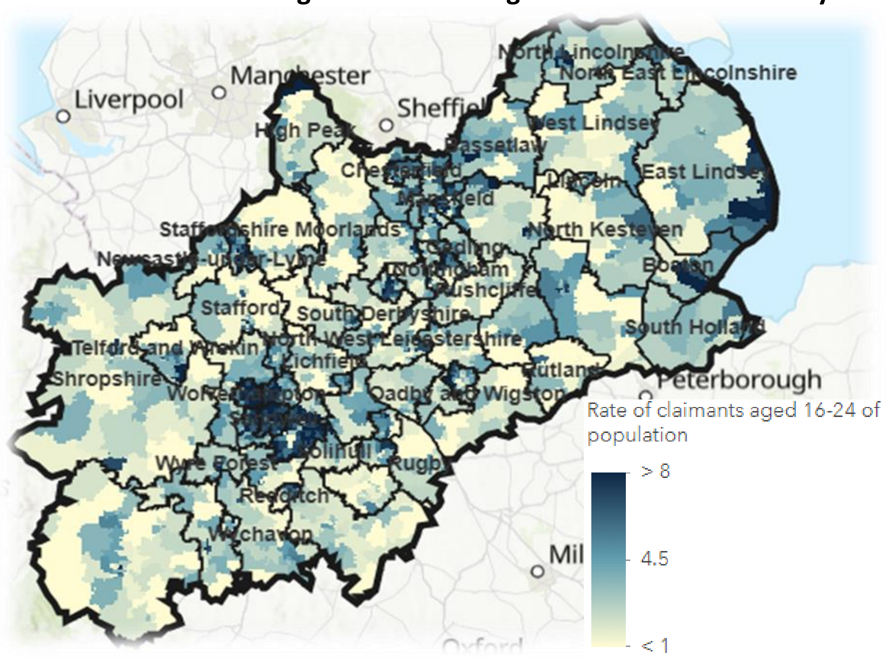
Out of the 1,511 wards within the Midlands Engine**, 439 were at or above the UK average** of 2.8% for the number of claimants as a percentage of the population aged 16 years and over in January 2023.

The wards with the highest number of claimants as a percentage of the population aged 16 years and over were based in Birmingham, with Lozells the highest at 14.2%. This was followed by Birchfield (13.8%) and Aston (13.7%).

There were **48,910 claimants aged 16-24 years old** in the Midlands Engine area in January 2023 – an increase of 350 youth claimants since December 2022. This equated to an increase of 0.7% for the Midlands Engine area (UK +0.2%). Since March 2020, **the number of youth claimants has increased by 4,715** (+10.7%, UK +8.2%). Notably, 14 local authorities were lower than and a further 4 were at the same level as March 2020.

The number of claimants as a percentage of residents aged between 16 and 24 years old was 4.3% in the Midlands Engine and 3.7% for the UK in January 2023.

Claimants as a Percentage of Residents Aged 16-24 Years in January 2023:



Out of the 1,511 wards within the Midlands Engine, **646 were at or above the UK proportion of 3.7%** for the number of claimants as a percentage of the population aged between 16-24 years old in January 2023.

The ward with the highest the number of claimants as a percentage of the population was Joiner's Square (Stoke-on-Trent) at 13.3%. This is by followed by East Park (Wolverhampton) and Stockland Green (Birmingham) both at 12.0%. In contrast, within the Midlands Engine there were **117 wards with no youth claimants in January 2023.**

Source: ONS/ Department for Work and Pensions, Febuary 2023.

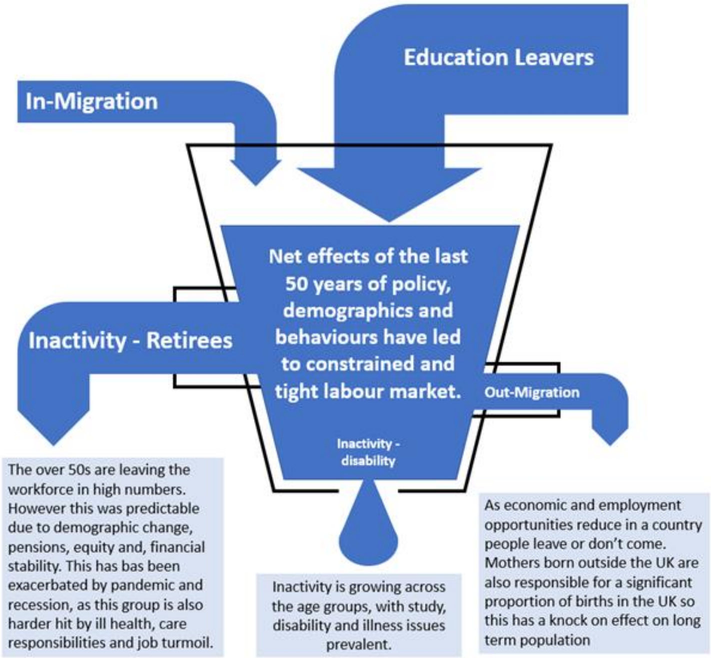
Located on the Midlands Engine Hub is an [Interactive Claimant Count Briefing]() containing further analysis, maps and a dashboard.

Why are the Over-50s Leaving the Workforce? – Labour Market Flows and Future Participation Flows

WMREDI have looked into some of the factors behind the over-50s leaving work and what this means for the UK Labour market. A recent blog can be found here.

The UK Labour Market

The following image demonstrates the complex impacts of policy, demographics, and behaviours on the labour market. It shows the pool of people we have available for work: the 'bucket'. The population of working age conventionally includes people aged 16-64 – now extended to 65 with the rise in the state pension age. This pool is made up of complex flows in and out which vary in size over time.



The largest inflow is (normally) young people coming out of school, college, and university. The largest outflow is retirees. These in and out-flows change the overall volume or depth of the labour market. Fewer young people coming in leads to fewer people filling less experienced roles; more older people going out leads to a deficit in experienced, productive workers, managers, and leaders. As the image above suggests, there are several broad issues impacting the pool of labour.

Births and death – the impact on the labour market

We are all aware of the boomer generation in popular culture. This generation was born between 1946 to 1964; **it is bookmarked by two huge birth spikes, 20 years apart,** as can be seen above. **These generation spikes have moved through the labour market as bulges in available labour.** The first of those peaks are now approaching their 80s and left the workplace in the early 2000s.

According to ONS, in 2000 the average age of exit for men was 63.3 years old, increasing to 65.2 years old in 2020.

Over the same time, in 2000 the average age of exit for women was 61.2 years old, increasing to 64.3 years old in 2020. In fact, 50+ employment rates have increased over time; however, they remain at low percentages for 65+.

For the working age population aged 50 to 64, the employment rate increased from 55.8% in 1984 to 72% in 2020. For those aged 65 and over, the employment rate increased from 4.9% in 1984 to 10.4% in 2020. **A feature of this group was fewer women working than today, so the employment effect of the group ageing was dampened.** The older spike age group is now contributing to the health and social care sector demand issues we are seeing. **They are the first generation to have been recipients of National Health Service care throughout their lives. This creates a cohort effect of the need for skilled carers to look after this generation and the following spike.** The second spike is now in their late 50s and early 60s. This makes them **disproportionately large** in the labour market, and they are naturally hitting retirement.

The over-50s leaving the workforce

When we see headlines about the number of the over-50s leaving the labour market, it should be recognised that **this was always going to happen** as it is a normal part of life. ONS numbers show that of those leaving the workforce, one-third are aged 55 to 59 years, and only 1 in 10 are aged 50 to 54 years. **The issue with this cohort is its high volume in the labour market relative to previous cohorts means it has a bigger impact**. Also, more women have worked than in previous cohorts, so the overall outflow is also higher. This has been compounded by post-pandemic illness and job fatigue in this cohort.

ONS has stated that of the people surveyed in August 2022, in the 50-54 cohort are more likely than other cohorts to leave due to stress and not feeling supported in their job, they are also more likely to have lost their job. Of all people leaving the labour market 3 in 10 are left to retire and half of this group is in aged between 60 and 65.

The impact of house prices

ONS work on why people are leaving the workforce has highlighted the majority (66%) owned their homes outright and have not returned to the labour market.

Leavers were more likely to be debt free (61%) compared with those who left their job and returned to work (42% debt free). The second cohort of baby boomers would have been buying their first houses just as the market started growing in, where the average price was £35k, by 2000 prices had doubled to £100k. People in the next cohort born in the 1970s would be looking to buy first houses at nearly double the cost of those 10 years older. Housing equity is also a considerable source of financial resilience and we have seen a shift.

Why are the Over-50s Leaving the Workforce? – Labour Market Flows and Future Participation Flows

Housing costs significantly affect financial resilience, which ONS highlights vary by age: those aged 50 to 54 years were significantly less likely to be debt free, excluding a mortgage (49%), compared with those aged 60 to 65 years (62%), and more likely to have credit card debt (39%, compared with 24%). **55% of those aged 60 to 65 years were confident or very confident that their retirement provisions would meet their needs, compared with 38% of those aged 50 to 54 years.** This suggests that the slightly younger group are more likely to return to work. However, adults aged 50 to 59 years were more likely to report mental health reasons (8%) and disability (8%) as a reason for not returning to work.

