MIDLANDS ENGINE OBSERVATORY

MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

EDITION 37: APRIL 2023

Executive Summary

The **current regional economic and business outlook appears mixed**; it is certainly better than parts of 2022 but still very uncertain and unsettled. There are also mixed results coming from different surveys / barometers which makes **understanding the reality on the ground for Midlands communities and businesses difficult**.

- For example, according to the ICAEW's latest Business Confidence Monitor (BCM) for both the East Midlands and the West Midlands, **business confidence has improved but is still weak.**
- And yet, the March Lloyds Bank Business Barometer suggested that, at **48%, business confidence in the West Midlands was the highest in the UK.** While in the latest (April) survey, **business confidence in the East Midlands grew for the third consecutive month - becoming the second highest in the UK.**

This month's Regional Economic Monitor presents this information and more**.**

As some of the recent evidence suggests, different parts of the economy and business community are being impacted in different ways, **dependant on characteristics such as firm size, sector and location**. Everything and everyone remains in some way impacted by high prices, though, with **inflation remaining resiliently high which is frustrating for recovery and growth**, while ensuring the continuance of the cost of living and cost of doing business crises.

Highlighted in Section 4, **high costs**, weakened consumer demand and uncertainty continue to impact Midlands firms:

- **Company insolvencies are at record levels**, with manufacturing, construction, hospitality and wholesale / retail particularly affected – especially **damaging low and middle income households** and regions such as the Midlands.
- More broadly, there are signs that many businesses have been forced to **hit the brakes on investment** in core areas (such as marketing and new technology), coupled with continued **issues in accessing finance** – as highlighted by recent research from British Business Bank – particularly for **early stage equity and debt in the Midlands.**

But there have also been recent success stories and investment opportunities / commitments across the region: for example from **Jaguar Land Rover's electrification plans** and **16 regional recipients of the Kings Award for Enterprise**.

The most recent business activity indices reflect the mixed picture, **balancing out the challenges and opportunities:**

- The **West Midlands Business Activity Index fell from 53.0 in February 2023 to 52.7 in March 2023.**
- The **East Midlands Business Activity Index increased from 51.1 in February 2023 to 51.2 in March 2023.**

While future optimism, tracked by the Future Business Outlook Index, remains high across the Midlands and UK.

A key focus of this month's monitor is skills and the labour market, documented as part of Section 2. This includes:

- **An overview of the labour market's outlook and core issues:** re-affirming, through work by the Resolution Foundation, that skills are a crucial driver of productivity and economic growth, but that a lack of training investment and economic inactivity is holding the UK back.
- **The most recent data releases:** Highlighting specific links between key issues and the Midlands Engine geography, including higher than average economic inactivity and unemployment overall (albeit stabilised or improving), rising claimant levels and a continued slow down in job demand. This includes many differences across Midlands places.
  - For **economic inactivity, the Midlands Engine rate was 22.8% in 2022,** compared to 21.7% for the UK overall. Since 2021, for the Midlands Engine area, this **increased by 0.1pp** while the UK remained at the same level.
  - There were **278,570 claimants aged 16 years and over in the Midlands Engine area in March 2023**, an **increase of 9,920 (+3.7%, UK +3.3%)** claimants since the previous month.
  - The latest job postings data shows that the **number of postings across the Midlands dropped 33.7% over the last six months** to 1.14 million, while **permanent and temporary billings remain in contractionary territory** as of Q3.
- **A consideration of the future:** harnessing findings from the Skills Imperative 2035 research programme to highlight changes in the labour market and skills required in the Midlands over the next decade and beyond.
  - Employment growth in both the East Midlands and West Midlands is **expected to be driven by non-marketed services and business and other services.**
  - **Professional and Associate professionals are expected to experience the highest increases in expansion demand,** with **Skilled trades occupations and Administrative and secretarial are forecast to experience the greatest negative net change .**

As always, this month's monitor also presents a **summary of recent data and intelligence releases across priorities:**

- **GVA:** Midlands Engine has increased from £235.1bn in 2020 to £252.6bn in 2021, a 7.4% (+£17.5bn) annual increase (slightly above the UK rate of 7.2%). Visitor economy, energy / low carbon and construction grew fastest.
- **R&D:** In 2021, the Midlands had a total value of £1.4bn in public-funded expenditure on R&D, 10.4% of the UK.
- **Subnational FDI:** West Midlands recovered strongly between 2020 and 2021, but the East Midlands not so well.
- **Fuel Poverty:** Has increased; 16.6% of households in the Midlands Engine now fuel poor in 2021 (Eng = 13.2%).

1. Economic Outlook

Global and National Outlook

Global

US Elections

US President Joe Biden has announced he will run for re-election in 2024, seeking a second Presidential term. This would most likely mean a rematch between Biden and former President Trump, as Trump is now the most likely candidate for the Republican nomination. Biden had a strong legislative first term, even with high inflation; under Biden unemployment has dramatically dropped and he developed a $1.2tn infrastructure bill. However, Biden's main issue with the electorate will be his age: he is already the oldest president in history and by the time of the election Biden will be 82 and by the end of the term 89.

Sudan

War has returned to Sudan. **The fighting in Sudan largely began in the Sudanese capital of Khartoum, as a direct result of a power struggle from within the country's military leadership.** Clashes have broken out between the regular army and a paramilitary force called the Rapid Support Forces (RSF). The issue is the leaders of these two forces, Gen Abdel Fattah al-Burhan, Head of the Armed Forces and President, and his deputy leader of the RSF Gen Monhamed Hamden Dagalo, essentially disagree over the direction of the country and the move towards proposed civilian rule. **The RSF has a long-standing reputation itself, it has its roots in the notorious Arab militia the Janjaweed**, which committed genocide against the Black Christian population, following a severe drought as a result of climate change.

Part of the problem is that Sudan is geographically strategically attractive: it has access to the Red Sea and great agricultural wealth. Fighting broke out 5 days after the RSF was meant to be absorbed into the Sudanese army. However, Gen Monhamed Hamden Dagalo does not want this, as he would potentially lose the position of influence that he currently holds. In reality neither leader has expressed enthusiasm about a civilian government as it would lead to them both losing their positions of power. **The fear is that the conflict could spiral and spread to neighbouring countries in the region.** This would potentially lead to a greater humanitarian crisis in the region.

National

Trussell Trust

Between April 2022 and March 2023, **the Trussell Trust gave out almost 3 million food parcels, with more than a third being provided for children.** This is a **37%** increase in the number of food parcels provided the year before. This is **more than double** the number of parcels given out in 2017/18, and more than the peak seen during the pandemic.

With 760,000 people using a food bank for the first time ever, December was the busiest month for the Trust; a parcel was handed out every 8 seconds. The cost-of-living crisis, and particularly **food price inflation**, is placing significant pressure on families and with wages remaining significantly below the inflation rate, families are going to Trussell Trust to find food.

Foreign Direct Investment (FDI)

The ONS has released experimental subnational FDI inward and outward positions, earnings and flows statistics. Between 2020 and 2021, the value of the UK's outward foreign direct investment (FDI) **earnings increased nearly threefold, from £49.6bn to £134.7bn.** The UK's **inward** FDI earnings grew by a smaller amount, from **£56.1bn to £71.8bn.**

Producer price inflation

The ONS has released data on changes in the prices of goods bought and sold by UK manufacturers in January to March 2023. Key findings include:

- Producer input prices **rose by 7.6%** in the year to March 2023. Producer output (factory gate) prices **rose by 8.7%** in the year to March 2023.
- On a monthly basis, producer input prices **increased by 0.2%** and output prices **increased by 0.1%** in March 2023.
- Services producer prices **rose by 4.9%** in the year to Q1 2023, down from 5.3% in the year to Q4 2022.

Consumer price inflation

The ONS has released data on consumer price inflation for March 2023. Key findings were:

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) **rose by 8.9%** in the 12 months to March 2023. On a monthly basis, CPIH **rose by 0.7%** in March 2023, compared with a rise of 0.9% in March 2022.
- The Consumer Prices Index (CPI) **rose by 10.1%** in the 12 months to March 2023. On a monthly basis, CPI **rose by 0.8%** in March 2023, compared with a rise of 1.1% in March 2022.

Digital Economy

The ONS has released data on the use of information and communication technology (ICT) and the value of website sales by UK businesses. Key findings were:

- Total website sales made by businesses in the UK non-financial sector reached **£459.2bn in 2021**, an increase of £102.8bn (28.8%) compared with 2019.
- UK website sales were dominated by businesses with 1,000 or more employees; their sales were **£272.8bn** (59.4% of total) in 2021.
- Total UK website sales to customers outside the UK were **£77.8bn** in 2021.

Source: City-REDI University of Birmingham

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• The current regional economic and business outlook appears mixed; it is certainly **better than parts of 2022 but still very uncertain and unsettled**. There are also mixed results coming from different surveys / barometers which makes understanding the reality on the ground difficult. • For example, according to the **ICAEW's latest Business Confidence Monitor (BCM) for both the** East Midlands **and the** West Midlands, **business confidence has improved but is still weak.** - The Business Confidence Index for the West Midlands has risen to **+1.2 in Q1 2023,** after being in firmly negative territory through most of 2022. This is **below the UK average of +2.5.** - The Business Confidence Index for the East Midlands has entered positive territory for the first time since early 2022, and at **+3.2**, is **above the UK average.** • However, the March **Lloyds Bank Business Barometer suggested that, at 48%, business confidence in the West Midlands was the highest in the UK.** While in the latest (April) survey, **business confidence in the East Midlands grew for the third consecutive month – jumping by 18 points to 41 per cent - becoming the second highest in the UK.** - In March, across the UK there was a broad rise in business confidence across the sectors, **particularly in construction (up 28 points) and manufacturing (up ten points).** • These contrasting results also appear to filter through into impact and results of such conditions, also unclear and constantly changing fast – with **differing findings across different types of firms:** - Positively, listed companies in the Midlands issued only five profit warnings in Q1 2023, **nine less than Q4 2022 – a decrease of 64%** – and the lowest number of warnings since Q2 2021, according to the latest EY-Parthenon Profit Warnings Report. - Whereas the Analysis of notices in The Gazette by Interpath Advisory reveals that a total of **29 companies based in the Midlands fell into administration in Q1 2023, up from 22 in Q1 2022 and representing a jump of 32 per cent.** Nationally, insolvencies have reached a 3-year high. • Business sentiment, while growing and positive, is clearly still being dampened by the wide range of challenges that companies face. **Customer demand** is a prominent growing issue for businesses in the Midlands, while **challenges from regulatory requirements** are also showing an upwards trend. **Persistent issues come from high costs and labour market shortages.**
Trading Conditions	• **Increased costs** - **while experienced by all businesses - are affecting firm operations in varying ways dependant on circumstance.** These include impacts on affecting operational costs and cashflow, reducing margins and stunting growth, while at the more extreme end requiring redundancies or even company closure. Specific issues related to costs include: - **Energy Costs** - Concerns continue from businesses relating to rising energy costs and keeping offices open and staffed 5 days per week. Appetite is increasing for 4-day weeks and other flexible working patterns and that these will remain as the norm at least through 2023. - **Importing and exporting** - Time delays and customs/freight costs are too high. One importer of high-end furniture and home goods is choosing to close their business this month due to rising costs making their products unattractive to buyers. - **Materials costs increasing** - Notably glass bottles and CO2 gas prices eating into margins. Also, the cost of leather is up 24% and some foams and rubbers up to 80% more expensive this year. • Reflecting the less fatal impact of cost increase, according to a new report from Small Business Britain **more than three in five (61%) small business owners think they will grow this year, but there are signs that many are hitting the brakes on investment in core areas**, such as marketing and new technology. This is raising concerns for recovery. • More broadly, there is business **frustration with the lack of funded programmes to follow EU funded business** support.
Labour Market	• The downturn in permanent placements softened during March, according to a report from KPMG and REC. The **KPMG and REC, UK Report on Jobs: Midlands showed that permanent placements and temporary billings remained in contractionary territory at the end of the first quarter of 2023.** However, both segments saw softer reductions in comparison to February. • **Candidate's Market** – salaries and working conditions are being dictated by prospective employees. Work from home and flexibility are all being negotiated as strongly as salaries. • New Economics Foundation recently produced a report **on Skills for the New Economy.**

2. Economic and Labour Market Impacts

Business Activity

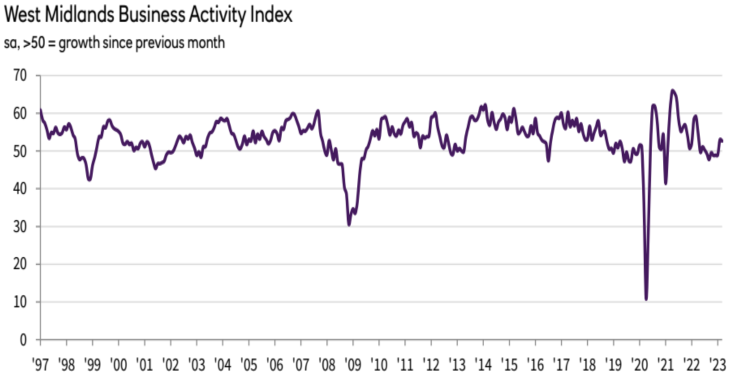
Business Activity Index

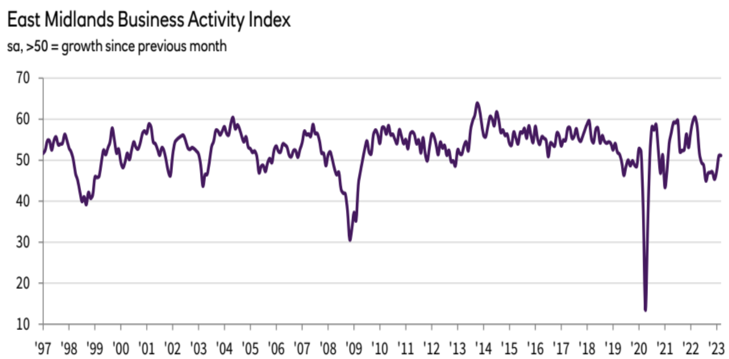
The **West Midlands Business Activity Index fell from 53.0 in February 2023 to 52.7 in March 2023**, although remains above the 50-growth mark for the second consecutive month. Business activity growth was linked to creation of new work, greater client spending, higher consumer footfall and overall better demand conditions.

The East Midlands Business Activity Index increased from 51.1 in February 2023 to 51.2 in March 2023, the rise was the fastest seen in ten months. The increase in output was due to stronger client demand and a faster rise in new business.

The UK Business Activity Index decreased from 53.1 in February 2023 to 52.2 in March 2023.

Business Activity Index trends:





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

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

Demand

The **West Midlands New Business Index rose from 53.2 in February 2023 to 54.1 in March 2023**, the second consecutive month to increase. The rise in new work was linked to improved demand conditions, advertising, approval of pending quotes and higher consumer footfall. The **East Midlands New Business Index increased from 50.4 in February 2023 to 51.3 in March 2023**, the second consecutive month to increase and the highest rate of growth seen for a year. The rise in new work was linked to stronger demand and greater client activity.

Exports

The **West Midlands Export Climate Index increased from 51.8 in February 2023 to 52.5 in March 2023 –** which is a nine-month high. The **East Midlands Export Climate Index increased from 52.1 in February 2023 to 53.0 in March 2023**, one of the strongest readings since May 2022.

Business Capacity

The **West Midlands Employment Index decreased from 53.2 in February 2023 to 50.5 in March 2023**. The **East Midlands Employment Index decreased from 50.3 in February 2023 to 49.7 in March 2023.**

The **West Midlands Outstanding Business Index increased from 48.9 in February 2023 to 49.9 in March 2023.** The **East Midlands Outstanding Business Index decreased from 47.7 in February 2023 to 47.3 in March 2023.**

Prices

The **West Midlands Input Prices Index decreased from 69.4 in February 2023 to 65.7 in March 2023**. The **East Midlands Input Prices Index decreased from 70.7 in February 2023 to 68.4 in March 2023.** The figures still show sharp input costs but the rate of inflation has eased for the fourth month in a row for both regions.