The impact of pensions
This younger cohort, in their late 50s and early 60s, is also less reliant on state pensions. This means the ability to retire early has become more accessible. The 1946 population bulge have paid into State Pensions all their life, and State Earnings Related Pension Scheme (SERPs) from 32 years old. The second population bulge has had SERPs all their working life. Stakeholder Pensions were introduced when this group was in their late 30s, so this still gives them 20-30 years of additional pension growth. This means that the second cohort has seen the best pension terms so far of any generation and is less likely to be impacted by the closure of defined-benefit pensions. **Restrictions brought in from 2006 have restricted pensions for future generations, including the amount that can be put into pension pots**, changes to inheritance tax, and state pension ages. However, in 2012 auto-enrolment was introduced, in the future, the generation born after 1992 and retiring beyond 2042 could have favourable pension conditions.

A dramatic drop in birth rates
According to ONS the number of births decreased in 2020, to 683,191, which was a fall of 29,489 from 2019; **this means that natural change in the UK in 2020 was negative 6,438: the first time deaths have exceeded births in 44 years.** This means both ends of the labour pool are continuing to be squeezed.

The impact of migration
The other direct source of inflow into the labour market is international migration. Current government policy has attempted to restrict this, with an expectation since EU Exit that migration flows would reduce.

However, the UK has stayed broadly in line with other high-income countries. There have been increases in temporary workers and students recently, but these are usually short-term and leave after a couple of years. **Up to 2016 the largest component in immigration was EU citizens; by June 2022 they did not contribute to net migration at all.**

Net migration population projections over the last 20 years have generally undershot the reality, and although they fluctuate, they generally remain relatively stable despite warnings of reduction. These numbers however do not replace the numbers leaving the workforce. **Reduced in-migration has a double hit, not only in terms of immediate workers but longer term in relation to fertility rates**; in 2014 non-UK mothers accounted for 27%, rising from 19.5% in 2004, of all births in England and Wales, so longer term the births will reduce if immigration reduces.

What does this all mean for the current labour market?
The labour pool will continue to reduce significantly as the next birth peak after 1960 was not until 1990; this means there are 30 years of reduced population. This peak was also half the previous peaks, and the next peak was in 2010, so it will be another 10 years until those young people enter the labour market and improvement of participation rates, **businesses will continue to find it difficult to fill posts.** As the 1970s trough is now moving into senior and middle management this also reduces the pool of experienced people who will lead responses to this labour constraint.

All these impacts would suggest that it is likely to be very difficult to get the retiree cohort back into the labour market; they are unlikely to need to return and they have worked and saved into pensions to enable this. The UK government is reportedly looking at tax incentives to get people to return to work, by making the first year back tax free, and also a shake-up of disability benefits. However, **the greatest incentive could be the cost-of-living crisis which could outstrip their pension provision**.

For the next 10 years, it is likely that we will see a natural decline in the labour pool as the reduced birth rate cohorts move into the workforce. However, this will probably lead to an overall stabilisation in the labour pool but at a much lower level than seen in previous years.

This points to challenges for the policy as the labour constraints continue for many decades. Opportunities and responses to labour market issues may need to focus on the UK birth rate in the long run, in the short-term migrant labour or technology solutions may become more acute.

In terms of the economy, population growth, particularly of the working-age population, is essential to economic growth, unless the jobs can be replaced by technology. Many countries are seeing similar issues, with China, and a record 98 countries below the replacement rate. Globally population growth is uneven, and although western countries are seeing population decline other countries are still in transition as health, economic and education opportunities are improved.

Census 2021: Qualifications

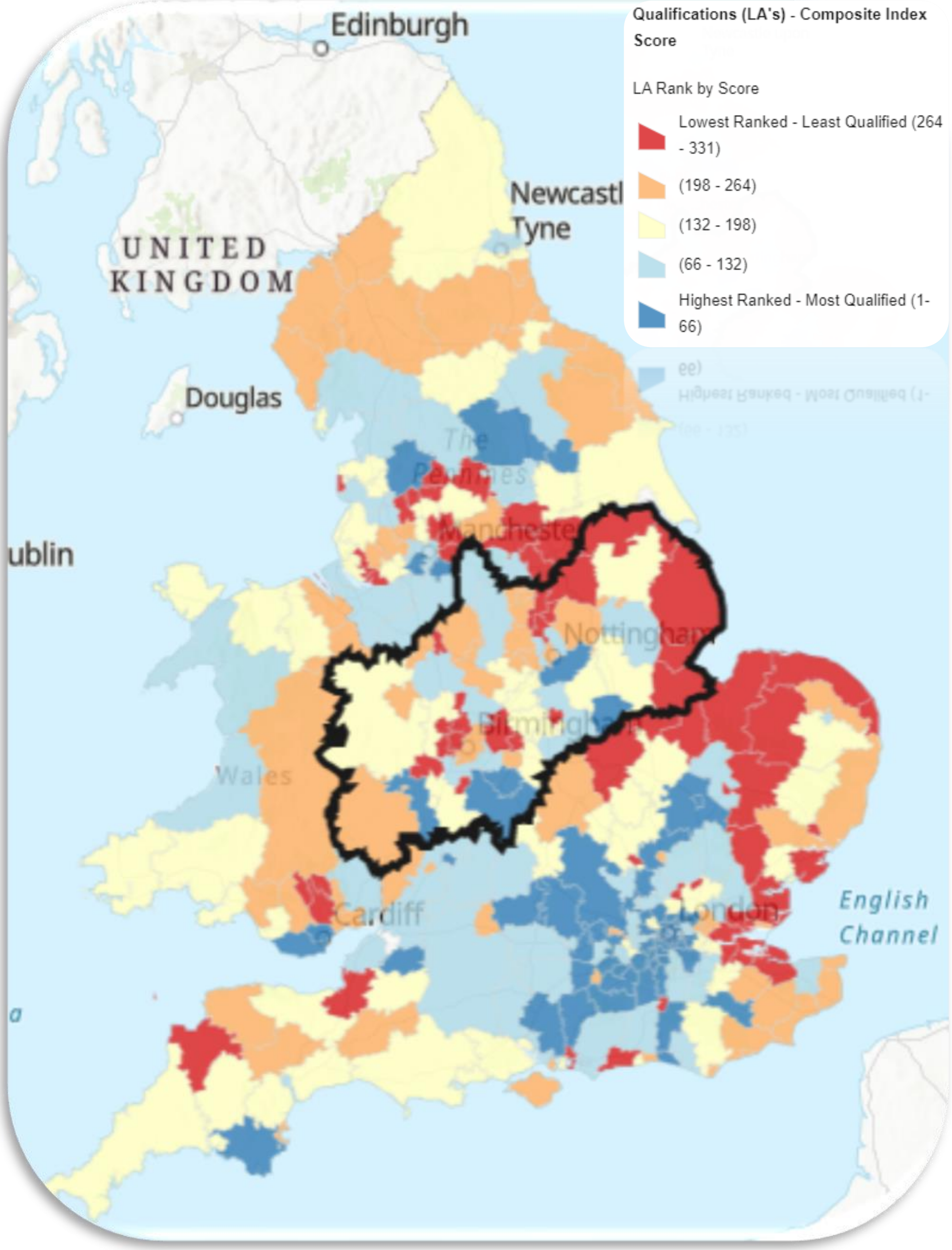
Workforce qualification levels

Education levels among local labour forces vary between areas. This matters, because it can **indicate the quality of locally available jobs, whether they require higher levels of education and whether they are higher-paid**. Areas with good educational attainment, opportunities and job markets are likely to have a **richer local economy**. Meanwhile, areas with a less-qualified workforce might have fewer job opportunities for highly qualified people, struggle to train or attract and keep qualified workers, and have a **poorer local economy**.

The following map shows all local authorities in England and Wales, shaded according to a scoring system ONS devised **based on the qualification level of the labour force who live in each locality**. Areas are shaded by quintile, from red for the lowest-scoring (least-qualified) fifth to green for the highest-scoring (most-qualified) fifth. When comparing the qualification profile of local areas, the highest-scoring areas had a much higher percentage of the resident workforce that held post-16 qualifications, such as A levels, degrees or NVQs. In contrast, in the lowest-scoring areas, much more of the workforce held secondary school level qualifications (GCSEs or equivalent) as their highest qualification, or had no qualifications.

Key Findings for the Midlands:

- The East Midlands region had the lowest concentration of resident workers or jobseekers with **higher education** qualifications of any region at **36%.**
- The East Midlands were among the regions who had the **greatest inequality in qualification levels**.
- The West Midlands was the region with the highest percentage of resident workers or jobseekers who had **no formal qualifications**, at 11%.
- In the West Midlands, **the cities tended to be lower-qualified** compared with the surrounding areas than in most other regions.
- In both the East and West Midlands, the most-qualified areas were less populated towns, while cities such as Birmingham and Leicester had lower rankings.
- The highest-scoring area in the West Midlands was Warwick, where more than half of the resident workforce held higher education qualifications **(55%).** The University of Warwick, likely plays a part in Warwick's relatively high rank.
- The highest-ranked areas in the West Midlands may reflect the **"commuter effect", where highly qualified people live outside of cities but work inside them**.



An interactive map has been developed which contains at a local authority level the Composite Index Score for the workforce across the whole of the UK along with a dive into the highest level of qualifications (NVQ4+ and no qualifications) for all residents at Lower Super Output Area (LSOA) for 2021.

Construction Skills Outlook for the Midlands

Although the UK economy is facing a recession in 2023, an extra 225,000 construction workers may be needed by 2027, according to the latest [Construction Skills Network (CSN) report](). The report provides insights into the UK construction economy and its future labour needs.

The data it produces highlights forecasted trends and how the industry is expected to change year-on-year, allowing governments and businesses to understand the current climate and plan for the future.

Looking at the next five years, the report acknowledges the **substantial recruitment and training challenges facing industry** and has made the following key predictions for 2023 - 2027:

- **225,000 additional workers will be required to meet UK construction demand by 2027** (45,000 workers per year, down from last year's figure of 53,200).
- **UK-wide growth:** All nine English regions plus Scotland, Wales and Northern Ireland are set to experience growth however, recession expected in 2023 with slow growth returning in 2024.
- **Recruitment:** As demand soars most affected sectors will be Private Housing, Infrastructure and Repair and Maintenance (R&M).
- **2.67 million:** Workers in construction industry by 2027 if projected growth is met.

The predictions for the Midlands are highlighted on the right:

Source: [*CSN Industry Outlook - 2023-2027 - CITB*]()

East Midlands:

The volume of construction in the East Midlands will grow slightly ahead of the UK forecast of 1.5% by an annual average rate of

1.6%.

Key sectors for future growth
- **Private Housing**
- **Industrial**
- **Infrastructure**

Strongest recruitment requirement levels
- **Other construction process managers (990 per year)**
- **Wood trades and interior fit out (420 per year)**
- **Painters and decorators (400 per year)**

Major Projects include
- **Midlands Main Line railway upgrade (£1.5bn)**
- **Viking Link interconnector (£1.8bn)**
- **Forterra brick production capacity (£95m)**

West Midlands:

The volume of construction in the West Midlands is slightly below the UK forecast of 1.5% at annual average rate of approximately

0.8%.

The biggest gains in output are set to come from
- **Private Housing Infrastructure**
- **Non-housing Repair and Maintenance**

The occupations with the strongest additional recruitment requirement levels
- **Non-construction professional, technical, IT, and other office-based staff (1,160 per year)**
- **Other construction professionals and technical staff (990 per year)**
- **Other Construction process managers (610 per year)**

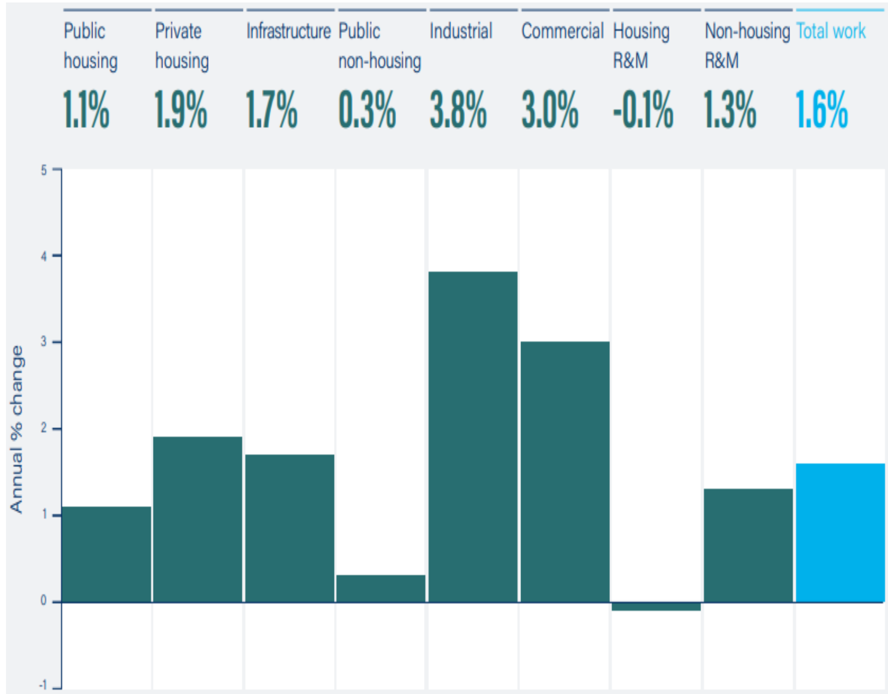
Major Projects include
- **Partnership between West Midlands Combined Authority (WMCA) and Legal & General (£4bn)**
- **Birmingham Smithfield project (£500m)**
- **Coventry City Centre Regeneration (£450m)**

East Midlands Output Forecast:

In the East Midlands the volume of work will grow by an annual average of 1.6% (UK +1.5%). Across the period, new work will perform better than R&M and nearly all sectors will see an increase in output, with the exception being housing R&M, where we're expecting a very marginal drop. **With a recession in 2023, There is a forecasted drop in output of 0.2% followed by slow growth in 2024 and strengthens through the later years.**

The industrial sector has the highest output growth rates across the period at 3.8%, however, compared to other sectors, it represents a relatively small share of total output (9%). The private housing sector will still be key to growth in the East Midlands with a total increase in output of £245m over the forecast, with the industrial, infrastructure and commercial sectors each having gains in the region of £170m - £200m.

East Midlands - Annual average output growth by sector, 2023-2027:



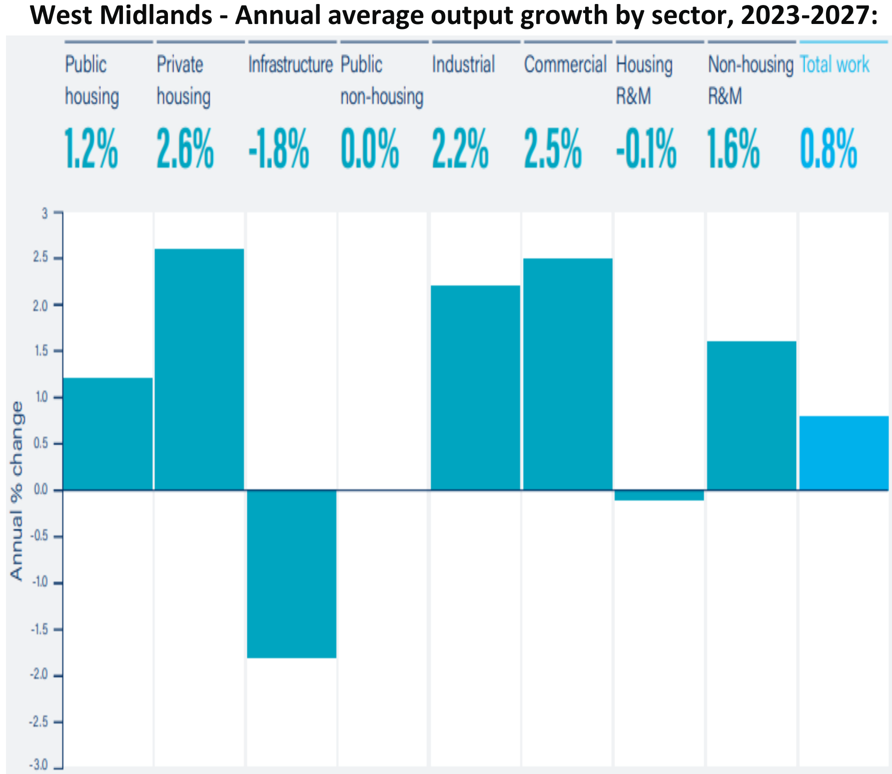
Source: Experian

West Midlands Output Forecast:

In the West Midlands, the volume of work will grow by an annual average rate of 0.8%, which is just below the UK rate of 1.5% (The annual average growth rate is the rate of growth between the end of 2022 and the end of 2027, i.e. a five-year period). **Not all sectors will see growth over the forecast**, with the infrastructure and housing R&M sectors seeing an annual average decrease in construction output. For the West Midlands new work and R&M work will see the same average annual output at 0.8%. For most sectors higher growth rates will be seen in the latter years of the forecast.

The private housing sector has both the highest average annual growth rate for the West Midlands at 2.6% and the highest gains in output at +£426m.