The **West Midlands Prices Charged Index decreased from 62.7 in February 2023 to 59.7 in March 2023.** The **East Midlands Prices Charged Index decreased from 61.3 in February 2023 to 58.1 in March 2023**.

Outlook

The **West Midlands Future Business Activity Index decreased from 78.4 in February 2023 to 78.0 in March 2023**, but the latest reading still shows a strong degree of optimism for the upcoming year. The latest reading is the second highest seen in 14 months. Optimism in West Midlands firms for the upcoming 12 months was linked to new clients, new product launches and the relocation of some firms away from London.

The **East Midlands Future Activity Index increased from 65.8 in February 2023 to 71.5 in March 2023,** which is the highest level seen for over a year. East Midlands firms were optimistic for the next 12 months due to hopes of increased client demand, investment in new product development and diversification.

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

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

UK Report on Jobs: Midlands

The latest KPMG and REC, UK Report on Jobs: Midlands survey, saw permanent placements and temporary billings remain in contractionary territory at the end of the first quarter of 2023. However, both segments saw softer reductions in comparison to February. **Wage inflation across the Midlands remained strong but** continued to ease from the heights seen throughout 2022. The **downturn in candidate availability also eased,** with candidates available for permanent roles fell at the second-slowest pace in nearly two years while **temp staff availability saw the softest decrease in the current 25-month sequence of reduction.** The report, compiled by S&P Global compiled questionaries responses from around 100 recruitment and employment consultancies in the Midlands.

Weaker fall in permanent staff placements

In March, **the seasonally adjusted Permanent Placements Index remained below the neutral 50.0 threshold in the Midlands, signalling a fourth consecutive monthly reduction in permanent staff appointments in the Midlands.** Although, the contraction was mild and the softest in the current sequence. Recruitment agencies often commented this was due to a lack of suitable candidates and uncertainty causing hiring plans to be paused. Out of the four monitored English regions, the Midlands saw the second-fastest reduction, behind London.

The Midlands also saw a decrease in temporary billings for the third consecutive month, with anecdotal evidence suggesting that a decrease in temporary billings was linked to softer demand for temporary staff and client cautiousness. The pace of decline eased from the previous survey period and was modest, the Midlands was the only region of the four to register a decrease in temp billings in March.

The region also registered a **slowdown in vacancy growth, but still saw a sharp increase in permanent staff vacancies at the end of the first quarter was the softest since February 2021**. Meanwhile temporary staff vacancies rose for the twenty-ninth month running, albeit at the slowest pace since January 2021.

Softest fall in temp staff availability in just over two years

In March, **the supply of temporary candidates in the Midlands fell for the twenty-fifth consecutive month**, with surveyed recruiters commonly attributing the downturn to candidates seeking more stability through permanent placements. Nonetheless, the decrease was only slight and the slowest in the current sequence.

Source: PMI, April 2023

The Midlands had a fractionally fall in temporary candidate availability comparative to the South of England, whilst other regions saw candidate numbers increase. Moreover, the number of candidates for permanent roles in the Midlands decreased for the fourth consecutive month. That said, the reduction was marginal and the softest within the current sequence.

Recruiters often commented on a lack of suitably skilled staff who were looking for permanent work. The Midlands was the only monitored English region to register a decrease

Permanent salaries edge lower in March

The Midlands saw a robust rise in salaries awarded to new permanent staff according to March data. That said, the pace of salary inflation eased from the previous survey period and was the second-softest since April 2021. Increased starting salaries were reportedly driven by shortages of suitably skilled staff and general inflation.

The region had the second-sharpest rate of increase among the four monitored regions, trailing behind the North East of England.

Recruiters within the Midlands also noted a sustained rise in average hourly rates of pay for short-term staff at the end of the first quarter. The rate of wage growth was the slowest since December and the second-weakest in almost two years. Where wage inflation was reported, panel members mentioned paying higher rates to attract suitable staff. The rate of wage growth in the Midlands was slightly softer than the UK average.

Comments

A brief summary of the comments on the latest results:

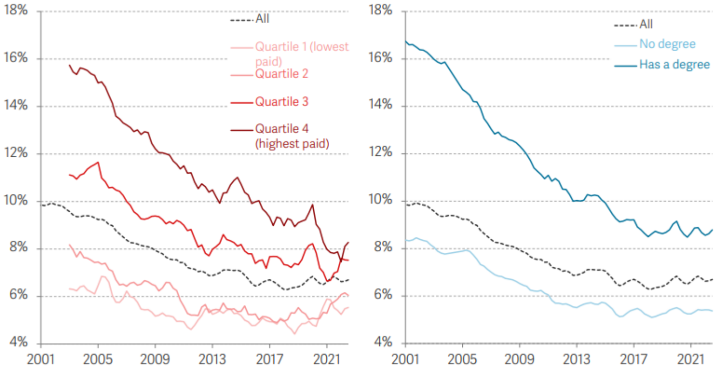
March's data indicates that businesses in the Midlands remain cautious about hiring as permanent placements and temporary billings declined, alongside falling candidate availability for permanent and temporary roles. However, the downturn in placements eased slightly, suggesting an improvement in business confidence. It will be interesting to see if the Government's focus on getting people back to work as outlined in the Budget, combined with the cost of living, starts to push up candidate availability in the Midlands over the coming months

Over the past few weeks, we have seen a bit more confidence among employers, and this is reflected in this latest data. This is the mark of an economy performing better than was expected at the end of last year.

Skills and human capital are a crucial driver of productivity and long-term economic growth. However, work-related training is in decline, despite big shifts in the skills needed to thrive in the workplace. This spotlight from the [Resolution Foundation] looks at the changing rates of training since the early 2000s among low-paid workers, particularly those at the wage floor.

First, **how has the overall decline in workplace training affected low-paid workers** – who are the least likely to receive training, despite having the highest potential gains in doing so. Reasonably expectation would suggest low-paid workers have been at the sharp end of the fall in training, given employers have historically been reluctant to upskill them.

The decline in training has been driven by higher-paid workers and graduates *(Source: RF analysis of ONS)*

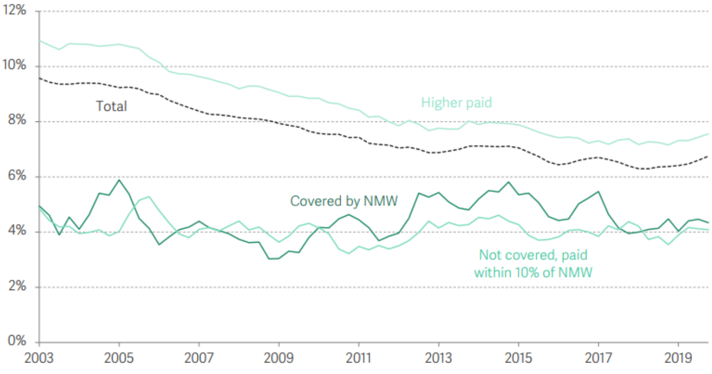


However, **the decline in training has been driven more by higher-paid workers and university graduates than by low-paid workers**. In 2003, the highest paid were **2.4** times more likely to receiving training as those lowest paid, but this gap fell to **1.9** times by 2019 and **1.6** times in 2022. Similarly, over the same period workers with a degree went from being **2.0** times more likely to receive training than those without a degree to **1.7** times as likely.

The training gap between low-paid and high-paid workers has slightly narrowed down over the past two decades, with higher earners and university graduates experiencing a decline in training while low paid-workers' training levels remained stable. **However, the overall decline in training remains a problem, and low-paid workers are still less likely to receive training than higher earners**. Reasons for the decline in the training gap may be due to employers cutting back on training among higher earners due to having more scope to cut back on training to begin with, or essential training that employers cannot eliminate. **The rise in the National Minimum Wage (NMW) during this period may have also played a role in the gap** – and while this has not had the large negative employment effects that some feared, it is plausible that the rising wage floor affected training provision.

Theoretically, **the minimum wage could affect training in two ways: employers may cut back on training** due to rising labour costs (with evidence from Germany and Japan suggesting that some employers choose to cut back on training for those on the wage floor), **or more positively they may invest in training to boost productivity and reduce worker turnover**. Evidence from a UK study found that the minimum wage may increase training, and companies respond to rising wages by investing in labour productivity through training. And in 2016, the Resolution Foundation survey of employers found that **15 percent** of firms increased their training provision in response to the National Living Wage (NLW), and **21 percent** planned to do so in the next five years.

There is no evidence that employers have cut training among minimum wage workers



Source: RF analysis of ONS

Moreover, when looking at rates of training over time for minimum wage workers, those who are above the minimum wage but still low-paid, and all other earners creates a conundrum as the data is volatile making it difficult to draw strong conclusions. **Yet, there is a suggestion that those paid at the wage floor have not received less training than those paid slightly above the minimum wage, and in some periods, those covered by the NWM appear to have had more training**.

It's also worth noting that workers at the wage floor have different characteristics than other low-paid workers. If minimum wage workers trend to be younger (a factor associated with higher levels of training overall), this could be pushing up training rates among those at the wage floor.

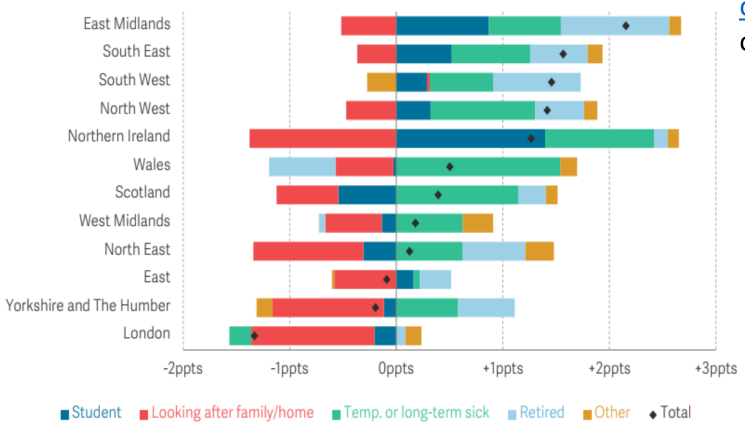
Controlling for other characteristics

Its suggested that if employees were equivalent in terms of age, sex, and job type, but different only in whether they were paid at the minimum wage **we could expect the average worker at the wage floor to be 12 percent more likely to receive training** than a comparable worker paid above the NMW. Evidence thus suggests that a rising minimum wage may encourage employers to invest in training, especially **to improve productivity**.

Source: Resolution Foundation, 2023

However, more policy action is needed to address the overall lack of training among low earners and the utility of training they receive. **Lower earners are less likely to receive training that helps them progress in their career or move to higher-paying jobs** – focusing on training for health and safety. The foundation will continue future work as part of the Economy 2030 Inquiry which will focus on developing policy recommendations to enhance skills and human capital to contribute to higher economic growth and lower inequality.

Headline rise in economic inactivity since the Covid-19 pandemic has not been evenly spread across the UK



Source: RF analysis of ONS

The pandemic has caused a rise in economic inactivity, especially due to long-term illness and early retirement. This rise varies across the regions and nations in the UK, with **the East Midlands having the highest increase among 16-64 year-olds**, followed by the South East, South West, and North West. **The West Midlands had the second lowest increase** following the North East, whilst the East, Yorkshire and Humber, and London saw falls in economic inactivity mostly due to the number of people who are looking after family and home, largely mothers with young children. Policymakers should focus on longer-term support for older workers, women with children, and those affected by rising ill-health and disability to return to work and remain employed.

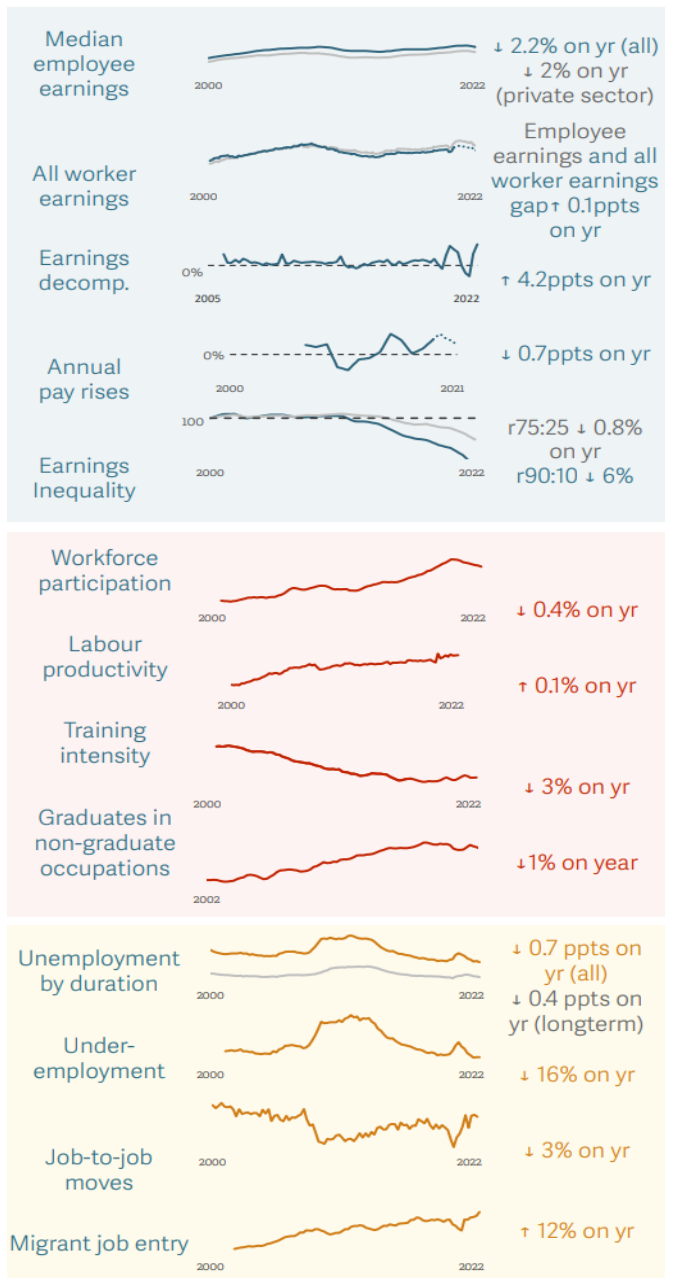
Recent rises in zero-hours contract have come from those who do not want more hours

The number of people on **zero-hours contracts (ZHCs) reached a record high in Q4 2022**, which could be due to seasonal effects or employers wanting to maintain a flexible workforce during economic uncertainty (as happened after the financial crisis). However, recent data suggests that the rise has been made up mostly of those who do not want to work more hours rather than those who are underemployed. While ZHCs may lead to uncertainty over working hours and last-minute shift cancellations, the current tight labour market may give workers more power to negotiate better terms and conditions, as well as upping the number of work hours.

Some ethnic groups are yet to return to 2019 levels of unemployment

The rise in unemployment feared at the end of the furlough scheme due to the Covid-19 pandemic was both limited and short-lived. However, this is not the case across all ethnic groups, **as unemployment rates among Bangladeshi, Indian, and Mixed/multiple ethnic groups remained higher than in 2019** – and most ethnic minority groups had higher unemployment rates than the average across the whole population. To ensure a tight labour market delivers for all, wider structural changes are needed, particularly addressing workplace discrimination, for which ethnicity is the most commonly-reported.