West Midlands - Annual average output growth by sector, 2023-2027:



Source: Experian

Private housing also makes up 21% of the structure for the West Midlands so makes up quite a high share of total output. Other gains are set to come from the non-housing R&M sector (+£248), which continues to perform well, and the commercial sector (+£143), where output is increasing from a relatively low level compared to earlier years.

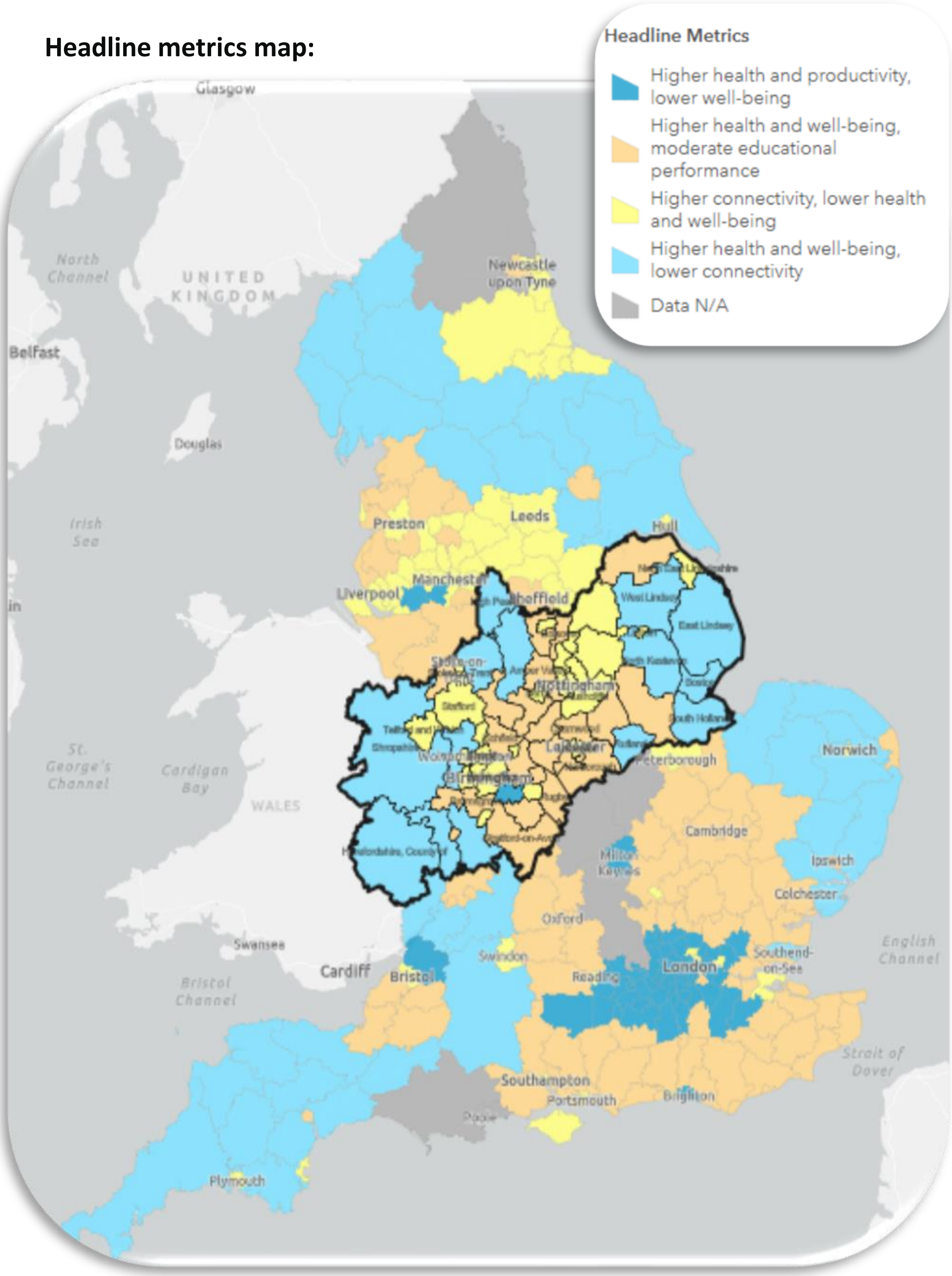
Source: CSN Industry Outlook - 2023-2027 - CITB

Clustering Local Authorities by Performance Against Levelling Up Missions

ONS have recently published experimental statistics on [clustering local authorities against subnation indicators](). ONS have grouped together similar local authorities ("clusters"), using a k-means clustering method, against metrics reported on the subnational indicators explorer. This analysis allows users to **understand the similarities between local authorities, while providing local authorities with control groups for investigating the impact of policy interventions**.

Analysis of selected headline metrics across seven different themes produced four clusters of local authorities in England; the higher health and productivity, lower well-being cluster **tended to be urban, densely populated areas and mostly located in London and the South East.** In the same model, the higher health and well-being, lower connectivity cluster was made up of mostly **older, rural, least deprived areas.** The higher health and well-being, moderate educational performance cluster predominantly comprised **older, low population areas.** The higher connectivity, lower health and well-being cluster comprised mainly **younger, urban, and the most deprived areas.**

Headline metrics map:



Key Findings for the Midlands

- **Higher connectivity, lower health and well-being:** 40% of West Midlands local authorities.
- **Higher health and well-being, moderate educational performance:** 39% of East Midlands local authorities.
- **Above median employment rate, below median productivity:** 63% of West Midlands and 51% of East Midlands local authorities. Examples include Malvern Hills and Rutland.
- **Slightly below median on all connectivity metrics:** 58% of East Midlands and 57% of West Midlands local authorities.
- **Lower on all education metrics:** 17% of local authorities in the West Midlands, for example; Stoke-on- Trent.
- **Lower on all metrics, except FSM and CLA absences: This cluster is Midlands focused,** with 50% of the East Midlands' and 27% of the West Midlands' LAs in this cluster. Examples include Erewash and Worcester. Results showed that this cluster was better than the median for FSM and CLA absences, worse than the median for good or outstanding schools, early years maths and early years communications and languages and also consisted mainly of urban LAs (60%) and LAs with a median age of 45 or older (40%).
- **Slightly below median on all skills metrics:** both regions were at 57% of local authorities.

Broadly median on all health metrics: 64% of East Midlands and 56% of West Midlands local authorities.

An interactive map is available [here]() which shows the results for local authorities across 7 themes.

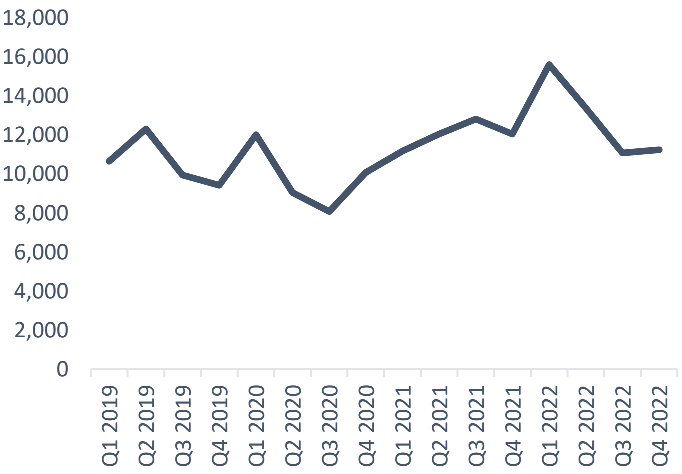
3. Business Environment

Business Births and Deaths

[Experimental low-level geographic analysis on business births and deaths released by the Office for National Statistics (ONS) in February 2023,](#) highlights, from the data available (2017) that the number of **business deaths were at an all time high in 2022 at 51,330.** This is an increase of 6.7% (+3,235) from the Midlands Engine which was broadly in line with the national increase (+6.4%) when compared to 2021. **Longer-term, when compared to 2019, the business death rate increased by 21.2% (+8,975) in the Midlands Engine area, with the UK increasing by 17.8%.**

As the following chart shows, business deaths peaked in the Midlands Engine in Q1 2022, (**reaching 15,610 deaths),** before **falling back in Q2** (-14.2%) **and Q3** (-17.3%) - albeit still at a comparatively high level and **finally in Q4 2022, there was a small increase (+1.5%),** however, notably below the UK-wide quarterly increase of 3.9%. Given the on-going cost of doing business crisis, **the next quarters of data will be important to follow.**

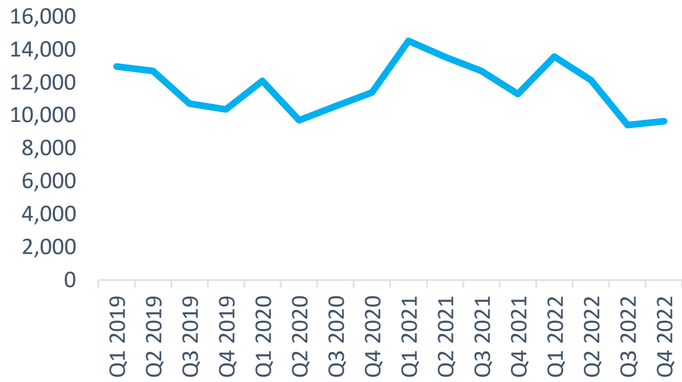
Trends in Midlands Engine business deaths:



Regarding **business births, there were 44,765 in the Midlands Engine in 2022.** This represents a decrease of 14.0% (-7,315), which reflected national trends where there was a decline of 8.3% since 2021. When compared to 2019, there was a decrease of 4.3% (-1,995) for the Midlands Engine area which was less than half the the UK-wide decline of 8.7%.