Q1 2023 - Scorecard



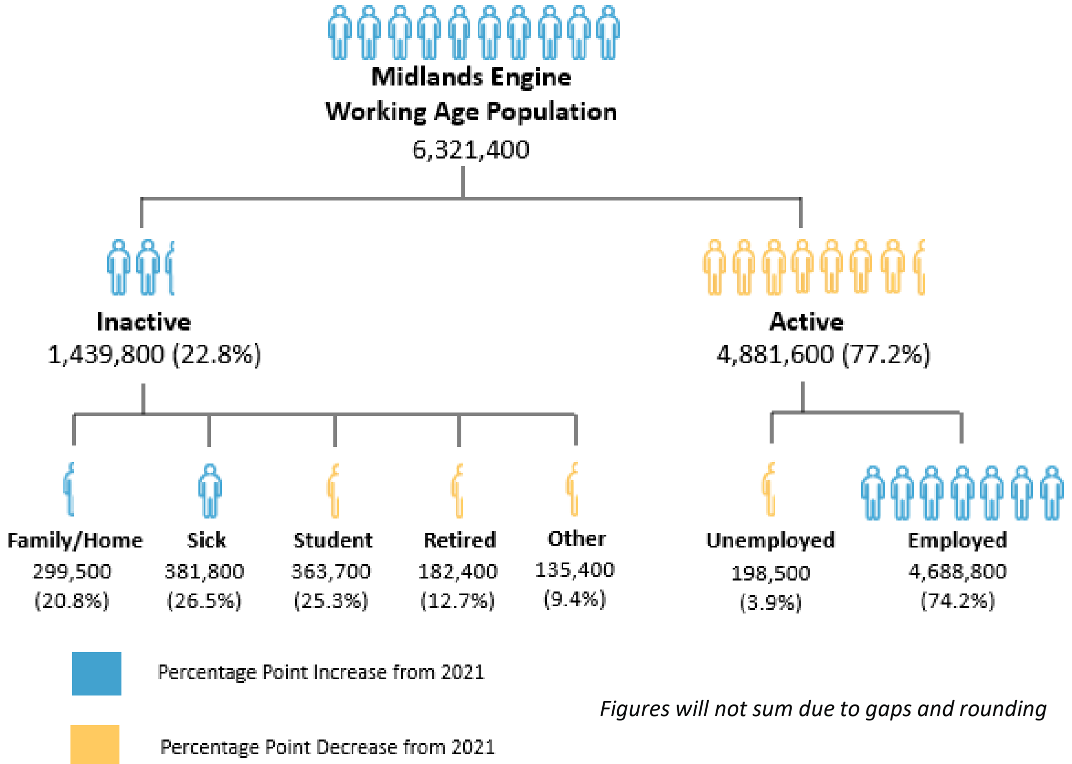
Source: Resolution Foundation, 2023

Economic Activity

The latest data (full year 2022) from the Office for National Statistics (ONS) Annual Population Survey (APS) that was released in April shows –

- In 2022, the **employment rate in the Midlands Engine area was 74.2%,** compared to 75.5% for the UK overall. When compared to 2021, the Midlands Engine area **increased by 0.6 percentage points (pp)** and the UK overall increased by 0.8pp. For the Midlands Engine area **to reach national proportions requires 83,244 working age residents to be employed.**
  - Within the Midlands Engine, 39 local authority areas have employment rates that were above the UK average. Since 2021, the employment rate in 36 of the Midlands Engine local authorities increased and 1 local authority remained at the same level.
- The **economic activity rate for the Midlands Engine area was 77.2%** compared to 78.3% for the UK in 2022. For the Midlands Engine area, **the economic activity rate has decreased by 0.1pp** since 2021. The UK remained at the same level over this period. For the Midlands Engine area **to reach national proportions requires 69,132 working age residents to be economically active.**
  - Within the Midlands Engine, 38 local authority areas have economically active rates that were above the UK average. Since 2021, the economic activity rate in 30 of the Midlands Engine local authorities increased, with 2 local authorities remaining the same level.
- **For economic inactivity, the Midlands Engine rate was 22.8%** compared to 21.7% for the UK overall in 2022. Since 2021, for the Midlands Engine area, this **increased by 0.1pp** while the UK remained at the same level.
  - As seen below, the increase in economically inactivity was linked to looking after the family/home (+1.7pp) and sick (+1.6pp).
  - In 2021, the Midlands Engine had a **higher percentage of residents that were inactive when compared to the UK for those looking after the family/home (20.8% vs 19.7%).**
- The **modelled unemployment rate for the Midlands Engine was 3.7%** compared to 3.6% for England in 2022. For the Midlands Engine, this is a **decrease of 0.9pp** which matched the national decline since 2021.

Labour Market Activity for the Midlands Engine in 2022:



Figures will not sum due to gaps and rounding

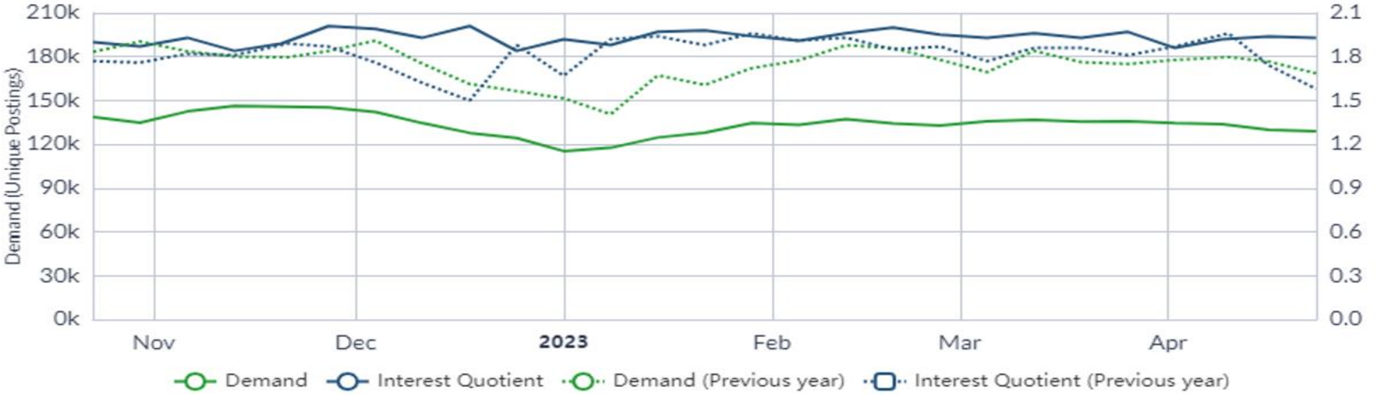
Due to data gaps, modelled unemployment rate has been used. The model-based estimate improves on the APS unemployment estimate by borrowing strength from the claimant count to produce an estimate that is more precise. The claimant count is not itself a measure of unemployment but is strongly correlated with unemployment. The gain in precision is greatest for areas with smaller sample sizes. Modelled unemployment rate is based on all people aged 16+ without a job who were available to start work in the two weeks following their interview and who had either looked for work in the four weeks prior to interview or were waiting to start a job they had already obtained.

Labour Market and Job Postings

Nationally, the latest labour market data shows continued improvement, with employment up, economic inactivity down and unemployment broadly flat. Notably however, **lower overall economic inactivity levels continue to mask significant increases in those out of work due to long-term ill health** (2.5m – a new record high) and long-term unemployment may also be starting to tick up again. Positively, data on vacancies and redundancies suggest that labour demand is still fairly buoyant.

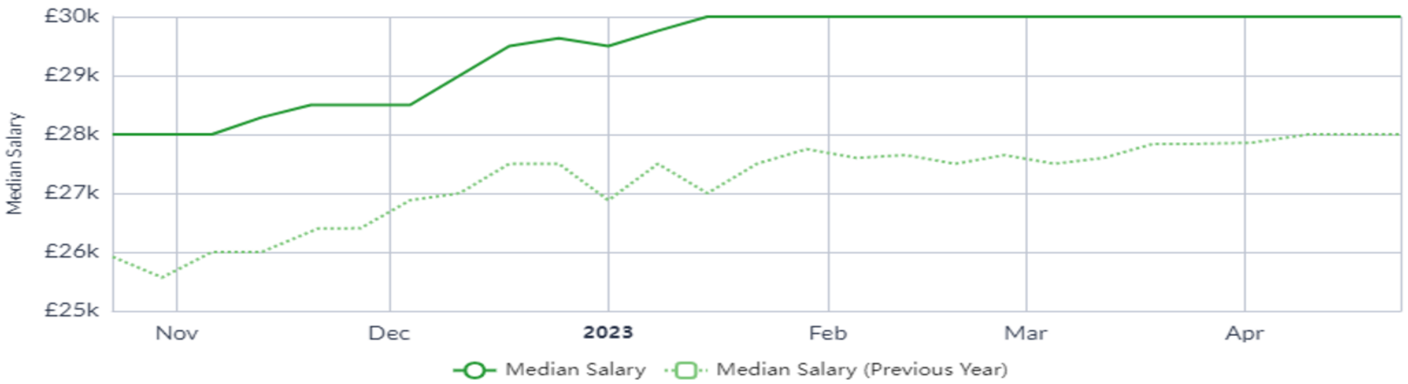
The latest job postings data shows that the **number of postings across the Midlands dropped 33.7% over the last six months to 1.14 million**. Despite employer demand narrowing, those seeking work - wanting a job, currently remains heightened.

Overall Demand and Interest for the Midlands:



Nevertheless, **advertised median salary across the Midlands has increased by 7.8%** year-on-year to £29,536; 3.2% below the national median advertised salary of £30,500.

Salary Trends for the Midlands:



Sectors Hiring in the Midlands:

Job posting demand was greatest for roles in logistics & warehousing, engineering, teaching and IT. These sectors accounted for 35.5% of all job postings in the last six months.

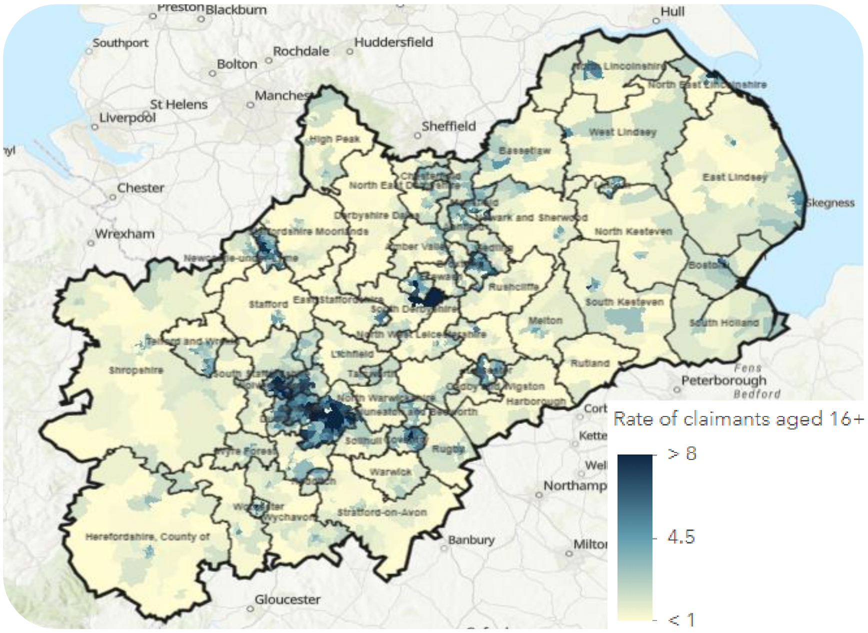
Source: Adzuna Limited Job Posting Intelligence, April 2023. The Interest Quotient uses jobseeker data to quantify the level of interest in particular roles.

Labour Market Impacts: Claimants

There were **278,570 claimants aged 16 years and over** in the Midlands Engine area in March 2023, an increase of 9,920 (+3.7%, UK +3.3%) claimants since the previous month. **There are 57,030 (+25.7%, UK +24.3%) more claimants when compared to March 2020**. East Lindsey and North East Lincolnshire had lower levels of claimants than March 2020 (-545 and -70 respectively).

The number of claimants as a percentage of residents aged 16 years and over was 3.3% in the Midlands Engine and 2.9% for the UK in March 2023.

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



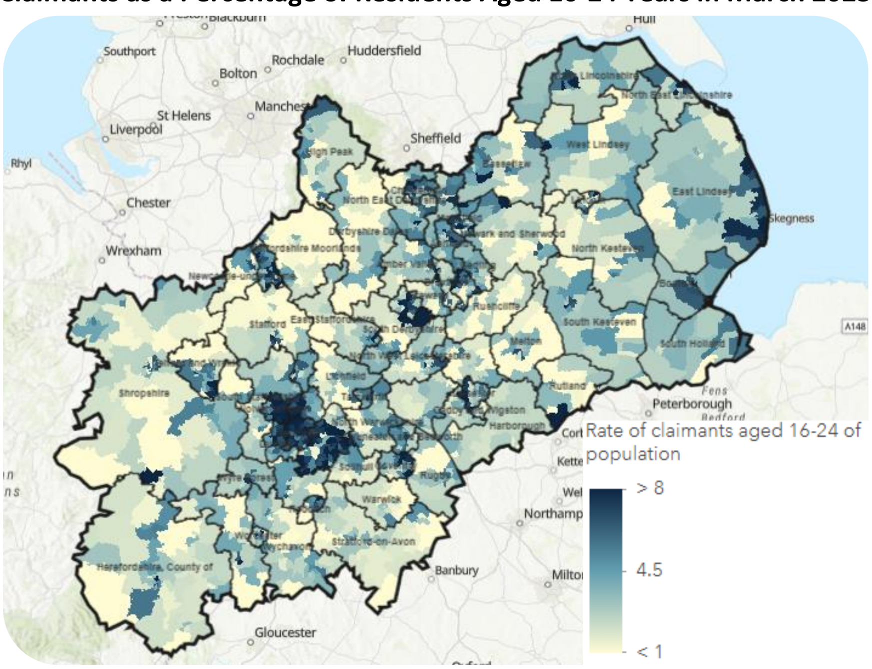
Out of the 1,511 wards within the Midlands Engine, 453 were at or above the UK average of 2.9% for the number of claimants as a percentage of the population aged 16 years and over in March 2023.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, with Lozells the highest at 15.2%. This was followed by Handsworth and Birchfield (both at 14.5%). In contrast, there were no claimants in Keele (Newcastle-Under-Lyme) in March 2023.

There were **51,605 claimants aged 16-24 years old** in the Midlands Engine area in March 2023 – an increase of 1,680 youth claimants since February 2023. This equated to an increase of 3.4% for the Midlands Engine area (UK +3.3%). Since March 2020, **the number of youth claimants has increased by 7,410** (+16.8%, UK +13.6%). Notably, 10 local authorities were lower than March 2020.

The number of claimants as a percentage of residents aged between 16 and 24 years old was 4.5% in the Midlands Engine and 3.9% for the UK in March 2023.

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



Out of the 1,511 wards within the Midlands Engine, 646 were at or above the UK average of 3.9% for the number of claimants as a percentage of the population aged 16 – 24 years and over in March 2023.

The ward with the highest the number of claimants as a percentage of the population was Joiner's Square (Stoke-on-Trent) at 14.8%. This is followed by Portland (Mansfield) at 13.1% and Oak Tree (Mansfield) at 12.8%. In contrast, within the Midlands Engine there were 101 wards with no youth claimants in March 2023.

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

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

Skills Imperative 2035

The global economy faces significant shifts in the coming decades. **New technologies, coupled with major demographic and environmental change, are predicted to disrupt the economy and the labour market in various ways. This will have a significant impact in the next 10 to 15 years and beyond**, both in terms of the jobs available and the skills needed to do them.

To fill this evidence gap, the NFER research study, '[the Skills Imperative 2035: Essential skills for tomorrow's workforce]' looks at: which essential employment skills will be most needed in 2035; what will their likely supply be and where the gaps will be; which occupations and workers are most at risk of not having these skills; which skills will affected workers need to develop to transition into new employment opportunities, and the role of educators and employers in helping to prepare young people and workers for the future labour market.

National key findings:

- There are **projected to be 2.6 million new jobs by 2035**, the majority of which will be taken by women. The projections also show that **jobs most vulnerable to automation are currently mainly held by men**.
- The adoption of new technologies in the labour market are projected to lead to around two million jobs being displaced. However, there will be plenty of new opportunities too, which will offset these losses.
- **Employment in the health sector is expected to increase the fastest**, but most new jobs created by 2035 will be in professional and associate professional occupations.