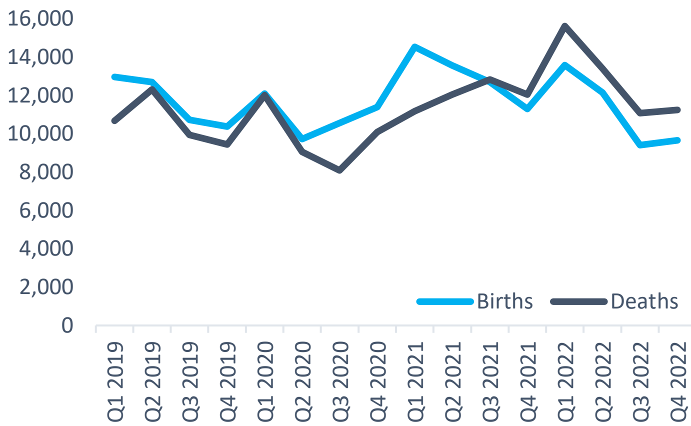
As seen in the chart to the top right, there has been a second smaller peak in business births in the Midlands Engine in Q1 2022, (**reaching 13,570 births;** second to 14,530 births in Q1 2022). **However, this was followed by business births falling again for two consecutive quarters** (Q2 -10.6% and Q3 -22.5%). More positively, **for the final quarter in 2022, there was a small increase (+2.6%).**

Trends in Midlands Engine business births:

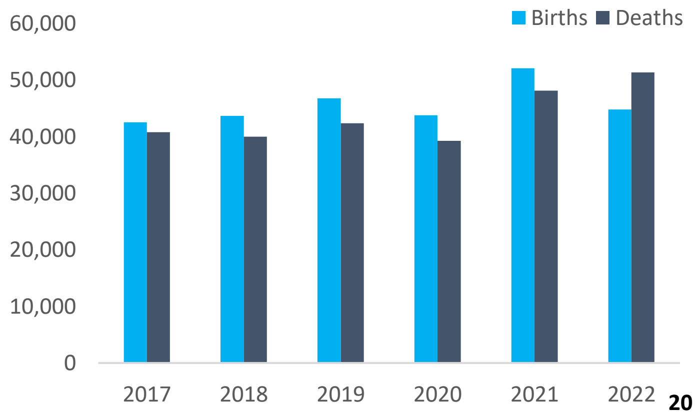


However, **in 2022 the number of business deaths rose above the number of business births in the Midlands Engine (6,565 more deaths than births);** characteristic of 55 of the region's local authorities and also nationally. The Midlands local authorities with the most **positive births to deaths ratio (more births than deaths) in 2022 were Birmingham, Coventry and Redditch**; while the most negative (more deaths than births) include Stratford-on-Avon, Wychavon and Wyre Forest. As shown in the charts below, **business deaths being above business births marks a change from the pre-pandemic period, reflecting the current crises.**

Quarterly trends in Midlands Engine business births and deaths:



Annual trends in Midlands Engine business births and deaths:



The Impact of Brexit

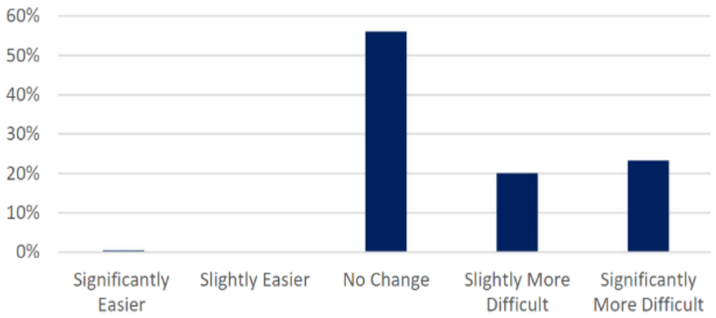
The Greater Birmingham Chambers of Commerce (GBCC), Black Country Chamber of Commerce (BCCC) and the Warwickshire Chamber of Commerce (CWCC) have been sponsored by the West Midlands Combined Authority (WMCA) to deliver a range of activity to inform local businesses about the latest Brexit-related developments. This is the second year this analysis report has been produced.

Data was collected via Quarterly Economic Surveys ran by the GBCC, BCCC and CWCC from the 7 November to 1 December 2022. **462** businesses across the West Midlands were surveyed: **43%** were from Greater Birmingham, **31%** from Coventry and Warwickshire, and **26%** from the Black Country.

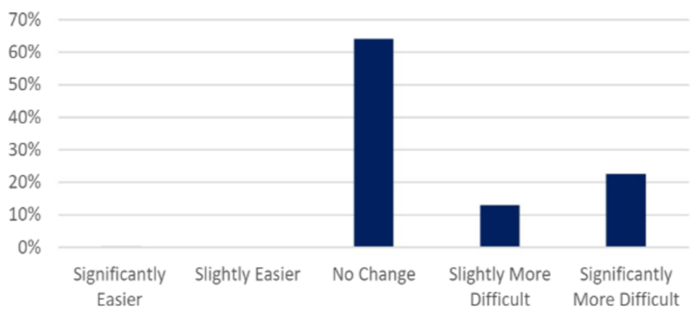
Trade

Approximately **two in five (43%)** businesses reported that importing goods from the EU was more difficult as a result of Brexit, with **one in five (23%)** reporting significant difficulty.

Importing goods from the EU:



Exporting goods to the EU:



The majority of respondents stated that there had been no change in their ability to export goods to the EU **(64%),** move goods between Northern Ireland and Great Britain **(69%),** and provide services to or purchase services from the EU **(71%).**

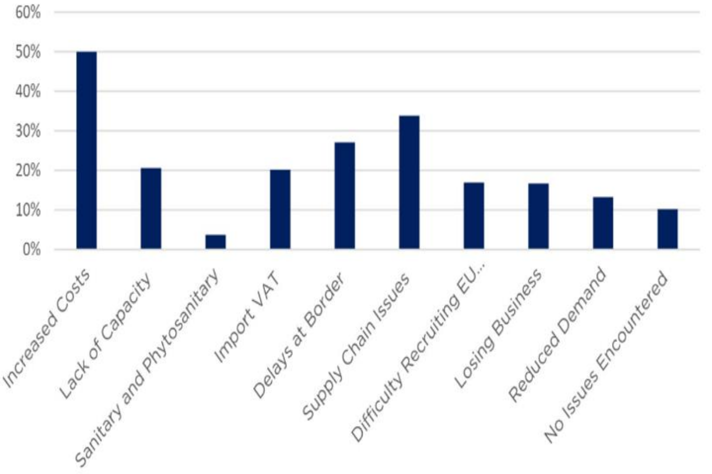
Sectors

Manufacturers were significantly more impacted by Brexit than service firms, particularly in regard to importing **(69%)** and exporting **(63%)** goods and recruiting EU workers **(48%).** Service firms mostly reported no change to providing services in the EU **(71%),** purchasing services **(72%),** or recruitment **(67%).**

Issues Encountered by Business

The most commonly encountered issue by businesses were increased costs **(50%)**, supply chain issues **(34%)** and delays at the border **(27%)**. Microbusinesses (labelled as having one to nine employees) were more intensely impacted than their larger counterparts.

Issues encountered:



Businesses were more likely to either pass on increased costs to customers **(25%, including 25% of SMEs)** or absorb increased costs onto themselves **(19%, including 19% of SMEs)** rather than partake in any other action to overcome Brexit related issues.

Recommendations:

As a result of their report, the GBCC, BCCC and CWCC recommend the following actions for national and regional stakeholders:

- National stakeholders should **work to remove existing trade barriers** as they hamper businesses' ability to trade with the EU, ensuing increased costs.
- National stakeholders should seek to **bolster trade links** between local business and their European counterparts alongside Non-EU countries to support business growth and investment.
- The UK Government should **explore implementation of financial aid to microbusinesses and SMEs**, to facilitate increased levels of trade.
- The UK Government should **consider retaining the CE markings mechanism beyond 2025/26** to keep business costs down.
- Regional and National stakeholders should **provide support and guidance to help businesses navigate through the complex post-Brexit trading landscape**.
- The UK Government should take immediate action to **encourage increased migration of EU skilled and semi-skilled workers** to alleviate recruitment issues.
- The UK Government should **seek to reach a negotiated solution with the European Commission on business compliance burdens with the Protocol on Ireland/Northern Ireland.**

Local Business Intelligence

THEME	KEY INSIGHTS
Labour Market	• Midlands employers continue to highlight **skills shortages, recruitment challenges and competition for workers**, fuelled by low unemployment and increasing economic inactivity levels. Specifically: - **Candidate shortages are present across the board** and wider labour market issues remain. - Businesses have reported a **rise in the cost of wages throughout 2022 and more recently**. - Apprenticeships (including degree apprenticeships) will be a critical part of solving labour market issues. And yet, **the Apprenticeship Levy does not work for many businesses: in particular it's not flexible enough and is hard to navigate.** - There remains a **need for leadership and management training** to maintain, refresh and upskill senior leaders to drive businesses forward effectively. - Concerns are being raised that **training will become less of a priority given the rising cost of doing business.** - The link between infrastructure / connectivity and the labour market – e.g. **getting people from home to work** – has also been highlighted as a challenge to tackle across the region. • Feedback has also shown a **digital skills shortage in the labour market, as businesses look to upskill both young and older members of the workforce to meet the new demands** that their businesses are facing.
Trading Conditions	• Issues with domestic and global supply chains is highlighted in BDO's latest Rethinking the Economy survey (focused on Midlands businesses); with **51% of respondents viewing supply chain disruption, such as delayed materials and a lack of supplies, as the biggest challenge over the next six months.** This ranks ahead of access to labour, including skills shortages and immigration (41%), with more than a quarter citing rising interest rates and the cost of borrowing (28%) as their number one concern. • However, businesses in the region are taking a number of steps to deal with supply chain pressures and rising costs, with **30% admitting they intend to launch new products or services to diversify revenue streams.** Nearly a third of companies (30%) will be forced to pause domestic expansion plans, as a result of supply chain issues, while 28% of Midlands businesses will have to take on new debt or increasing overdraft facilities. • More broadly, **weak trade performance from the Midlands Engine geography is a worrying trend in the post-Covid / Brexit era**, with the region performing worse than the average for exports in particular. • A consistent, cross-party approach to policy has been called for from across sectors, focused on a **proper long-term industrial strategy that is up to date.** This should be the public and private sector working collaboratively, providing incentives for investment and growth. • In addition, as we approach the end of 22/23 there is increased frustration and concern around Growth Hub business support continuity. **This unfortunately echoes the concern local businesses face that the local business support ecosystem appears to be diminishing at a time they need guidance the most.**
High Performers	• A host of recognisable names have been included in **Insider's list of the top 25 Midlands "Gazelles"**, with a broad range of industries represented. • To make the list a company had to have shown more than **20% annual growth in turnover consistently over three years**. It also had to have started that period with at least £1m turnover. • Companies in the list included: - **Likewise Group**, (Birmingham, distributor of floorcoverings and mattings) - **Prime** (Worcester**,** healthcare sector developer) - **Rematch Credit** (Newcastle-under-Lyme, financial institution) - **Facepunch** (Birmingham, game developer) - **ThinCats** (Ashby-de-la-Zouch), alternative lender) - **GymShark** (Solihull, apparel) - **Knights** (Newcastle-under-Lyme, professional services) - **Stiltlz** (Kingswinford, home lifts)

Local Business and Policy Intelligence By Sector

SECTOR	KEY INSIGHTS
Hospitality, Tourism & Retail	• The hospitality and retail sectors have struggled to cope with the increased prices, one Midlands restaurateur noting that whilst they experienced **4.4% higher prices for non-food items, they saw 12.3% higher prices on all food items.** • The majority of the time this impact is taken on by the customer as **businesses are already operating in a tight profit margin**, and have found that small, independent family run businesses cannot reduce staffing hours any further and larger retail restaurants cannot reduce their marketing investment any further.
Manufacturing	• **Manufacturing output volumes fell at their fastest pace since September 2020 in the three months to February**, according to the CBI's latest Industrial Trends Survey. - The survey found that **expectations for selling price inflation were at their lowest since May 2021**, having declined steadily from the multi-decade highs seen in early 2022. **But expectations for selling price inflation remained well above their long-run average.** - The **volume of total order books and export order books were reported as below normal**, while stocks of finished goods were seen as broadly adequate. • There are more concerns about the sustainability and competitiveness of the UK steel industry– particularly related to net-zero linked investment in green steel (or the lack of it), and more immediately the potential for job losses at British Steel in Scunthorpe. • Businesses suggest that a new **long-term, cross-party and cross-Parliament Industrial Strategy is required to provide a consistent message and plan for manufacturing**. This should be a true partnership between the public and private sectors, providing incentives for investment and growth. • Separately, **more than 150 businesses have now applied for Made Smarter East Midlands** – with two-thirds already going forward to the next stage.
Low Carbon / Net Zero	• Research has shown that more **businesses are now taking steps to net-zero and sustainability and will do in future.** • There are **several elements to the net-zero journey that will depend on businesses individual operations and sectors**: for example, operational emissions, material efficiency / recycling, manufacture of decarbonised products. • There is no excuse for not doing more on net zero, and no business is too small to contribute to sustainability. But **many businesses don't know where to start on their net zero journey and have other immediate crises to deal with (e.g. energy costs**). There is however an element of businesses needing to "help themselves" in net-zero ambitions / other activity. • Businesses of all sizes must be encouraged to **make realistic step-changes on their net zero journey, including by bringing sustainability into common conversations** rather than just being "nice to have", and **brokering relationships between SMEs and universities / larger organisations.**
Logistics and Transport	• For those in the logistics and supply industry, one of the concerns is around **freight costs.** Freight costs have risen considerably due to the rise in energy costs, the demand for drivers across all sectors (particularly the retail sector) **leading to drivers leaving the industry and firms adjusting to the UK's withdrawal agreement when goods are being transferred from the European mainland.** • The sector is still also **struggling with the overall recruitment & retention of drivers too.** Service engineers and general machine operator shortages being felt across the region. Some warehouse operators are experiencing staff churn after 6-8 months, possibly due to the type of work.
Cross-Sector	• **Digital connectivity via broadband and mobile** has again been identified as important to businesses, particularly given inconsistency in service across the Midlands – **particularly poor in rural areas but also "coldspots" of poor connectivity across all places.** • The CBI has developed a "Clusters Playbook" to support the **development of place-based clusters across the UK's regions and nations**, focusing on each area's comparative advantage. This is built on the premise of **clusters as central to driving higher productivity and levelling up, with a series of stakeholders across places critical to success.**

Business Insights and Impact on the UK Economy

ONS have published the final results from Wave 73 of the [Business Insights and Conditions Survey (BICS)](#).

Financial Performance

31.1% of West Midlands businesses and 28.9% of East Midlands businesses reported that the business turnover in January 2023 when compared to December 2022 had increased. While **26.5% of West Midlands businesses and also 26.5% of East Midlands businesses reported turnover had decreased.**

35.4% of West Midlands businesses and 35.9% of East Midlands businesses expect turnover to increase in March 2023. While, 7.8% of West Midlands businesses and 9.3% of East Midlands businesses expect turnover to decrease in March 2023.

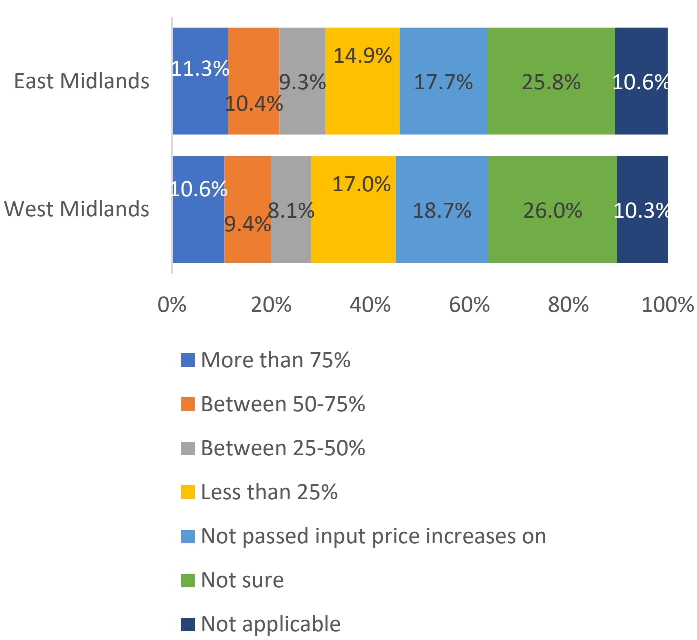
Late Payments

28.1% of West Midlands businesses and 27.9% of East Midlands businesses reported in the last 6 months the **number of late payments from customers had increased.** While 1.5% of West Midlands businesses and 1.6% of West Midlands businesses reported the in the last 6 months, the number of late payments from customers had decreased.