The Midlands findings:

Midlands Employment by Industry Sector (SIC 2007) 2015 to 2035:

	East Midlands		West Midlands		Growth % (pa) 2020-2035		
	2020	2035	2020	2035	East Midlands	West Midlands	UK
Primary sector and utilities	73,000	71,000	56,000	56,000	-0.2%	0.1%	0.2%
Manufacturing	278,000	258,000	305,000	282,000	-0.5%	-0.5%	-0.8%
Construction	148,000	158,000	205,000	210,000	0.4%	0.2%	0.8%
Trade, accommodation and transport	672,000	704,000	809,000	893,000	0.3%	0.7%	0.5%
Business and other services	666,000	707,000	817,000	881,000	0.4%	0.5%	0.6%
Non-marketed services	568,000	613,000	712,000	786,000	0.5%	0.7%	0.6%
All industries	**2,404,000**	**2,511,000**	**2,903,000**	**3,107,000**	**0.3%**	**0.5%**	**0.5%**

Employment by industry sector is driven by output and assumptions about productivity growth.

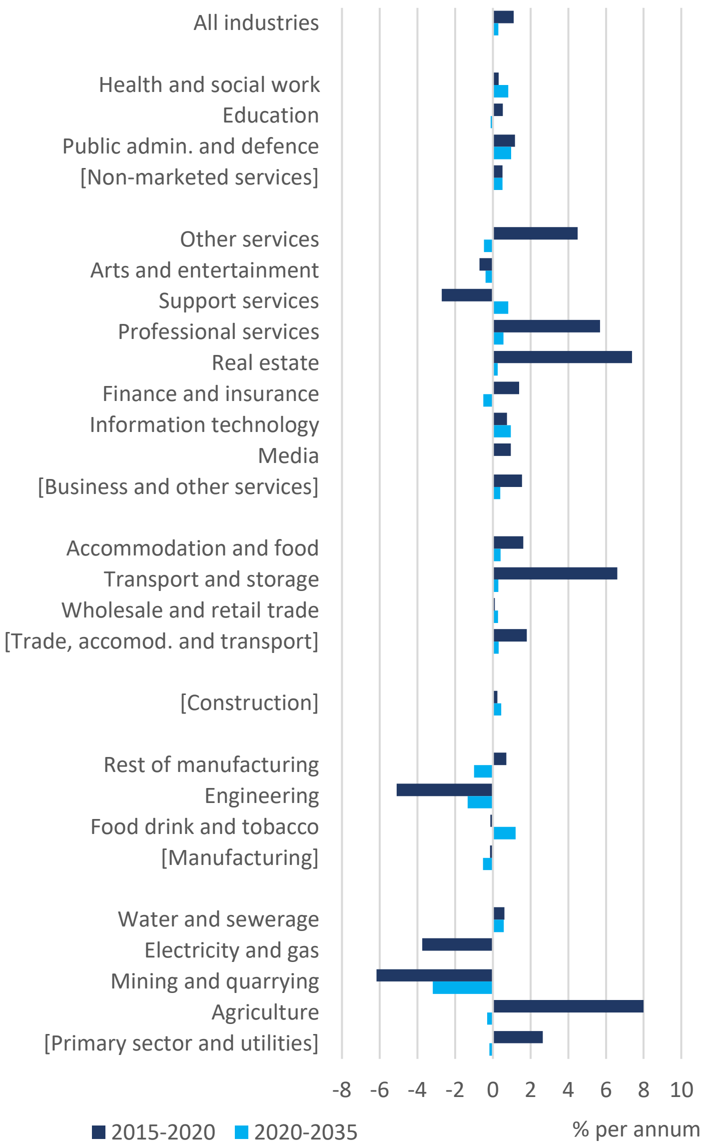
- The projections indicate employment across the Midlands is to recover and grow steadily, if modestly. **Employment in the East Midlands is expected to grow by 0.3% per annum (106,000 jobs in total); whilst the West Midlands is forecast to expand by 0.5% to 2035 (204,000 jobs).** Nationally, employment growth is expected to increase by 0.5%.
- Overall, total employment growth is expected to be lower than historical averages and, most notably, employment in manufacturing is expected to contract by 0.5% pa to 2035.
- Employment growth in both the East and West Midlands is expected to be driven by **non-marketed services and business and other services.**

The charts on the following page show a breakdown of employment projections by industry for the East Midlands and the West Midlands.

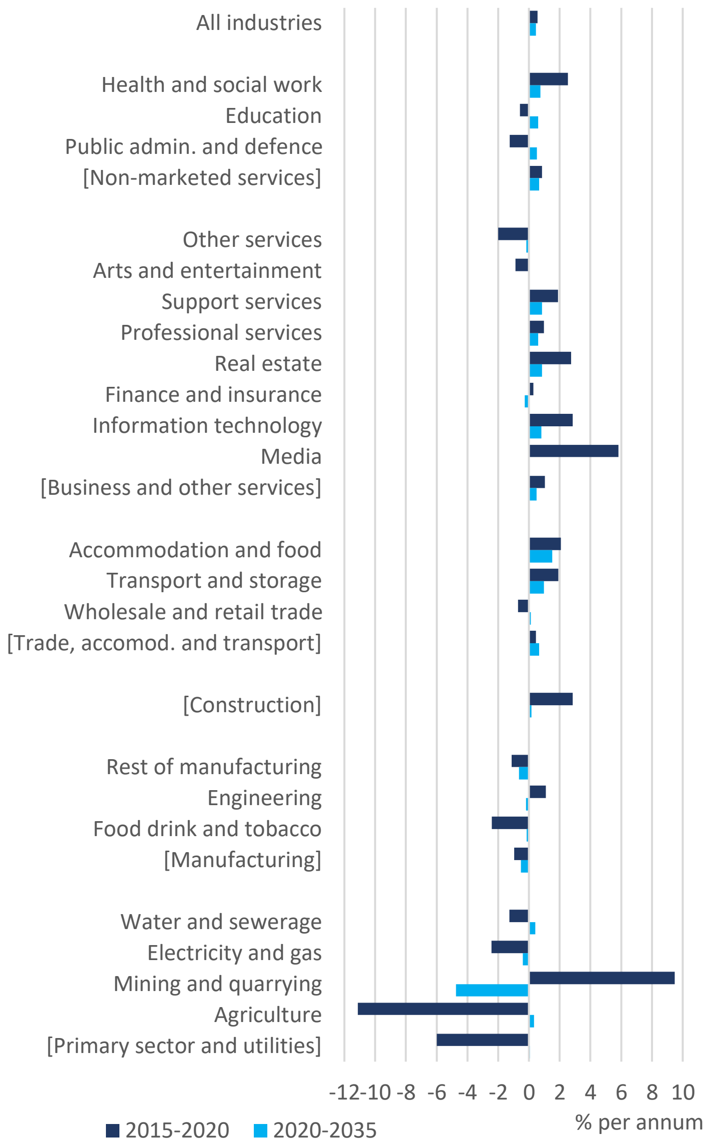
Please note, non-marketed services are comprised of Public administration and Defence, Education and Health and Social Work.

Midlands Growth in Employment by Industry Group, 2015 to 2020 and 2020 to 2035:

East Midlands:



West Midlands:



Midlands Change by Occupational Group (SOC 2020) 2015 to 2035

Occupational employment patterns are to a large extent driven by the changing industrial structure of employment

	East Midlands		West Midlands		Growth (%) pa 2020-2035		
	2020	2035	2020	2035	East Midlands	West Midlands	UK
Managers, directors, and senior officials	262,000	268,000	283,000	297,000	0.2%	0.3%	0.3%
Professional occupations	496,000	584,000	614,000	730,000	1.1%	1.2%	1.2%
Associate professional occupations	293,000	334,000	367,000	430,000	0.9%	1.1%	0.9%
Administrative and secretarial occupations	251,000	238,000	342,000	333,000	-0.4%	-0.2%	-0.3%
Skilled trades occupations	209,000	188,000	291,000	268,000	-0.7%	-0.6%	-0.1%
Caring, leisure and other service occupations	256,000	275,000	275,000	301,000	0.5%	0.6%	0.6%
Sales and customer service occupations	198,000	198,000	222,000	229,000	0.0%	0.2%	0.1%
Process, plant and machine operatives	189,000	181,000	217,000	222,000	-0.3%	0.2%	0.0%
Elementary occupations	250,000	245,000	292,000	297,000	-0.1%	0.1%	0.0%
All occupations	**2,404,000**	**2,511,000**	**2,903,000**	**3,107,000**	**0.3%**	**0.5%**	**0.5%**

Skills Imperative 2035

- Professional and Associate professionals are expected to experience the highest increases in expansion demand (net changes in jobs by occupation are referred to as expansion demand) with growth of 1.1% in the East Midlands and 1.2% in the West Midlands.
- Conversely, Skilled trades occupations and Administrative and secretarial are forecast to experience the greatest negative net change .
- **The overall pattern of occupational change across the Midland is similar to that observed nationally, with the number of jobs created due to economic growth (net change or expansion demand) to 2035 mainly concentrated in higher-skilled roles.**

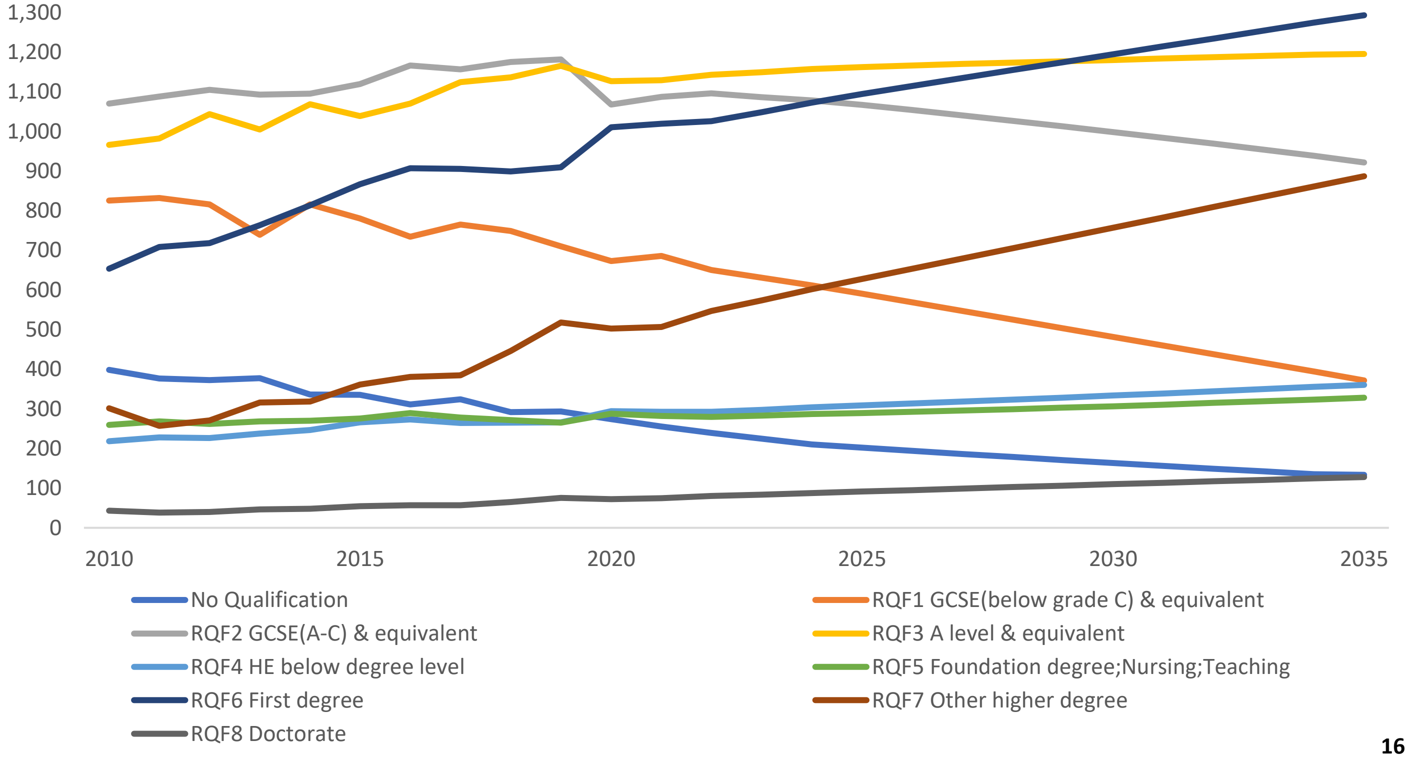
Midlands Employment by Qualification 2020 to 2035

The table shows the projected number of people (16+) and the likely growth to 2035 of people holding different levels of formal qualifications:

	East Midlands 2035		West Midlands 2035		Growth % pa 2020 to 2035		
	Num	%	Num	%	East Midlands	West Midlands	UK
RQF8 Doctorate	49,000	1.9%	80,000	2.6%	3.1%	4.4%	3.9%
RQF7 Other higher degree	340,000	13.5%	546,000	17.6%	3.2%	4.3%	4.0%
RQF6 First degree	607,000	24.2%	685,000	22.1%	1.9%	1.4%	1.2%
RQF5 Foundation degree	152,000	6.1%	176,000	5.7%	1.2%	0.6%	0.6%
RQF4 HE below degree level	169,000	6.7%	192,00	6.2%	1.5%	1.2%	1.1%
RQF3 A level & equivalent	570,000	22.7%	624,000	20.1%	0.4%	0.4%	0.0%
RQF2 GCSE (A-C) & equivalent	385,000	15.3%	536,000	17.3%	-1.7%	-0.4%	-1.5%
RQF1 GCSE (below grade C) & equivalent	179,000	7.1%	193,000	6.2%	-3.8%	-3.9%	-3.4%
No Qualification	59,000	2.3%	75,000	2.4%	-2.6%	-5.9%	-3.3%

- At both ends of the skills spectrum, the Midlands Engine region is predicted to narrow of the gap with the UK comparator, by both reducing the number of people with No qualifications whilst increasing the number of people with higher level skills.
- **This is crucial, as the data suggests that demand is continuing to shift towards occupations which typically require higher level qualifications.**

Midlands Engine Employment by Qualification Timeseries:



3. Economy and Investment

Gross Value Added

After the impacts of Covid-19 (and GVA declining between 2019 and 2020), the latest figures show that total GVA in the overall Midlands Engine area has started to make a recovery in 2021 and is now at the highest levels seen on the timeseries (since 2004).

The Midlands Engine total GVA has increased from £235.1bn in 2020 to £252.6bn in 2021. This equated to a 7.4% (+£17.5bn) annual increase which was slightly above the UK-wide growth rate of 7.2%. When **compared to 2019** (where GVA totalled £245.6bn in the Midlands Engine area), there has been an **increase of 2.8% (+£17.5bn), above the UK-wide growth rate of 2.0%.**

- Out of the 65 local authorities in the Midlands Engine, **64 local authorities increased in total GVA** between 2020 and 2021 (as Harborough had a 0.5% decline from £2,112m to £2,102m).
- **GVA in 52 of the Midlands Engine local authorities were above 2019 levels.** This means that 13 local authorities had lower levels of total GVA (of which, 9 were in the West Midlands and 4 were in the East Midlands).

GVA per Head

Midlands Engine GVA per head increased from £22,603 in 2020 to £24,346 in 2021. This equated to a 7.7% (+£1,743) increase, above the UK average rise of 7.3%. When **compared to 2019** (where GVA per head was £23,736 in the Midlands Engine area), there has been an **increase of 2.6% (+£610), above the UK-wide growth rate of 1.7%.**

- **Across the 65 local authorities in the Midlands Engine area, 63 increased for GVA per head** (Harborough decreased from £22,107 to £21,386 and Sandwell decreased from £19,156 to £18,755) since 2020.

The Midlands Engine shortfall to the national GVA per head has decreased from £6,208 in 2019 to £6,097 in 2021.

GVA per Sector

All sectors increased over the year, the highest value increase in the Midlands Engine area was in the advanced manufacturing sector by £3.1bn (+8.4%) to £40.7bn, accounting for 16.1% of GVA.