Input Price Increases

10.6% of West Midlands businesses and 11.3% of East Midlands businesses reported that more than 75% of the businesses input increases had been passed onto customers in the last 6 months.

How much Midlands businesses input price increases have been passed on to customers over the last 6 months:



Prices

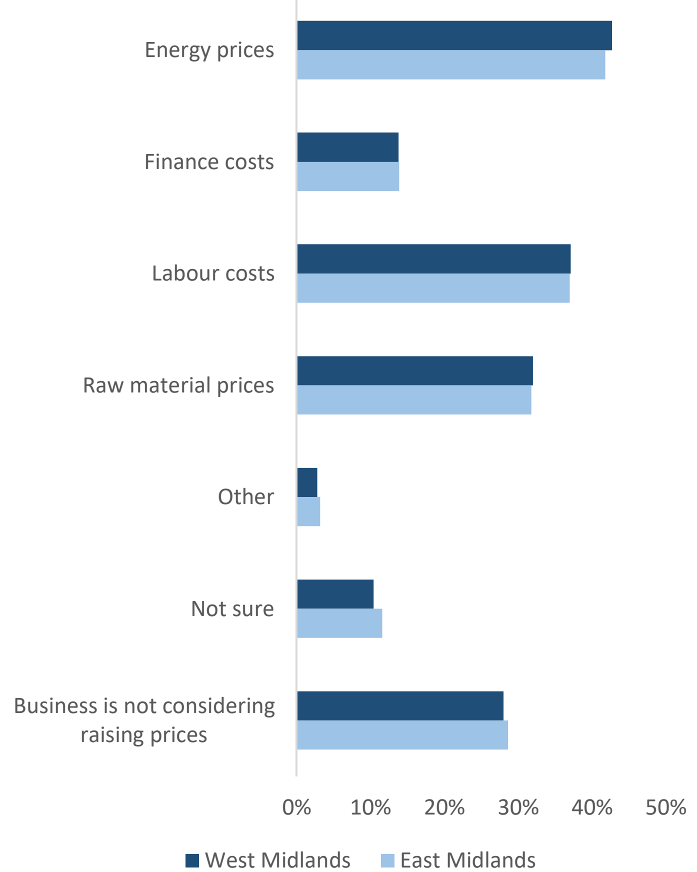
33.4% of West Midlands businesses and 36.0% of East Midlands businesses reported that the prices of goods or services brought in January 2023 when compared to the previous month had increased. While 1.1% of West Midlands businesses and 1.2% of East Midlands businesses reported the prices had decreased.

20.3% of West Midlands businesses and 20.9% of East Midlands businesses reported that the prices of goods or services sold in January 2023 when compared to the previous month had increased. While 2.1% of West Midlands businesses and 1.9% of East Midlands businesses reported the prices had decreased.

24.3% of West Midlands businesses and 26.1% of East Midlands businesses expect the prices of goods or services sold in March 2023 to increase. While, less than 1% of West Midlands businesses and 1.1% of East Midlands businesses expect the prices of goods or services sold to decrease.

42.7% of West Midlands businesses and 41.8% of East Midlands businesses reported that energy prices were a factor for the business to consider rising prices in March 2023.

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



Business Insights and Impact on the UK Economy

Demand for Goods and Services

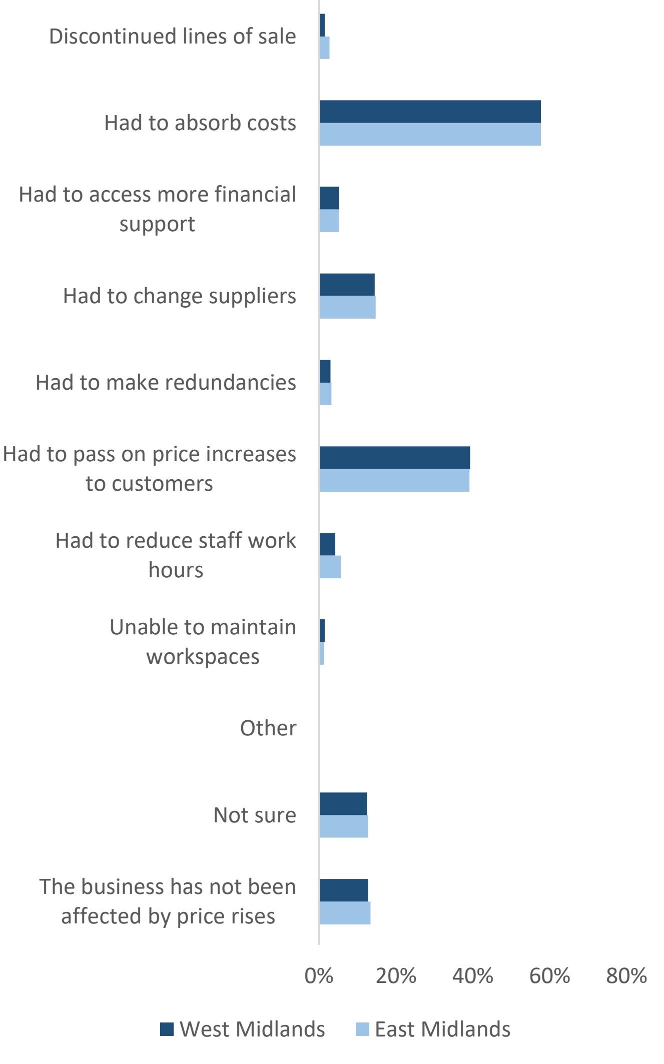
17.4% of West Midlands businesses and 17.9% of East Midlands businesses reported the domestic demand for goods or services in January 2023 when compared to December 2022 had increased. **16.1% of West Midlands businesses and 16.9% of East Midlands businesses reported that domestic demand had decreased.**

6.2% of West Midlands businesses and 4.3% of East Midlands businesses reported the international demand for goods or services in January 2023 when compared to December 2022 had increased. **5.8% of West Midlands businesses and 5.7% of East Midlands businesses reported that international demand had decreased.**

Impacts of Price Rises

57.7% of West Midlands businesses and also 57.7% of East Midlands businesses have had to absorb costs due to price rises.

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



Number of Employees

19.6% of West Midlands businesses and 19.0% of East Midlands businesses reported the number of employees had increased in January 2023 when compared to the previous month. Although, **14.3% of West Midlands businesses and 17.2% of East Midlands businesses reported the number of employees had decreased.**

25.2% of West Midlands businesses and 24.4% of East Midlands businesses expect the number of employees in March 2023 to increase. **5.3% of West Midlands businesses and 6.4% of East Midlands businesses expect the number of employees to decrease.**

Net Zero

57.8% of West Midlands businesses and 60.4% of East Midlands businesses are either very concerned or somewhat concerned about the impact of climate change may have on business.

Recruitment Difficulties

30.5% of West Midlands businesses and 29.4% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in January 2023. While 38.7% of West Midlands businesses and4 0.2% of East Midlands businesses reported no difficulties.

Insolvency

83.7% of West Midlands businesses and 83.2% of East Midlands businesses reported either **low or no risk if insolvency**.

Overall Performance

32.9% of West Midlands businesses and 28.9% of East Midlands businesses reported that the overall performance in January 2023 when compared to the same month in the previous year had increased. While 17.3% of West Midlands businesses and 20.2% of East Midlands businesses, performance had decreased.

41.6% of West Midlands businesses and 39.1% of East Midlands businesses expect overall performance to increase over the next 12 months. While 9.6% of West Midlands businesses and 11.1% of East Midlands businesses expect performance to decrease.

Source: ONS: [Wave 75 of the Business Insights and Conditions Survey](). In the West Midlands there was a response rate of 26.7% and in the East Midlands there was a response rate of 27.7% where businesses have a presence in the region. There was a response rate of 25.0% for the West Midlands and 28.2% of East Midlands where businesses are headquartered in the region. Survey reference period: 1st to 31st January 2023. Survey live period: 6th to 19th January 2023. As response rates are low and the data is unweighted and should be treated with caution.

Nations and Regions Tracker

British Business Bank's Nations and Regions tracker provides a snapshot of the UK's finance markets and illuminates geographic patterns seen in UK small business finance.

Nations and Regions Market Overview

External finance can be an important tool for businesses at all stage of development. Despite this, at the end of Q2 2022, **46% of SMEs were permanent non-borrowers (PNBs)** - which are firms with no apparent appetite for finance and are defined by not using external finance and showing no inclination to do so. On the other hand, just **38% of SMEs reported they were using finance at the end of Q2 2022, down from 45% at the end of Q2 2021.**

Core debt products remained the most used and widely available across the UK nations and regions. The Bank's Business Finance Survey, undertaken in Q4 2021 looks at SME use of external finance. It found that **the number of businesses who were using some form of repayable external finance or grant funding dropped from 67% to 59% in 2021.** This was driven by a noticeable drop in the proportion of businesses who were exclusively using non-government-backed repayable external finance in 2021, down 15pp to 22%. Still, the proportion of smaller firms using a combination of government-backed and non-government-backed repayable finance as well as grant funding increased slightly from 21% to 23%. Moreover, the number of SMEs relying solely on government-backed finance and grants increased from 10% to 13%.

Bank loans (16%) were reported as being the most used external repayable finance type, followed by credit cards (11%) and overdrafts (11%). Although, late 2021 and early 2022 UK level data has suggested a **resurgence in the usage of overdrafts by SMEs,** partially driven by the increased need for working capital as the economic picture deteriorated and input costs have increased. Q2 2022 Bank of England data shows the stock of overdrafts is now at £9.6bn, 14.3% higher than June 2021 while gross bank lending in H1 2022 was £30.9bn, up only 2.4% from H1 2021.

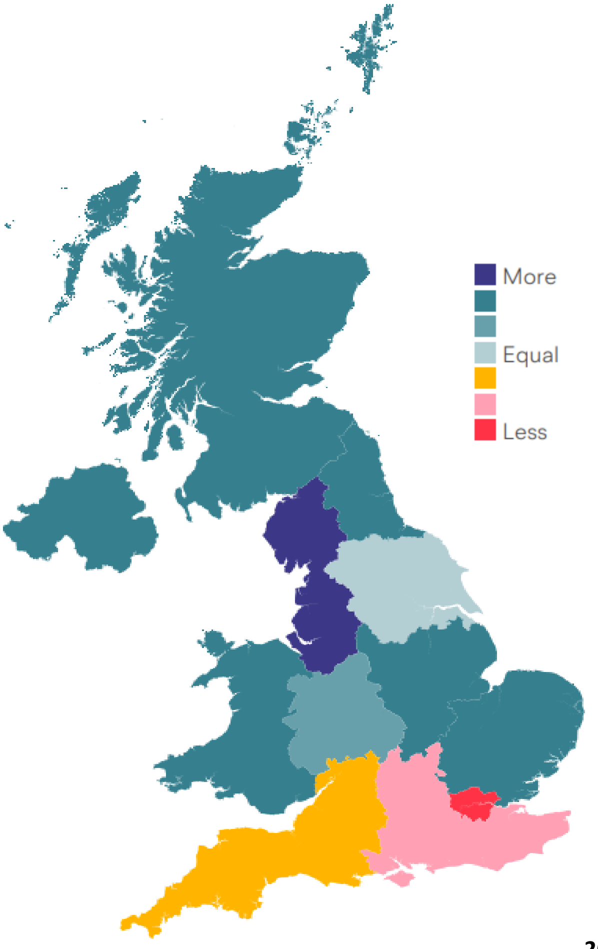
Given the prominent role a wider range of lenders played during 2020 and 2021 it is also worth looking at the British Business Bank's data covering the Coronavirus Business Interruption Loan Scheme (CBILS), Bounce Back Loan Scheme (BBLS) and more recently the Recovery Loan Scheme (RLS) for a fuller picture.

The following table displays the value of loans taken by SMEs within each region. It shows the regional spread if both the combined volume of loans and the value of loans broadly matches latest BEIS population estimates. London had the highest average loan (£50,723) meanwhile Wales had the lowest average loan (£39,231). **The East Midlands (£46,229) had the fourth highest loan whilst the West Midlands (£46,007) was fifth, both below the average UK loan of £48,180**.

Value and volume shares of loans under CBILS, BBLS, and RLS, percentage differences from share of SMEs, and average loan size (£):

Region	Volume	Value	Average loan
East Midlands	-0.2	-0.1	46,229
East of England	-0.5	-0.5	45,928
London	1.6	3.6	50,723
North East	0.3	0.0	41,182
North West	1.1	0.9	45,249
Northern Ireland	0.5	0.5	47,139
Scotland	-0.1	-0.5	43,184
South East	-1.6	-1.5	46,520
South West	-1.2	-1.7	43,138
Wales	0.1	-0.5	39,231
West Midlands	0.0	0.0	46,007
Yorkshire and The Humber	-0.3	-0.5	44,932

Asset finance share versus SME population, 2021:



Nations and Regions Tracker

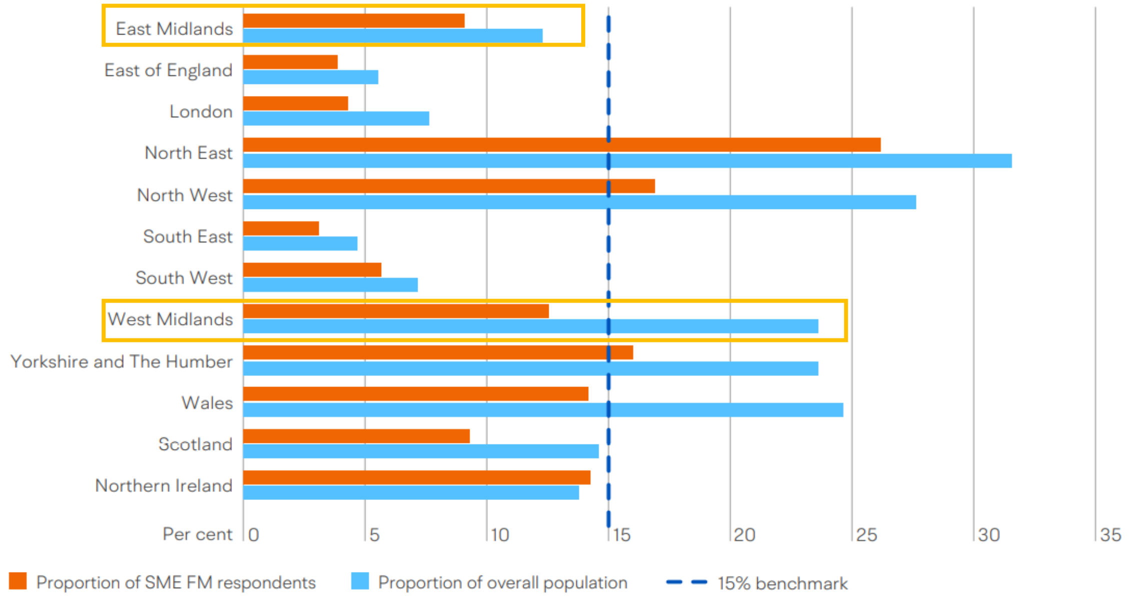
Asset finance is the most used alternative finance and most available across the UK. Aggregating this data from across all British Business Bank's relevant programmes and delivery partners, they found that both pre and post-Covid the regional split of British Business Bank **facilitated asset finance was broadly in line with SME distribution for many regions and devolved nations** (as per the previous map). Furthermore, equity finance remains most concentrated in London with 1,286 deals worth £11.9bn, 49% of the UK's total number of SME equity deals and 66% of total investment. **Excluding London, there was a total 1,330 deals worth £6.2bn within the English regions – an 11% increase in the number of deals and 88% increase in the investment value.**

Every region and devolved nation apart from the West Midlands had an increase in equity investment in 2021. The West Midlands had 68 deals with an investment value of £338m, a 12% decrease compared to a year ago. While the East Midlands had 50 deals worth £154m and grew by 92%. Additionally, the Spending Review 2021 boosted the Bank's regional programmes by £150m over three years. The review additionally included a series of new investment funds worth £1.6bn across the country. This figure includes **£400m for the Midlands Engine Investment Fund.**

Use of Finance in Deprived Areas

Comparing the proportion of SME FM respondent businesses that are in 'highly deprived' areas with the proportion of the population in those areas, every region and nation of the UK except Northern Ireland the proportion of businesses in 'highly deprived' areas is lower than the population benchmark. Although these respondents are only a subsample of the business population**, this suggests that businesses are less likely than people to locate in the most deprived areas of the UK.** However, business owners and workers may be located in areas with different levels of deprivation.

Proportion of SME FM businesses in top 15% most deprived UK areas compared to proportion of population



Businesses in highly deprived areas have a greater appetite for external finance, but are more likely to be deterred from applying and are more likely to be rejected.

Net Zero Challenges and Opportunities for Smaller Businesses

Findings have shown that geographic disparities in access to finance could impact SMEs' transition speed and ability to achieve net zero. SMEs unable to transition their business models to a low-carbon economy at sufficient pace may find it difficult to keep up with regulation, or their competitors may gain significant advantages. Hence, **transitioning to net zero will require innovation and investment allowing new industry to develop**. Businesses in net zero sectors are more likely to receive equity finance than others in the same place.

Many places saw no net zero equity activity at all between 2011 and Q2 2022, with **53 (30%) of the 179 ITL3 areas recording no net zero equity deals.** With the mean per capita GVA in the places with net zero equity deals being higher (**£32k** compared to **£22k** in places without net zero equity deals). The **largest equity clusters identified through analysis of equity deals and investment were mostly all in places with above average productivity**. However, there are also examples of where investors are considering opportunities in places outside the traditional core cities i.e., Nottingham and Warwickshire CC.

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MIDLANDS ENGINE OBSERVATORY

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