Of the Midlands Engine ten sectors, **business, professional & financial services remains the largest in terms of GVA at £67.5bn (26.7% of the total,** UK 35.3%) and this sector increased by 2.9% (+£1.9bn) over the year.

The **Midlands Engine area has a higher proportion when compared to the UK in seven sectors**, these are highlighted in green in the table below.

GVA by Sector for the Midlands Engine overall and UK-wide:

	Midlands Engine					UK			
	2020	2021	% Change	Num. Change	% of 2021 total	2020	2021	% Change	% of 2021 total
	£ Millions			£ Millions		£ Millions			
Advanced Manufacturing	£37,522	£40,665	8.4%	£3,143	**16.1%**	£183,920	£199,850	8.7%	9.8%
Business, Professional & Financial Services	£65,598	£67,487	2.9%	£1,889	26.7%	£688,681	£720,325	4.6%	35.3%
Construction	£15,624	£17,622	12.8%	£1,998	**7.0%**	£117,626	£132,871	13.0%	6.5%
Creative, Design & Digital	£9,999	£10,488	4.9%	£489	4.2%	£127,849	£133,488	4.4%	6.5%
Energy & Low Carbon Activities	£11,470	£13,275	15.7%	£1,805	**5.3%**	£81,411	£92,671	13.8%	4.5%
Healthcare & Life Sciences	£22,590	£23,911	5.8%	£1,321	**9.5%**	£162,293	£171,328	5.6%	8.4%
Public Sector inc. Education	£28,963	£30,666	5.9%	£1,703	**12.1%**	£221,691	£234,861	5.9%	11.5%
Retail	£27,425	£30,083	9.7%	£2,658	**11.9%**	£198,343	£215,527	8.7%	10.6%
Transport Technologies & Logistics	£9,438	£9,849	4.4%	£411	**3.9%**	£61,964	£63,464	2.4%	3.1%
Visitor Economy	£6,498	£8,539	31.4%	£2,041	3.4%	£59,797	£76,114	27.3%	3.7%
Total	£235,124	£252,580	7.4%	£17,456	100%	£1,903,575	£2,040,499	7.2%	100%

Office for National Statistics (ONS): Regional economic activity by gross domestic product, UK: 1998 to 2021

Research & Development

Research & Development refers to any creative and systematic activity that contains certain amount of novelty – which includes the development of new concepts, products and processes – with the aim of increasing the stock of knowledge. The ONS have released experimental analysis on UK public-funded gross capital and non-capital expenditure on research and development (R&D) by International Territorial Level 1 (ITL1) geographies during the financial year ending (FYE) 2021. Results include estimates for R&D expenditure that is conducted both within the government sector (in-house performed R&D) or outside of government (purchased or funded R&D).

Total Gross Capital and Non-Capital R&D

Gross capital and non-capital R&D expenditure is the total expenditure on R&D activities prior to the deduction of any income generated on such activities.

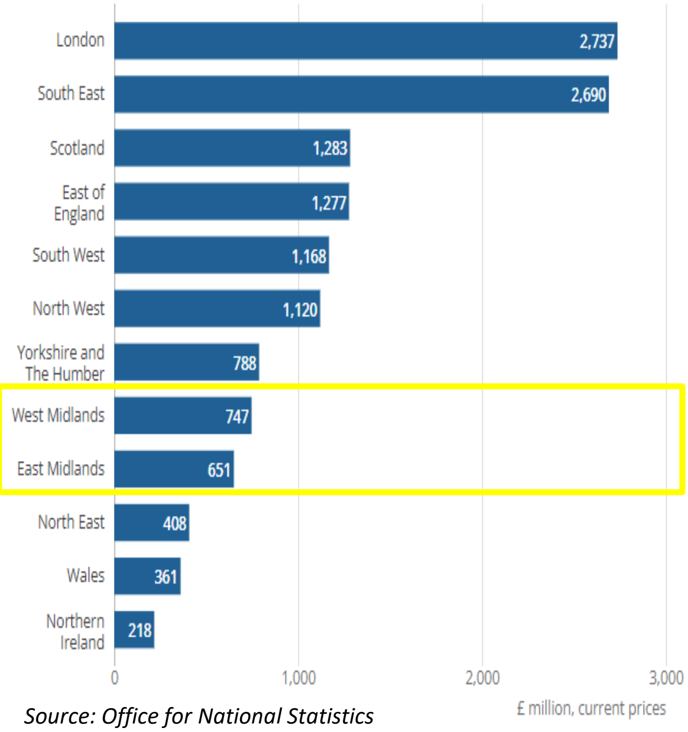
In the FYE 2021, the UK's public-funded gross capital and non-capital expenditure on R&D was £14.5bn, of which 93.0% (or £13.4bn) was spent across the UK. London and the South East had the two highest values of gross capital and non-capital R&D among all UK countries and regions, accounting for a combined R&D value of £5.4 billion (40.4%). Northern Ireland, Wales and the North East had the lowest R&D expenditure, with a combined value of just under £1.0bn. **The Midlands had a total value of £1.4bn (10.4% of the UK total). Individually, the East Midlands was the 4th lowest region at £651m and the West Midlands was the 5th lowest at £747m.**

In-house performed R&D

Expenditure on R&D performed "in-house" refers to any gross capital and non-capital R&D activity that is conducted within the "general government" sector of the National Accounts (this includes central as well as local government).

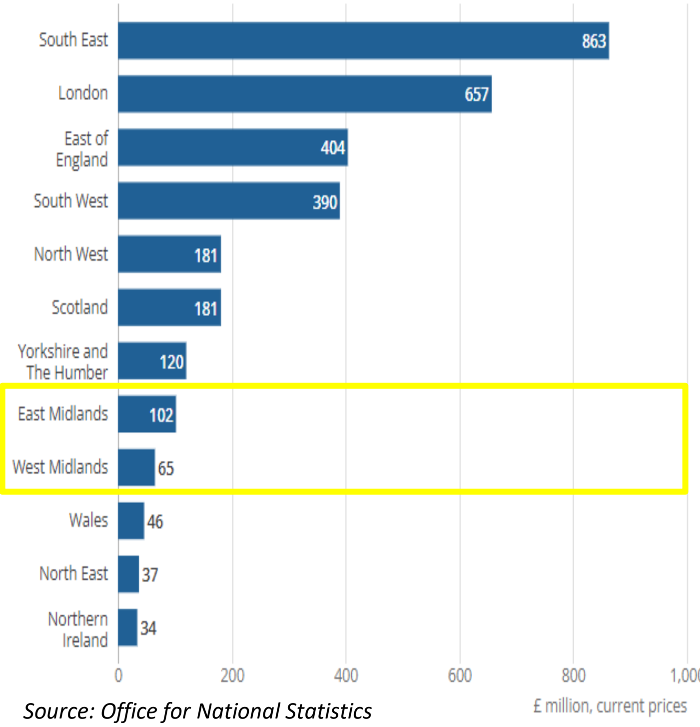
In the FYE 2021, the government sector reported a value of £3.1bn of total gross expenditure on capital and non-capital R&D that was performed "in-house" in the UK. **The West Midlands was one of the four areas that had an expenditure value of in-house performed R&D below £0.1bn (the East Midlands was only slightly above).** Similar to the geographic distribution of overall gross capital and non-capital R&D, Northern Ireland, the North East and Wales performed the lowest in-house R&D expenditure. This contrasts with the South West, which had the highest value of in-house performed R&D expenditure outside the Greater South East in FYE 2021, of £0.4 billion. Overall, analysis suggests that the majority of in-house performed R&D was concentrated in the southern territories of England.

Total Gross Capital and Non-Capital R&D by UK Country & Region, FYE 2021:



Source: Office for National Statistics

In-House Performed Gross Expenditure on Capital and Non-Capital R&D by UK Country & Region, FYE 2021:



Source: Office for National Statistics

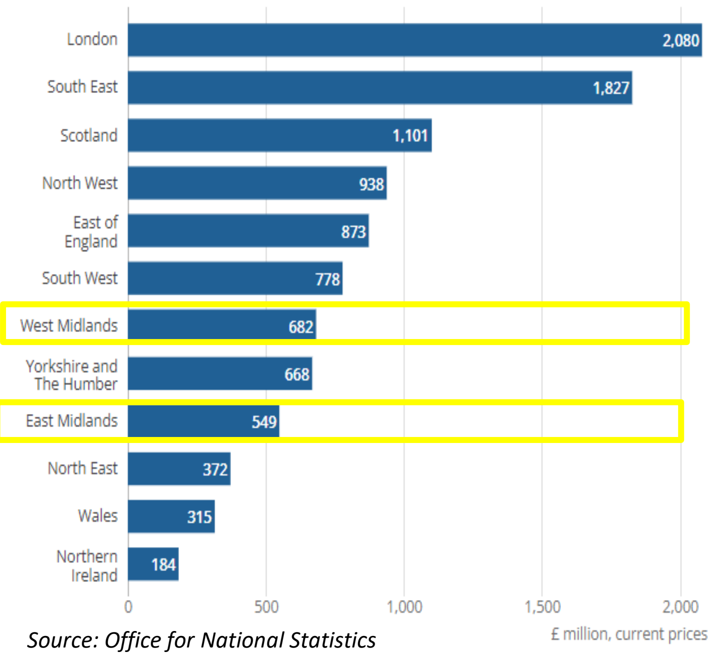
Research & Development

Purchased or Funded R&D

The government sector can also fund or purchase R&D activities that are conducted by organisations outside the government sector, such as private companies, higher education institutions and not-for-profit organisations, both within and outside the UK.

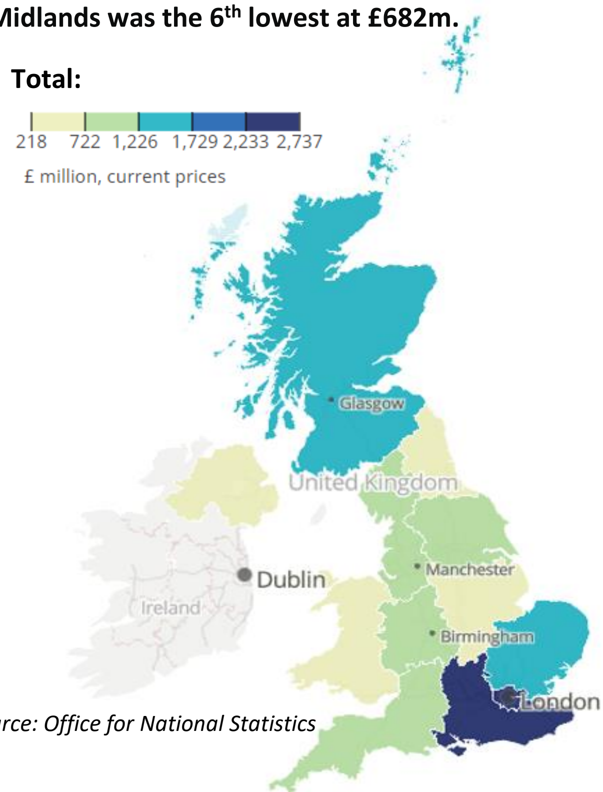
In FYE 2021, UK public-funded purchased or funded R&D totalled £11.4bn, which was mostly performed in the UK (91.1%, £10.4bn). For purchased or funded R&D, activities were more spread across the UK than for in-house performed R&D. London and the South East had the two highest values of purchased or funded R&D performance in FYE 2021 (£2.1bn and £1.8bn respectively). **The Midlands had a total value of just over £1.2bn. Individually, the East Midlands was the 4th lowest region at £549m and the West Midlands was the 6th lowest at £682m.**

Purchased or Funded Gross Expenditure on Capital and Non-Capital R&D by UK Country & Region, FYE 2021:



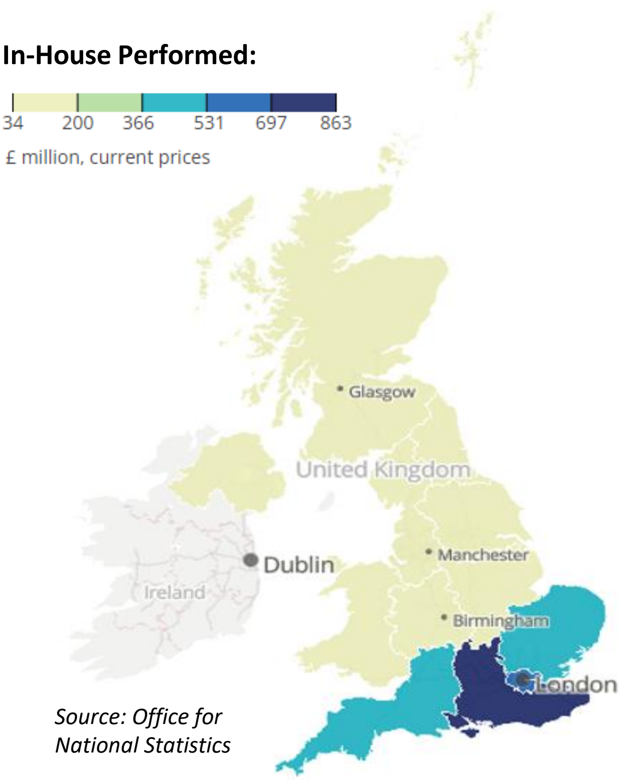
Source: Office for National Statistics

Total:



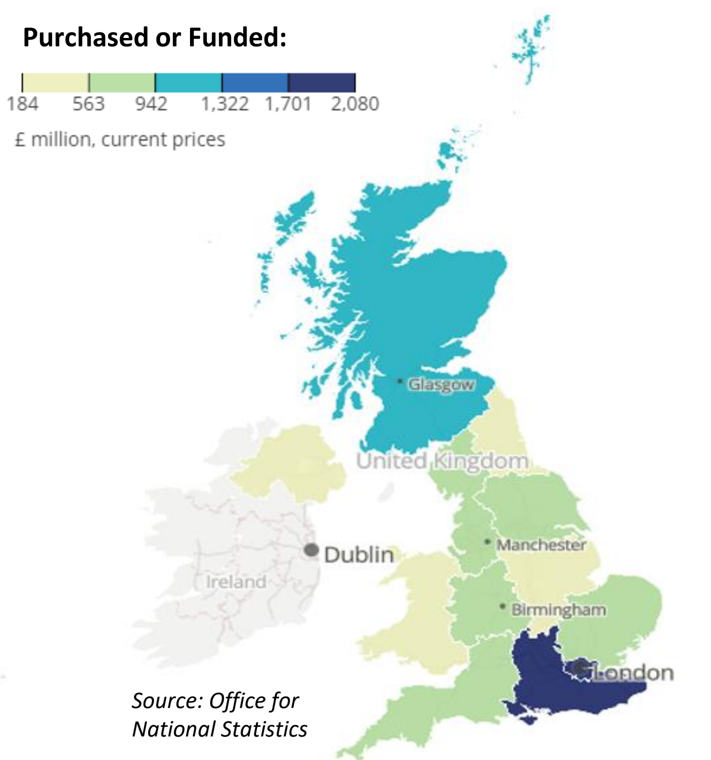
Source: Office for National Statistics

In-House Performed:



Source: Office for National Statistics

Purchased or Funded:



Source: Office for National Statistics

Subnational FDI

On 24th April, ONS released their latest experimental [sub-national Foreign Direct Investment (FDI) estimates](), including **Outward FDI positions (the direct investments of UK-resident companies in other countries) and Inward (the direct investments in the UK from non-resident companies).** The new data is updated to 2021.

Outward FDI Earnings

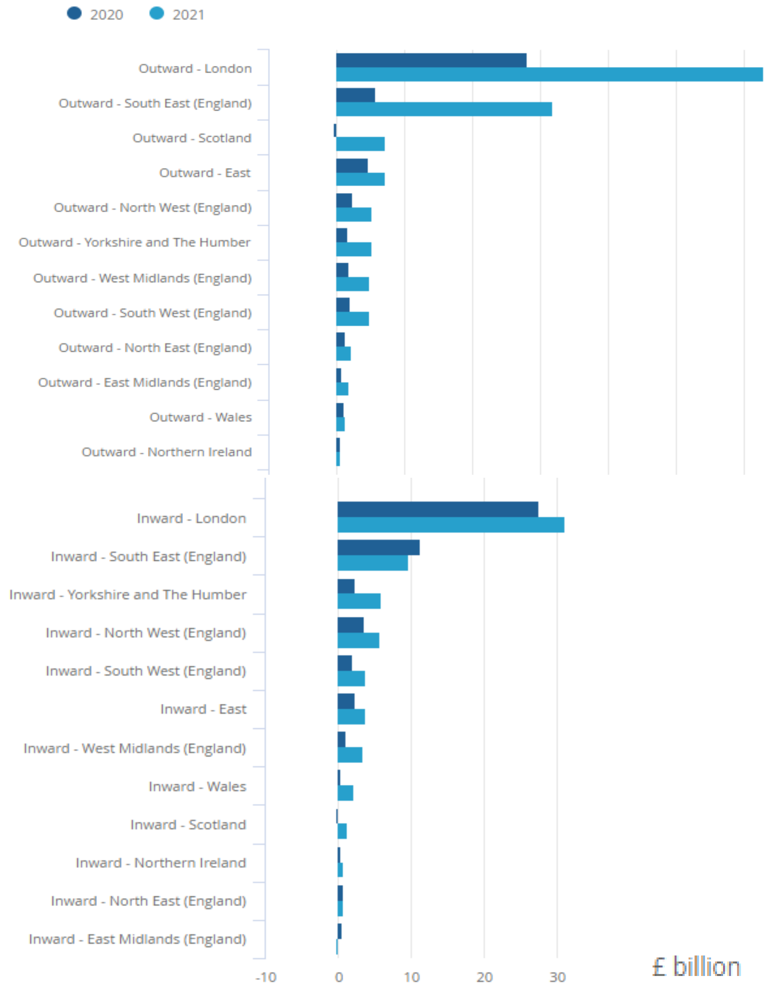
The value of the UK's outward FDI earnings was nearly **three times higher in 2021 compared with 2020.** This increase, from **£49.6 billion to £134.7 billion**, partly reflected the disruption to UK outward FDI earnings from Covid-19. All ITL1 regions in the UK (other than Northern Ireland) had higher outward FDI earnings in 2021 compared with 2020, with the **East Midlands increasing by 122% (from £782m to £1.7bn) and the West Midlands increasing by 185% (from £1.7bn to £4.9bn) – above the national average of +171% growth.** Recovery in outward investment from the Midlands was particularly strong relating to EU member states and within **manufacturing – especially in the West Midlands region and specifically within the West Midlands ITL2 (county) area.**

Inward FDI Earnings

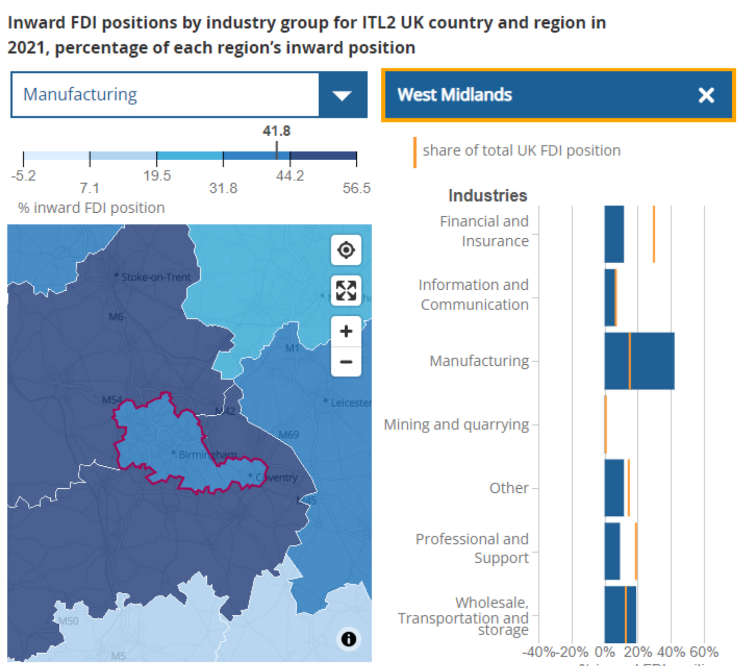
Across the UK, **Inward FDI earnings grew by a smaller percentage (27.8%), from £56.1 billion to £71.8 billion over the same period**. Most ITL1 regions and ITL2 regions reported higher inward earnings in 2021 compared with 2020, but there were exceptions, **including the East Midlands; which decreased from +£481m to -£197m.** In contrast, the West Midlands was the fastest growing ITL1 region in England, increasing by over **200% from +£1.1bn in 2020 to £3.4bn in 2021.**

- This increase was **largely due to a recovery in investment from European Union member countries (increasing from £691m in 2020 to £2.4bn in 2021),** in the **manufacturing, retail and wholesale sectors.**
- **The opposite is true of the East Midlands, with EU investment earnings retracting significantly, and a large earnings hit on manufacturing the reason for weak performance.** This is driven by manufacturing in the ITL2 area of Leicestershire, Rutland and Northamptonshire specifically – which went from **+£358m earnings in 2020 to -£860m in 2021.**

Inward and Outward Warnings for ITL1 Regions



Inward FDI Position Example: West Midland ITL2 Area



Source: Foreign Direct Investment Survey from Office for National Statistics

Source: ONS

4. Business Environment

The Impact of Firm Failure

Introduction and Context

With bankruptcies on the rise in the UK, Simon Collinson, Matt Lyons and Huanjia Ma from West Midlands REDI (University of Birmingham) have looked at the impact of firm failure on the economy, employment and households. The context of this work includes that:

- Data released by the Insolvency Service at the end of January shows that **firm insolvencies, or bankruptcies, in England and Wales reached the highest level since 2009.** On a monthly basis they are at a three-year high as of March 2023, when corporate insolvencies rose by 37.7 per cent to 2,457.
- Regionally, business failures have risen again in recent months, reflected by ONS experimental data that suggests the number of **business deaths in the Midlands were at an all time high in 2022 at 51,330** (an increase of 6.7%, +3,235 on 2021), plus other reports and figures related to administrations.
- The administration, insolvency or cut backs of regional companies has also been reported at a seemingly greater occurrence in recent months, **bringing to life the challenges perceived in the data.** For example, companies across the Midlands affected include **Prezzo, Monks & Crane, Bromford Industries, and iTech Packaging.**

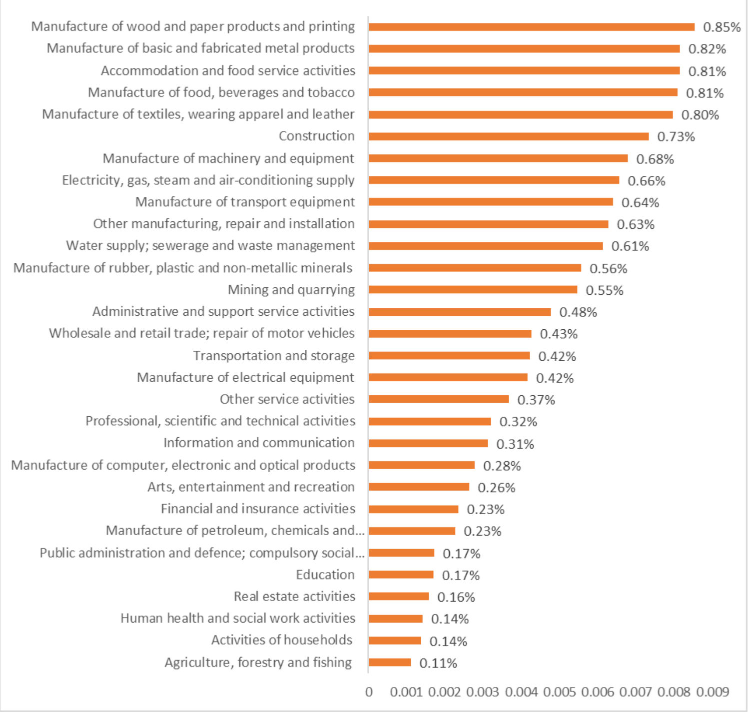
The Impact of Firm Failure

Lower-skilled, lower-income households in more deprived communities are less resilient than wealthier households and tend to experience higher unemployment in times of recession. There are fewer opportunities for re-employment in new firms or growth industries, less disposable income for re-location and a lower level of assets and savings to draw on to carry them over into the next upturn. **High insolvency rates correlate with increased social welfare benefits costs for governments.**

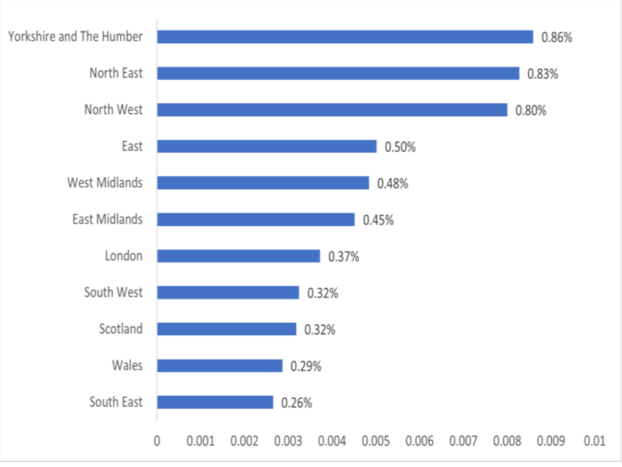
In 2022, 22,109 firms in England and Wales and an additional 1,062 firms in Scotland became insolvent. Firms in manufacturing sectors were affected the most. As shown in the figure below, the five industries (SEIM-UK industry classification based on SIC 2007) that experienced the highest percentage of insolvencies in 2022 were **Manufacture of wood and paper products (0.85%), Manufacture of basic and fabricated metal products (0.82%), Accommodation and food service activities (0.81%), Manufacture of food beverages and tobacco (0.81%) and Manufacture of textiles, wearing apparel and leather (0.8%).** The top 5 in terms of the total number of firms were: **Construction, Wholesale and retail trade, Accommodation and food service activities, Administrative and support service activities and Professional, and scientific and technical activities.** Apart from the last on this list, these sectors (listed by percentage or numbers of firms) tend to employ lower-skilled and lower-income employees.

If we examine data at the NUTS 1 region level, in terms of the number of employees per firm that went insolvent (Figure 2), the **three worst-affected regions are Yorkshire and the Humber (0.86% of all firms), North East (0.83%), and North West (0.80%).**

Firm Insolvencies by Industry (% of the total in each sector):



Firm Insolvencies by Region:



Source: WM Redi / Insolvency Service

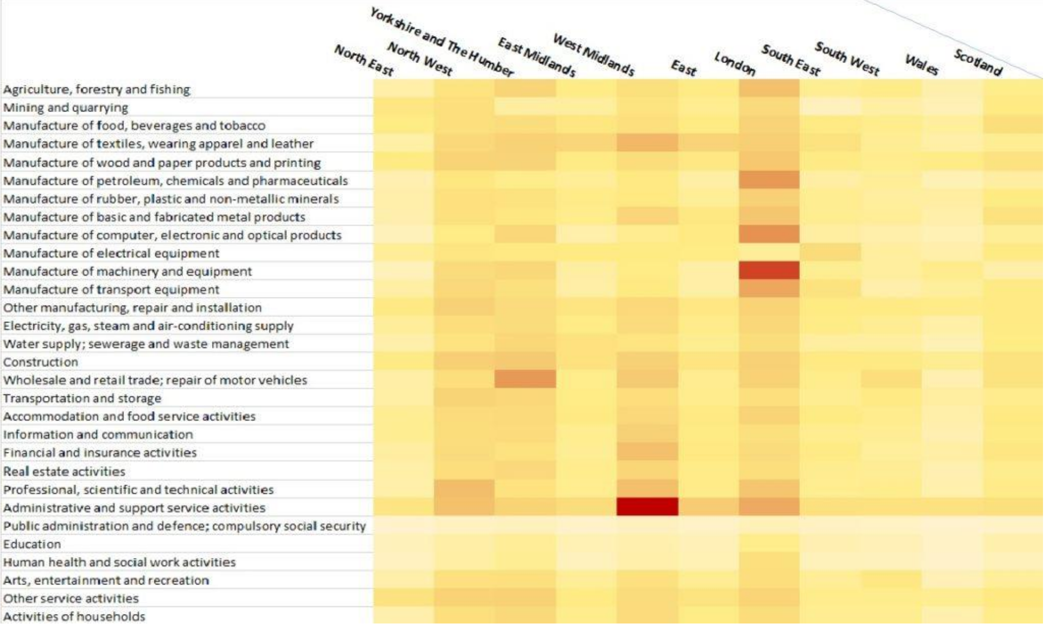
The Impact of Firm Failure

The impact on productivity (GVA)

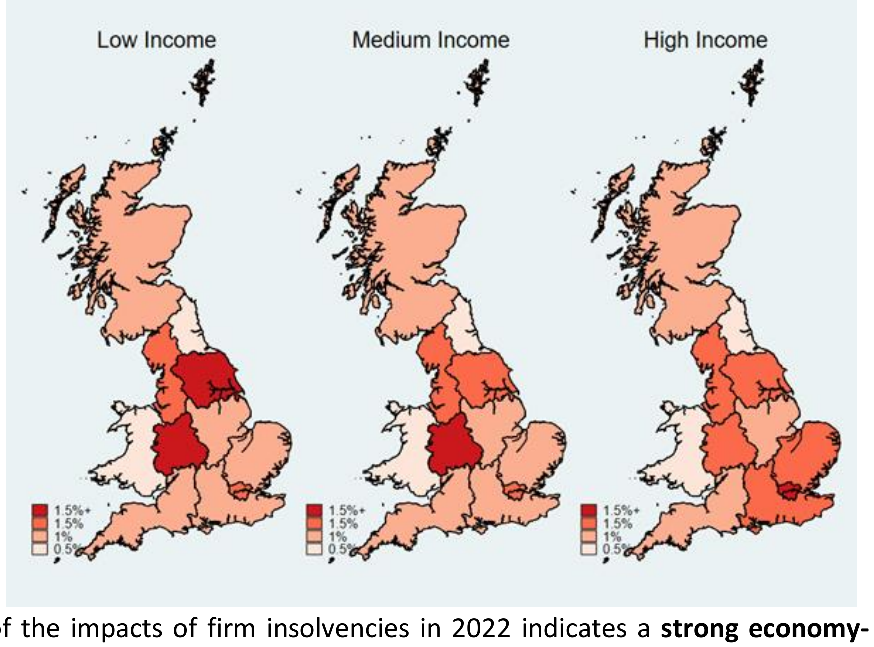
An external shock to one region or sector can have substantial effects across regions and industries given their close interconnectedness. We examine these knock-on effects using the extended SEIM-UK model, developed at City-REDI. By internalising (endogenizing) household consumption and income within the model, we are able to **simulate the potential effects of firm insolvencies on households and the wider economy.**

We consider shocks from firm insolvencies as the percentage changes in final demand, which is approximated by the ratio between the number of employees of insolvent firms and the total number of jobs of each region-industry cell. The heatmap shown in figure 3 presents the **simulated knock-on effects of insolvencies (resulting from changes in final demand) on Gross value added (GVA, as percentages) across regions and sectors** with darker colours indicating greater shocks.

GVA Impact Heatmap:



Simulated Effects on Household Income:



The extended SEIM-UK model also provides an important overview of how current economic shocks could affect future household income and consumption for three distinct income groups. Figure 4 shows the simulated impact of insolvencies on household incomes. **The West Midlands is most strongly affected, with low-income and medium-income groups experiencing income loss of more than 1.5%.** The low-income group in Yorkshire and Humber is also significantly impacted. Contrasting this, those with high incomes in London and the South are more impacted, compared to other income groups in these regions. This reflects both the higher average income in London and differences in the sectors affected.

In summary, a forward-looking simulation of the impacts of firm insolvencies in 2022 indicates a **strong economy-wide knock-on effect on GVA, household income and consumption from these insolvencies**. In particular, low and medium-income groups are most affected in regions outside London and South. **The effect is expected to be strongest in the West Midlands and North West.** This presents an opportunity for policy to be more precise in its interventions to support households, using insolvencies as an early indicator. Specific regions and communities, notably lower-income earners in the West Midlands and the North West, should be the target of stronger support measures.

Source: WM Redi / Insolvency Service

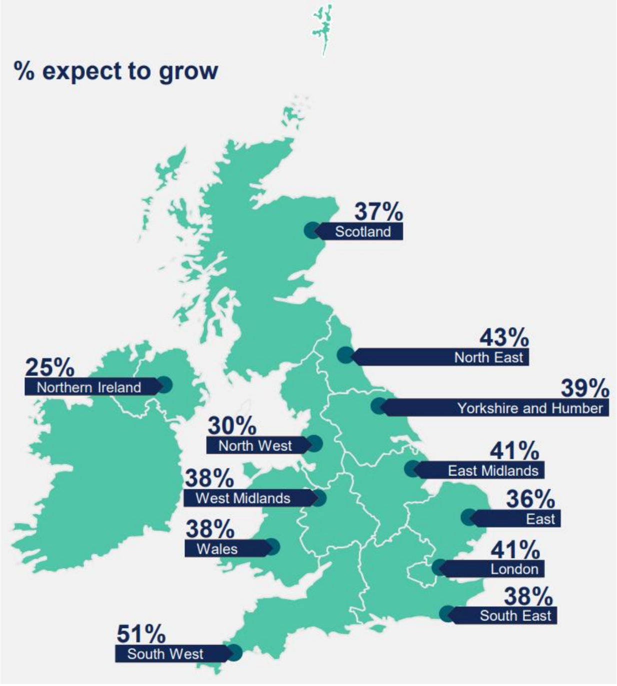
SME Research Reports

The British Business Bank produced a series of SME research reports, capturing the business ecosystem concerning the key challenges faced by smaller businesses when accessing finance. The reports present findings from an online survey completed by more than 500 intermediates as well as 60 follow-up qualitative interviews in partnership with Ipsos. Out of these, **184** interviews came from the East Midlands and **165** from the West Midlands alongside **5** calls each in in-depth qualitative interviews.

Summary of Findings

1. In the Midlands, **demand for finance was considered strong across all stages of development for SMEs**, but particularly those starting up, surviving in uncertain times and scaling up; following UK trends.
2. **The Midlands saw a perceived gap in the supply of early stage equity, growth stage equity and debt finance**, in line with the UK overall.
3. **Majority of intermediaries who engage with SMEs in the Midlands saw the ecosystem as being inadequate to support SMEs surviving in uncertain times, similar to the UK average. Half of UK intermediaries also said access to financial support to start a new business was inadequate.**

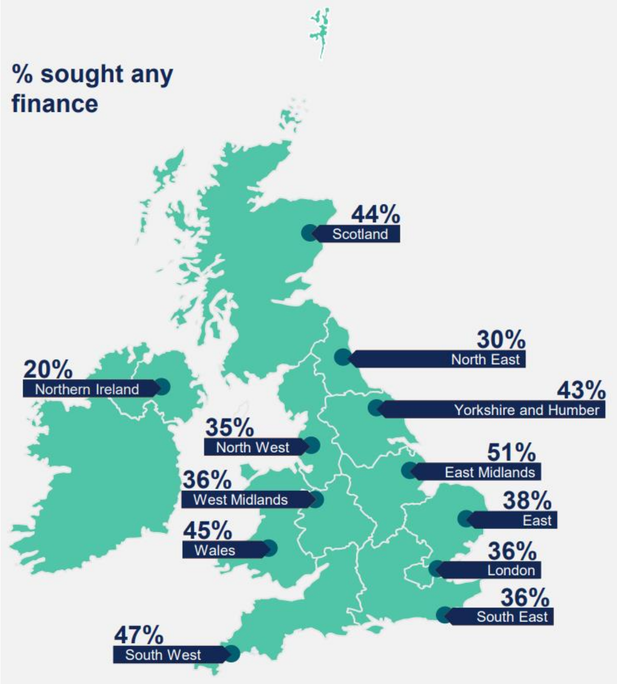
Growth Expectations:



Overall, **39%** of UK SMEs expect to grow over the next 12 months, whilst **21%** expected to become smaller or close / sell in the next 12 months. In the **East Midlands 41%** of SMEs expected to grow in the same period, whilst **38% of SMEs in the West Midlands expected to grow**. On the other hand, **25% of SMEs in the East Midlands and 21% of West Midlands SMEs expected to close / sell** the business in the next 12 months.

Source: British Business Bank, 2023

SME Demand for Finance:



In the UK 39% of SMEs have sought external finance in the last 12 months. Meanwhile SMEs in the East Midlands **(51%)** to have sought external finance in the last 12 months. At the same time, SMEs in the West Midlands **(36%)** were less likely than the UK average to have sought external finance in the same period.

Overall, **two-thirds (66%) of UK intermediaries thought that demand for finance exceeded supply in their nation or region, being affected by Covid and SMEs lack of awareness**. Simultaneously, **these expectations were lower in both the East (61%) and West Midlands (61%).** More importantly, **three-quarters** of East Midlands **(77%)** and West Midlands **(74%)** respondents said SMEs were not well-equipped to reduce their debt burden. Most intermediates said that the state of the economy, energy costs, and skills shortages may stop SMEs achieving growth.

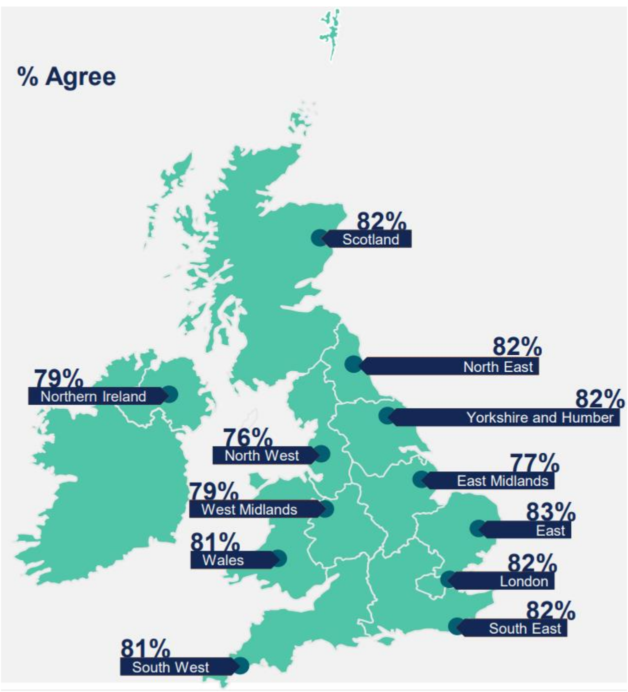
Barriers to SME Demand for Finance

Intermediaries in the Midlands named **lack of awareness of finance options available as the biggest barriers to demand**, followed by the **access to supply of finance, cost of finance, aversion to taking on finance and lack of referrals due to under-developed networks**. This followed UK trends. Furthermore, findings show that intermediaries thought **SMEs were not well-informed about options available for equity and alternative finance**. In line with survey findings, businesses were perceived to have low awareness and understanding of finance options and providers:

- **Businesses were more hesitant to explore finance options** because they lacked confidence in and knowledge about the benefits and drawbacks of alternatives to high street banks.
- More **rural, traditionally consumer-based businesses were thought to be less aware of, and interested in, non-bank financing**, compared to those in more urban ecosystems.

Education concerning the availability of alternative financing was considered a key tool for increasing business uptake. Initiatives suggested by intermediaries included business to business knowledge-sharing networks, route to finance initiatives and government-managed databases.

Supply of Finance for SMEs:



Most UK (80%) intermediaries agreed there were gaps in finance supply for SMEs, regardless of development stages. In the East Midlands this made up **77%** of SMEs and **79%** in the West Midlands. In order, the types of finance which intermediaries reflected on included early-stage equity, growth stage equity and debt finance.

In the Midlands intermediaries stated that the production (70%) sector was most likely to be impacted by gaps in finance supply with the automotive manufacturing sector being quoted as particularly challenging in the West Midlands. Following this, in the East Midlands it was business services **(53%)** and construction **(53%).** The West Midlands followed the same trend with business services **(52%)** and construction **(49%).**

Source: British Business Bank, 2023

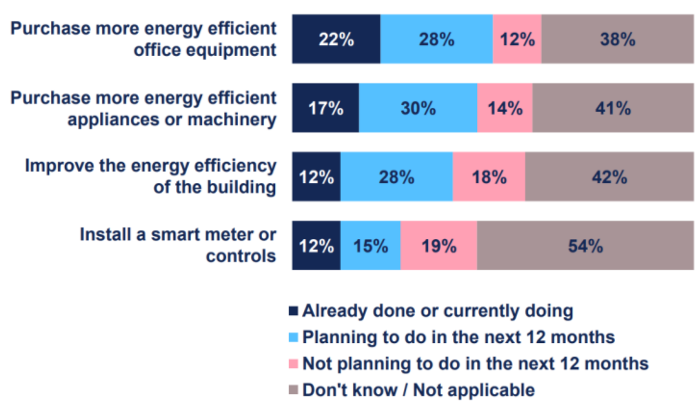
Finance Ecosystem

Most UK intermediaries thought the finance system was inadequate for SMEs surviving in uncertain times with half (49%) stating that access to financial support to start a business was inadequate. In line with UK findings, **half (48%)** of SMEs in the East Midlands and around **four in ten (44%)** of SMEs in the West Midlands would be likely to seek external advice in the future. Next, **most Midlands intermediaries largely agreed that there were gaps in finance advice delivery in the public and private sectors** with intermediaries thinking most SMEs looked to business mentors, friends or family for advice. However, **intermediaries generally thought it was important for businesses to have access to high quality advice**, rather than relying on personal contacts.

Moreso, **accessing the finance ecosystem was thought to be harder for SMEs outside the South East**. Intermediaries thought the ecosystem was accessible and worked well for some businesses inside it, however there was a lack of awareness about entry pathways into the ecosystem itself.

ESG – including net zero

Most **Midlands intermediaries knowing at least a little about net zero and climate change**, in line with the UK. This included **four-fifths (80%)** of East Midlands SMEs and **eight in ten (83%)** West Midlands SMEs knowing about the Government's legal commitment to reach net zero by 2050. A slightly higher proportion of East Midlands **(87%)** businesses and a lower proportion in the West Midlands **(72%)** knew about implications of climate change on their businesses. Moreover, half of East Midlands **(49%)** and West Midlands **(47%)** believed becoming more environmentally sustainable was a high priority.



Two-thirds (66%) of East Midlands and six in ten (58%) West Midlands SMEs had already purchased or are planning to purchase more energy efficient office equipment, in line with UK findings. Reasons for this included corporate social responsibility, reducing costs and improving their reputations.

Local Business and Policy Intelligence By Sector

SECTOR	KEY INSIGHTS
Construction / Land Development	• **Activity in the development land market throughout the Midlands is predicted to return in the summer** following an encouraging start to the year, according to research from Savills. • Savills said the **land pipelines of the major housebuilders have remained strong over the past two years** – currently 15 per cent larger than the 2015-2019 pre-pandemic average – despite the mix of rising borrowing costs along with the end of Help to Buy seeing the land market, at a broader level, slow in Q4 2022. • The return to higher levels of buying activity in the land market is, according to the research, **likely to depend on the pace of the recovery of transactions in the residential market.**
Manufacturing	**Make UK Survey across UK Manufacturers** – Highlights: • **36% of vacancies in Manufacturing sector are difficult to fill** – compared to a 27% national average. • People recognise that manufacturing is important for the UK, there's **spill-over in innovation that benefits society.** • The attitudes to work are changing as people increasingly look for flexible working, but there's a **misconception that manufacturing doesn't offer as much flexibility.** • Future funding for skills will reduce because of Brexit, and the sector needs to not only invest more into skills programmes, but also **identify the specific skills that are lacking** (because the term 'digital skills' are broad and means differently to different people). Following this a concrete strategy on how to then close this gap is needed, something which perhaps can be fed into an industrial strategy. **The lack of an industrial strategy from the current government was also pointed out as inconducive to solving the skills gap, something which Midlands partners are continuing to call for.** • There's a change in preferred methods of learning. **Younger people don't want to learn something until it's needed because technology changes so fast and frequently**. More broadly, there was a positive announcement from a key Midlands manufacturing employer – **Jaguar Land Rover** – recently. This included detail about how Midlands sites in **Wolverhampton and Castle Bromwich would be part of their electric manufacturing future.**
High Achievers	• Midlands businesses operating in a broad range of industries, have been named as **winners of the King's Awards for Enterprise 2023.** The awards are designed to recognise and encourage outstanding achievements in the fields of **Innovation, International Trade, Sustainable Development and Promoting Opportunity.** Winners located in the Midlands Engine (see specifically East Midlands and West Midlands regions) this year are: • *East Midlands*: **Archaeological Research Services** (Bakewell, Innovation), **MasterMover** (Ashbourne, Innovation), **SureScreen Diagnostics** (Derby, Innovation and International Trade), **PCE Automation** (Lutterworth, Innovation), **Blanson** (Leicester, International Trade), **Upperton** (Nottingham, International Trade), **Valour** (Lincolnshire, International Trade), **Trade & DIY Products** (Derbyshire, Sustainable Development), **Anpario** (Worksop, Sustainable Development). • *West Midlands:* **Forest Garden Group** (Worcestershire, Innovation), **Remedy Health** (Birmingham, Innovation), **ProtectaPet** (Newcastle under Lyme, Innovation) **Ammo & Company** (Birmingham, International Trade), **Green Sheep Group** (Stratford-Upon-Avon, International Trade), **NRG Marine** (Solihull, International Trade**), The First Class Pet Company** (Worcester, International Trade), **Shelforce** (Birmingham, Promoting Opportunities). • The **16 total recipients from the Midlands Engine** puts it as the joint highest region for most awards outside of London and the South East. • Separately, eight universities in the Midlands have established a new investment company to **accelerate the commercialisation of university spinouts and early-stage IP-rich businesses** in the region. **Midlands Mindforge** has been co-founded by Aston University, University of Birmingham, Cranfield University, Keele University, University of Leicester, Loughborough University, University of Nottingham and University of Warwick, collectively Midlands Innovation.

Business Insights and Impact on the UK Economy

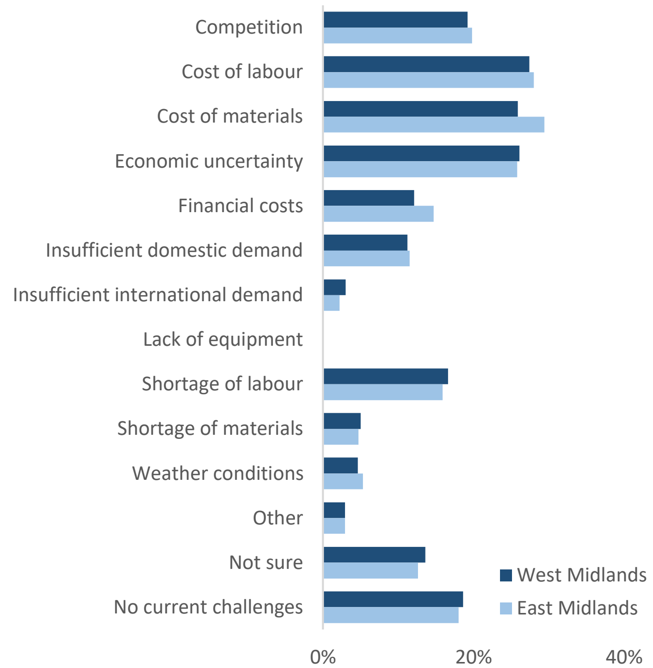
ONS have published the final results from Wave 80 of the Business Insights and Conditions Survey (BICS).

Financial Performance

44.5% of West Midlands businesses and 40.7% of East Midlands businesses reported that the business turnover in March 2023 when compared to the previous month had increased. While **12.0% of West Midlands businesses and 10.9% of East Midlands businesses reported turnover had decreased.**

27.4% of West Midlands businesses and 28.0% of East Midlands businesses reported cost of labour as a challenge that is currently impacting turnover.

Challenges (if any), Currently Impacting Businesses in the Midlands Turnover:



28.6% of West Midlands businesses and 27.5% of East Midlands businesses expect turnover to increase in May 2023. While 10.7% of West Midlands businesses and 10.8% of East Midlands businesses expect turnover to decrease in May 2023.

Prices

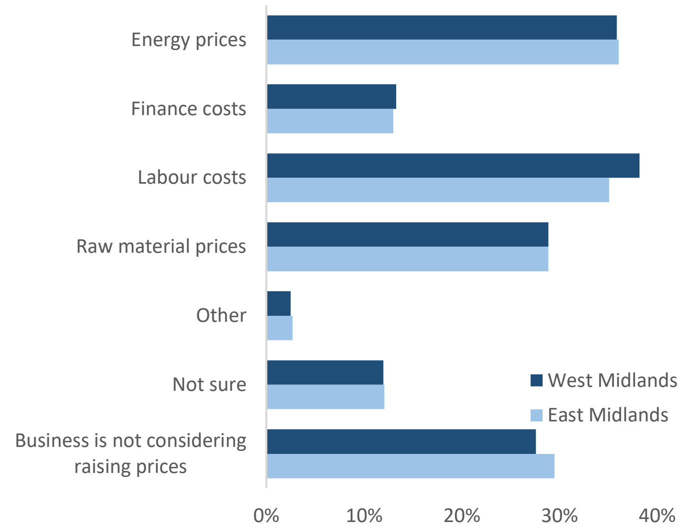
32.4% of West Midlands businesses and 34.0% of East Midlands businesses reported that the prices of goods or services brought in March 2023 when compared to the previous month had increased. While less than 1.0% of West Midlands businesses and 1.2% of East Midlands businesses reported a decrease.

16.6% of West Midlands businesses and 16.8% of East Midlands businesses reported that the prices of goods or services sold in March 2023 when compared to the previous month had increased. While 1.4% of West Midlands businesses and 1.2% of East Midlands businesses reported the prices had decreased.

26.7% of West Midlands businesses and 24.6% of East Midlands businesses expect the prices of goods or services sold in May 2023 to increase. While 1.2% of West Midlands businesses and 1.6% of East Midlands businesses expect the prices of goods or services sold to decrease.

38.2% of West Midlands businesses reported labour costs and 36.1% of East Midlands businesses reported energy prices were a factor for the business to consider rising prices in May 2023.

Factors, (if any), Causing Businesses in the Midlands to Consider Raising Prices in May 2023:



Demand for Goods and Services

24.5% of West Midlands businesses and 21.6% of East Midlands businesses reported the domestic demand for goods or services in March 2023 when compared to the previous month had increased. **9.8% of West Midlands businesses and 10.0% of East Midlands businesses reported that domestic demand had decreased.**

7.6% of West Midlands businesses and 5.9% of East Midlands businesses reported the international demand for goods or services in March 2023 when compared to February 2023 had increased. **4.3% of West Midlands businesses and 4.9% of East Midlands businesses reported that international demand had decreased.**

Capital Expenditure

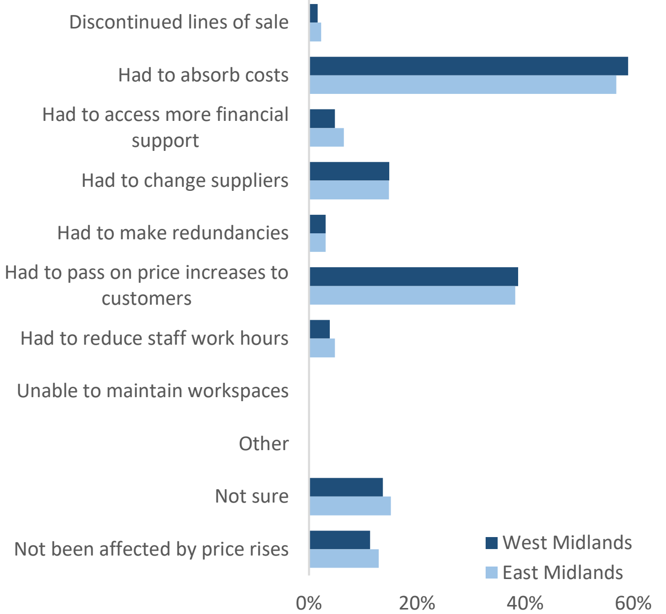
19.2% of West Midlands businesses and 16.8% of East Midlands businesses expect capital expenditure to increase over the next three months. 8.9% of West Midlands businesses and 9.2% of East Midlands businesses expect capital expenditure to decrease over the next three months.

Impacts of Price Rises

59.1% of West Midlands businesses and 56.9% of East Midlands businesses have had to absorb costs due to price rises.

Business Insights and Impact on the UK Economy

Reasons (if any), Businesses in the Midlands have been Affected by Price Rises:



Number of Employees

22.5% of West Midlands businesses and 19.0% of East Midlands businesses reported the number of employees had increased in March 2023 when compared to the previous month. **11.9% of West Midlands businesses and 12.3% of East Midlands businesses reported the number of employees had decreased.**

25.4% of West Midlands businesses and 22.6% of East Midlands businesses expect the number of employees in May 2023 to increase. **4.8% of West Midlands businesses and 5.0% of East Midlands businesses expect the number of employees to decrease.**

Staffing Costs

50.9% of West Midlands businesses and 48.8% of East Midlands businesses reported staffing costs have increased over the last three months**. 2.1% of West Midlands businesses and 2.3% of East Midlands businesses reported the staffing costs have decreased.**

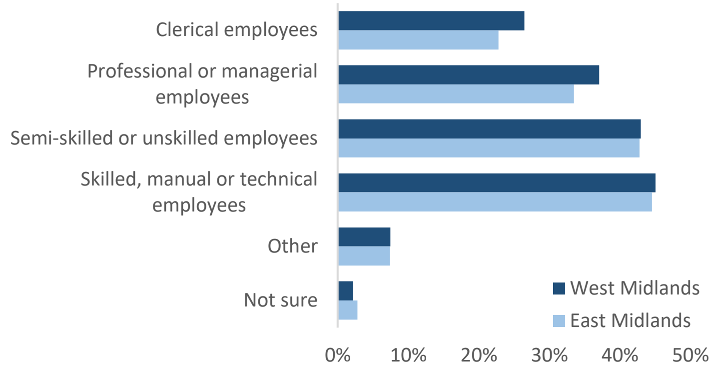
53.7% of responding West Midlands businesses and 51.6% of East Midlands businesses expect staffing costs to increase over the next three months. 1.7% of West Midlands businesses and 1.9% of East Midlands businesses expect staffing costs to decrease.

Recruitment Difficulties

31.2% of West Midlands businesses and 29.3% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in March 2023.

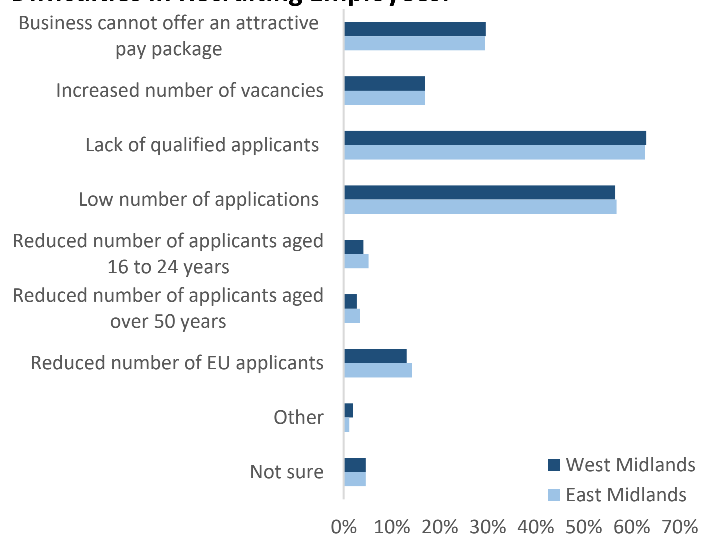
45.1% of West Midlands businesses and 44.6% of East Midlands businesses had difficulties in recruiting skilled, manual or technical employees.

Employees Businesses in the Midlands had Difficulties in Recruiting:



63.1% of West Midlands businesses and 62.8% of East Midlands businesses have experienced difficulties in recruiting employees due to lack of qualified applicants for the roles on offer.

Reasons Businesses in the Midlands Experienced Difficulties in Recruiting Employees:



Overall Performance

36.9% of West Midlands businesses and 37.1% of East Midlands businesses reported that the overall performance in March 2023 when compared to the same month in the previous year had increased. While 14.0% of West Midlands businesses and 15.6% of East Midlands businesses, performance had decreased.

41.0% of West Midlands businesses and 38.0% of East Midlands businesses expect overall performance to increase over the next 12 months. While 7.3% of West Midlands businesses and 8.1% of East Midlands businesses expect performance to decrease.

Source: ONS: [Wave 80 of the Business Insights and Conditions Survey](). The West Midlands response rate was 25.1% and in the East Midlands the response rate was 24.9% where businesses have a presence in the region. There was a response rate of 24.0% for the West Midlands and 24.8% of East Midlands where businesses are headquartered in the region. Survey reference period: 1st to 31st March 2023. Survey live period: 3rd to 16th April 2023. As response rates are low and the data is unweighted and should be treated with caution.

5. Fuel Poverty

Fuel Poverty

The **Low Income Low Energy Efficiency (LILEE)** fuel poverty metric was set out in the [Fuel Poverty Sustainable Warmth strategy] published in February 2021. The LILEE indicator considers a household to be fuel poor if:

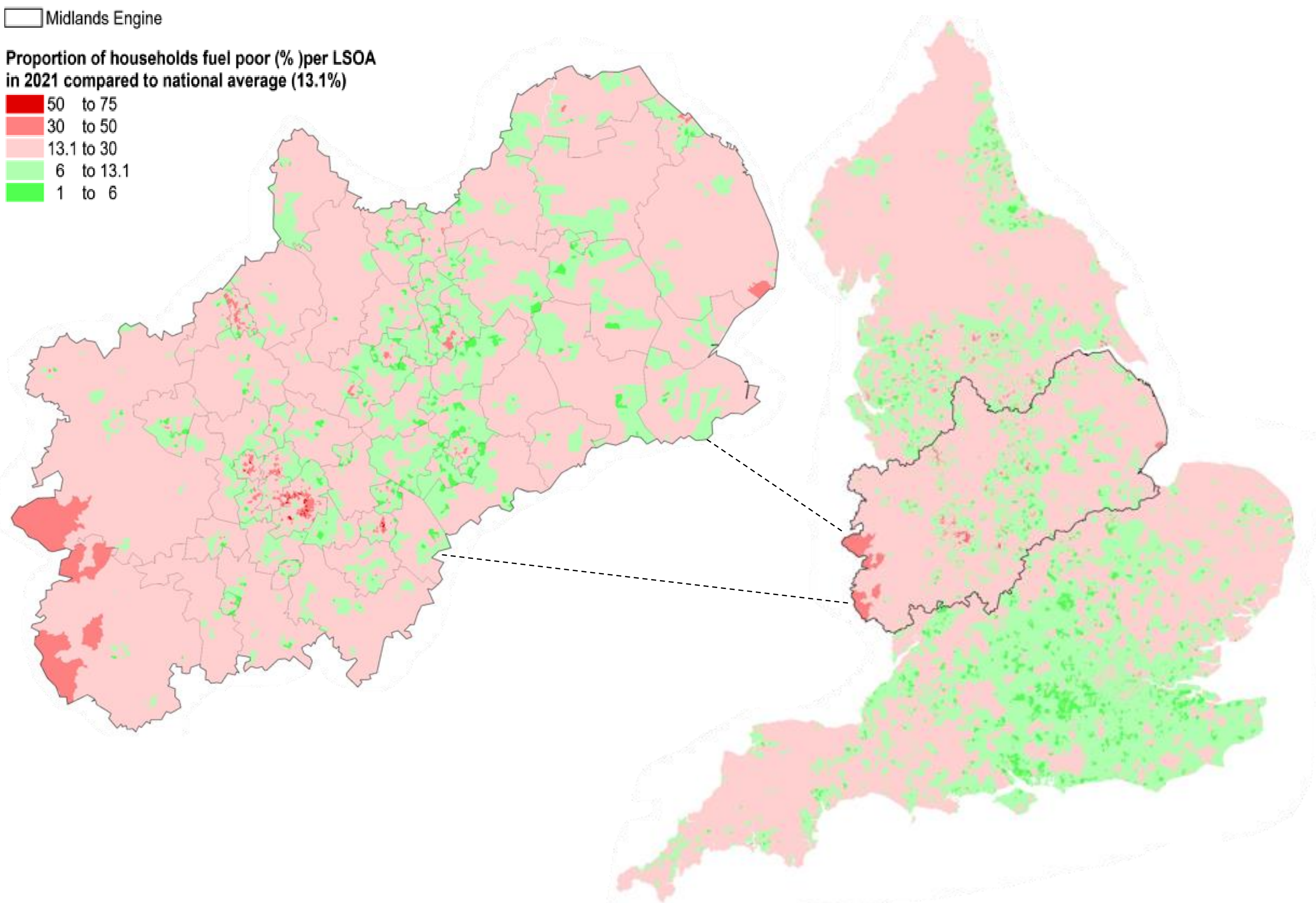
- it is living in a property with an energy efficiency rating of band D, E, F or G as determined by the most up-to-date Fuel Poverty Energy Efficiency Rating (FPEER) Methodology; and
- its disposable income (income after housing costs (AHC) and energy needs) would be below the poverty line.

In 2021, **16.6% of households in the Midlands Engine area were fuel poor compared to 13.2% England-wide**. For the Midlands Engine area, this is **an increase of 1.3% (+9,029 households) since 2020**, this was a smaller increase when compared to the 2019/2020 annual increase (+2.9%). For England, there has been an increase of 0.1% over the year, this follows a decline of 0.6% between 2019 and 2020. **Compared to 2019, there are 29,130 (+4.2%) more households in the Midlands Engine area classed as fuel poor** (England-wide was still 0.4% lower).

At a regional level, the **West Midlands remains the highest for households that are fuel poor at 18.5% in 2021** (17.8% in 2020 and 17.5% in 2019). The **East Midlands was remained in the middle of all 9 English regions at 13.6%** (down from 14.2% in 2020 and 13.9% in 2019). The West Midlands had lower median fuel poverty energy efficiency ratings (FPEER) at median incomes under £24,600. Households in the East Midlands also had a lower median FPEER rating, however the rate of fuel poverty was lower due to a higher median income of over £26,100.

In England, there were 24 local authorities with a fuel poverty rate at or above 18% in 2021. Of these, 15 were located in the Midlands Engine area and the **top 5 areas: Birmingham (23.2%), Stoke-on-Trent (22.9%), Wolverhampton (21.8%), Coventry (20.8%) and Sandwell (20.6%).** In contrast, **18 local authorities in the Midlands Engine area, were at or below the national rate of 13.1% of households that were fuel poor** in 2021, example include; Blaby (9.2%), Oadby & Wigston (10.2%) and Harborough (10.4%).

The following map shows the percentage of households that were fuel poor in 2021 in comparison to the England-wide proportion:



Source: Department for Energy Security and Net Zero, Sub-regional fuel poverty in England, 2023 (2021 data) – released April 2023

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For any queries please contact: Professor Delma Dwight (Delma.Dwight@theeiu.org)

MIDLANDS ENGINE OBSERVATORY

In Partnership: