MIDLANDS ENGINE OBSERVATORY

MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

EDITION 38: MAY 2023

Executive Summary

This month's Midlands Engine Regional Economic Impact Monitor reflects on the **continued challenges for the region related to inflation and interest rates, albeit with the former now falling**. The monitor also **highlights opportunities for the Midlands**, particularly in terms of growth and investment within certain clusters and parts of the economy.

Broadly, there appears to have been some return of business and economic confidence in the first half of 2023 so far:

- The **East Midlands Business Activity Index increased from 51.2 in March 2023 to 51.5 in April 2023, while the West Midlands Business Activity Index rose marginally** from 52.7 in March to 52.8 in April.
- The FSB's Small Business Index (SBI) report found that **small business confidence in the UK recovered strongly between Q4 2022 and Q1 2023** but is still in lightly negative territory. The SBI reached -2.8 in Q1 2023, up 43 points from Q4 2022 but 18.1 points lower than in the same quarter last year (Q1 2022: 15.3).

But **margins and investment sentiment remain weak because of the continued impact of high costs and prices**, and not all metrics are going in the right direction, **some with fatal consequences for businesses.**

- For example, the latest Business Barometer from Lloyds Bank showed that **business confidence fell in May in both the East Midlands (from 41% to 17%) and West Midlands (from 31% to 30%).**
- While **business deaths are at record highs**: there were 16,465 business deaths in the Midlands Engine area in Q1 2023, an increase of 45% from the previous quarter and the **highest number of business closures in any quarter since the start of the ONS data series in 2017.** Business births are also struggling to recover and remain low, which continues to demonstrate how difficult the current environment is.
- Furthermore, the latest regional GDP data (up to Q3 2022) demonstrates the economic pain experienced in 2022. **Quarter on quarter analysis shows GDP contracted by 0.6% in the West Midlands region and contracted by 1.6% in the East Midlands region,** while England was flat at 0.0% in Q3 2022.

As for the **labour market, this continues to soften** with the number of postings across the Midlands dropping 34.6% over the last six months (to 1.10 million). But despite this (and a rising number of people out of work due to long-term health conditions and other reasons), **those seeking work - wanting a job, currently remains heightened**. The number of claimants in the Midlands also increased again in the latest month: there **were 283,280 claimants aged 16 years and over in the Midlands Engine area in April 2023**, an increase of 8,495 (+3.1%, UK +2.7%) since March..

All sectors and parts of the economy have experienced a difficult and tumultuous time in recent months and years, but each have **different needs and priorities that reflect the levels to which they have struggled or are struggling.** Likewise, there are **specific opportunities for different sectors and parts of the economy.** This month's monitor covers both issues and opportunities across various parts of the economy in several ways in line with recent releases:

- **Manufacturing:** MakeUK is leading the call to government for a long-term, modern Industrial Strategy which would help provide companies with a vision and a stable environment to invest, access talent and grow.
- **Female-Led Companies**: The new Gender Index 2023 report explores the upward trend of female-owned and ethnic-minority owned female-led companies, also reflecting the need for support to encourage more businesses in this cohort. There are over 100,000 female-led companies in the Midlands (18% of all businesses) and 43,000 of those are ethnic minority led (7% of all businesses).
- **Hospitality, Retail and Tourism:** With the business climate remaining uncertain and consumer demand low, hospitality, retail and tourism businesses remain at particular risk – owing to sustained higher costs and less spending from the public. Only a third of UK hospitality businesses are optimistic about their future due to high energy prices and rising food costs, industry bosses have warned. While
- **Clusters Report:** Midlands Engine has published a new report, "Exploring the Investment Potential of Midlands Clusters" which identifies, selects and analyses a series of clusters in the Midlands – demonstrating the sector potential and opportunities for growth across the region.

More broadly, **Centre for Cities has published its report on the role of the Midlands Engine in the British economy, showing that the region has considerable importance but also aspects of underperformance**. Important for Midlands partners, the report recommends the following to maximise the strength of the Midlands: **improving skills of residents; making city centres more attractive places to do business; improving public transport; and aim to secure devolution deals**. This report is a useful reference point for part of the wider macroeconomic policy response to some of the challenges and opportunities outlined in this month's monitor and previous publications. It also re-affirms the importance of a **place-based and localised focus on interventions**, also highlighted in the monitor through recent publications from **Onward (Social Fabric Index), PWC / Demos (Good Growth for Cities) and recent data releases, such as on regional house prices.**

1. Economic Outlook

Global and National Outlook

Global

US Debt Ceiling

The US Treasury Secretary has warned that **if the US government does not raise the debt ceiling, the government could run out of money by early June**. If the federal government does not raise the debt ceiling, then the government might not be able to make wage, welfare or other payments. In order to raise the debt ceiling the President will need approval from the federal government, including Republicans. This will mean that the Republicans will likely ask for stipulations to be made to the current budget and spending measures. Last month the House of Representatives already agreed to raise the debt ceiling to roughly 120% of the country's annual economic output; however, the bill had to include sweeping spending cuts over the next decade.

President Biden would provide a no stipulations or conditions debt ceiling rise. However, whether this is a likely scenario is uncertain. There have been 78 debt ceiling rises since 1960 and **all have ended in compromise.** The US has never defaulted; defaulting would upend global financial markets, with far-reaching economic impacts. **This might include economic impacts such as 67 million social security beneficiaries being halted, Medicare, veterans' benefits and housing assistants could also be impacted. In the middle of a cost of living crisis, this could have substantial impacts on households standards of living.** The most significant impact, however, would be if investors get spooked and **stop investing in the dollar**, as they expect the government to be unable to make debt interest repayments. In October 2022 something similar happened in the UK. Spooking investors could lead to a run on the dollar as investors try and buy **safer currency**; this could lead to hikes in interest rates that people have not seen in decades, shaking the global finance industry.

National

Local Elections

In May, local council elections were held in England. These were **the first elections outside of Northern Ireland in the UK that required photo ID. Overall, the Conservatives saw significant council seat losses whilst both the Lib Dems and Labour saw significant gains.** Labour now has a majority council in 71 councils, a gain of 22 councils since the last elections; this is the most majority councils of any party. Conservatives now have a majority in 33 councils which is a loss of 48 councils, making them the second-best performing party overall. The Lib Dems have majority control in 29 councils: an increase of 12. The Green party also won their first ever majority Green party council. No overall control councils increase by 12 to 91.

Many of the Red-Wall local authorities have returned to being a Labour majority, whilst many in the South have switched to Lib Dem. Labour forecast that they would gain 400 councillors compared to the last election, actually winning 536 more seats, to bring their councillor count to 2,674. The Conservatives forecasted they would lose 1,000 seat comparative to the last election. They lost 1,061, bringing their total to 2,296 conservative councillors. The Lib Dems gained 407 seats, meaning they now have 1,628 council seats. The Green party almost doubled their seat numbers, gaining an additional 241 seats, bringing their total to 481 council seats.

Voter turnout averaged around 30 to 35%.

Inflation and Interest Rates

The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 7.8% in the 12 months to April 2023, down from 8.9% in March; on a monthly basis, CPIH rose by 1.2% in April 2023, compared with a rise of 2.1% in April 2022.

The Consumer Prices Index (CPI) rose by 8.7% in the 12 months to April 2023, down from 10.1% in March; on a monthly basis, CPI rose by 1.2% in April 2023, compared with a rise of 2.5% in April 2022.

Electricity and gas prices contributed 1.42 percentage points (pp) to the fall in annual inflation, but still contributed 1.01pp to annual inflation. Food and non-alcoholic beverage prices continued to rise in April and contributed to high annual inflation.

Core CPI (excluding energy, food, alcohol and tobacco) rose by 6.8% in the 12 months to April 2023, up from 6.2% in March, **the highest rate since March 1992**; the CPI goods annual rate eased from 12.8% to 10.0%, while the CPI services annual rate rose from 6.6% to 6.9%.

The Bank of England could be forced to raise interest rates to 5% this summer, as Britain struggles to bring down the highest rates of inflation among the G7 group of advanced economies.

Energy Prices

The price cap rocketed from £1,162 a year for a typical household in August 2021 to a peak of £4,279 last year. Ofgem have now announced there will be a reduction in the price cap from £3,280 to £2,074 from July 1. However, households have already been partly shielded by the Government's Energy Price Guarantee, which limited annual energy costs to £2,500 for the average household. The scheme will close at the end of June.

The latest announcement means the effect on typical annual energy bills will be a reduction of £426 from £2,500 to £2,074 - a fall of about 17pc.

Source: City-REDI University of Birmingham

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• There appears to have been **some return of business confidence in the first half of 2023** so far, but **margins and investment sentiment remain weak.** The FSB's Small Business Index (SBI) report found that **small business confidence in the UK recovered strongly between Q4 2022 and Q1 2023, but is still in lightly negative territory**. The SBI reached -2.8 in Q1 2023, up 43 points from Q4 2022 but 18.1 points lower than in the same quarter last year (Q1 2022: 15.3). • While the latest Business Barometer from Lloyds Bank showed that **business confidence fell in May in both the East Midlands (from 41% to 17%) and West Midlands (from 31% to 30%).** • Despite inflation now falling, the **cost of living and doing business squeeze continues to hold back investment and growth**, as noted by FSB and others, including East Midlands Chamber and BDO. The latter's bi-monthly Economic Engine survey has revealed that high corporation tax is having an impact on firms too: **33% of respondents said they will either have to make redundancies or take on fewer people as a result.** Worryingly, nearly half (42%) said the uplift in corporation tax had prompted them to consider leaving the UK. • Another macroeconomic impact hitting businesses and communities in the **Midlands is interest rate rises** – with the base rate now at 4.5%. Business concern about interest rates has firmly risen up the agenda in recent months. • Unfortunately, we are still **seeing casualties where businesses are selling up or ceasing to trade because of these impacts**. • Separately, there is some concern about **delays to the roll out of the UK Shared Prosperity Fund (UKSPF)** and a potential lack of consistency of support between local authorities.
Trading Conditions	• **Increased costs continue to affect the operational costs and cashflow of businesses,** reducing margins and stunting growth opportunities. For example: - **Energy:** 500% increases in energy costs reported by engineering firms. Still examples of those seeing increases and others that managed to secure fixed deals, delaying the rise in costs for up to 3 years. - **Staff:** Salaries increased by some employers sooner than they had planned in order to retain and attract staff. A survey by Shropshire Chamber of Commerce found that "**more than four out of five employers are having to offer higher wages to attract staff**, at the same time as wrestling with the dilemma of trying not to pass on big price rises to their own customers." - **Materials:** Various reports of increases in materials costs. Copper prices approximately 40% up on this time last year, increasing from £40-£50 per 100m to £60-£70. Aluminium and porous metals such as Brass are up 150%, Plastics +100% and Steel + 120% over last year. - **Containers:** Although not as high as during the pandemic which saw prices increase from around £3,500 to £21,000 per container, these are still hovering around the £5,000 mark. • **Re-Shoring**: Businesses reliant on importing products and/or components from China continue to **look at bringing manufacturing of these items within Europe and the UK.**
Labour Market	• Reflecting British Chambers of Commerce comment amongst others, various **requests for support from businesses on skills continue**, including for sales, marketing and social media skills as well as more specific requests across sectors to fill shortages; e.g.: - **Social Care:** Some businesses are saying they will have to close by end of May as they **cannot fulfil contracts**, partly due to their own resourcing errors as they have over stretched themselves and **cannot find the workers** required to do so. - **Engineers:** Continued **shortages of engineers**, particularly with growth in the **EV and Battery Tech** arenas where **traditional methods are becoming outdated**. Some reports that **University courses are not suitable for newer technologies**. - **Cleaners:** Commercial and Domestic cleaners are in high demand. Businesses with contracts for schools highlight they are **unable to recruit sufficient staff numbers.** - **Security Engineers:** A shortage in **electricians and security engineers** leading to delays in growing businesses due to **lack of skills**. • **Interns:** Regional businesses reporting that the quality of Interns is poor and that the **concept of "free labour" is outdated** and that industry needs to offer a reasonable salary to candidates with a view to ultimately recruiting from this talent pool. Businesses have said they are **struggling with young people 16+ being work ready** and the need for more work with schools

2. Economic and Labour Market Impacts

Quarterly Regional Gross Domestic Product

Quarter on quarter analysis shows that **Gross Domestic Product (GDP) contracted by 0.6% in the West Midlands region and contracted by 1.6% in the East Midlands region**, while England was flat at 0.0% in Q3 2022. There was a mixed picture across the English regions, where 3 experienced growth (London, North East and the South East) and 6 regions contracted.

The latest quarter on quarter GDP percentage change to Q3 2022 shows for the **West Midlands** that overall the **production sector, construction sector, total services sector and 12 industries contracted**. While the overall **agriculture, forestry and fishing sector and 6 industries recorded growth in GDP**.

The latest quarter on quarter GDP percentage change to Q3 2022 shows, for the **East Midlands,** that overall the **production sector, total services sector and 12 industries contracted**. While the **agriculture, forestry & fishing sector, construction sector and 6 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 Q3 2022:

Quarter on same quarter a year earlier analysis shows GDP declined by 0.1% in the West Midlands and declined by 2.3% in the East Midlands in Q3 2022, while there was growth England-wide by 2.5%. Alongside the Midlands regions, Wales was the only other place to decline. In contrast, growth rates varied from 0.1% in Yorkshire and the Humber to 6.7% in London.

When looking at **GDP percentage change quarter on the same quarter from the previous year** in Q3 2022 for the **West Midlands, overall GDP for 2 sectors (production and construction) increased**. Within the sectors, **7 industries increased in GDP**, with arts, entertainment & recreation having the highest rise by 24.9%. In contrast, **2 sectors decreased and 12 industries decreased**, with the highest fall in GDP in electricity, gas, steam & air by 25.4%.

For the **East Midlands, 2 of the sectors (production and construction) increased in GDP**. While within all the sectors, **9 industries increased in GDP**, with arts, entertainment & recreation having the highest rise by 14.4%. In contrast, 2 **sectors decreased. Across all industries, 9 decreased**, with the highest fall in GDP in manufacturing by 18.0%.

ONS: GDP, UK regions and Countries: July to September 2023 – released May 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

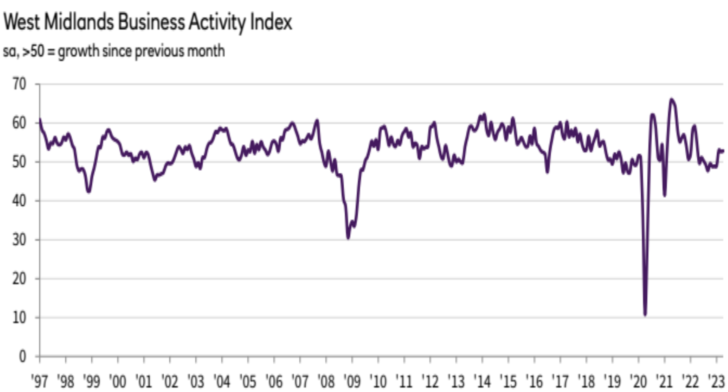
Business Activity Index

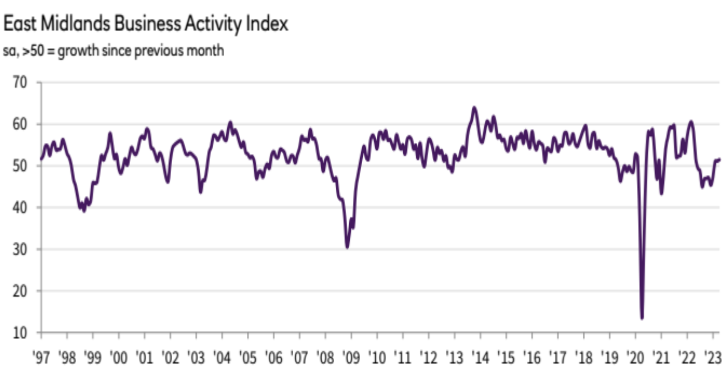
The West Midlands Business Activity Index rose marginally from 52.7 in March 2023 to 52.8 in April 2023. Early indications show that business activity growth was linked to greater client spending, successful marketing efforts, new business wins, improved consumer footfall and acquisitions.

The East Midlands Business Activity Index increased from 51.2 in March 2023 to 51.5 in April 2023, the fastest rise seen since May 2022. The increase in output was due to new order inflows and further rises in client demand.

The UK Business Activity Index increased from 52.2 in March 2023 to 54.9 in April 2023.

Business Activity Index trends:





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

Of the 12 UK regions, the West Midlands region was the fourth lowest and the East Midlands was second lowest for the Business Activity Index in April 2023.

Demand

The **West Midlands New Business Index decreased from 54.1 in March 2023 to 54.0 in April 2023**, the third consecutive month for rises in new business intakes. The rise in new work was linked to improved demand and footfall. The **East Midlands New Business Index decreased from 51.3 in March 2023 to 50.8 in April 2023,** the third consecutive month to increase. The rise in new work was linked to greater demand from existing clients and the acquisition of new customers.

Exports

The **West Midlands Export Climate Index increased from 52.5 in March 2023 to 53.1 in April 2023,** which is the most favourable export climate in close to a year. The **East Midlands Export Climate Index increased from 53.0 in March 2023 to 53.3 in April 2023**, this continues to show improvements in the export climate.

Business Capacity

The **West Midlands Employment Index increased from 50.5 in March 2023 to 52.6 in April 2023**. The **East Midlands Employment Index increased from 49.7 in March 2023 to 52.0 in April 2023.**

The **West Midlands Outstanding Business Index decreased from 49.9 in March 2023 to 48.3 in April 2023**. The **East Midlands Outstanding Business Index decreased from 47.3 in March 2023 to 45.9 in April 2023.** The 5th and 7th consecutive month respectively under the 50-mark threshold.

Prices

The **West Midlands Input Prices Index decreased from 65.7 in March 2023 to 63.9 in April 2023.** The **East Midlands Input Prices Index decreased from 68.4 in March 2023 to 66.7 in April 2023.** The figures still show sharp input costs but the rate of inflation has eased for the fifth month in a row for both regions.

The **West Midlands Prices Charged Index increased from 59.7 in March 2023 to 60.3 in April 2023**. The **East Midlands Prices Charged Index increased from 58.1 in March 2023 to 60.6 in April 2023.**

Outlook

The **West Midlands Future Business Activity Index decreased from 78.0 in March 2023 to 76.5 in April 2023.** Despite falling to a three-month low, the latest reading still shows a strong degree of optimism for the upcoming year. Optimism was linked to new sales opportunities, expanded capacities, product diversification and expectations of better global trading conditions.

The **East Midlands Future Activity Index increased from 71.5 in March 2023 to 72.9 in April 2023**, which is the highest level seen since February 2022. East Midlands firms were optimistic for the next 12 months due to hopes of greater client demand, investment in marketing and new product development.

Out of the twelve UK regions, the West Midlands was the highest and the East Midlands was sixth highest for the Future Business Activity Index in April 2023.

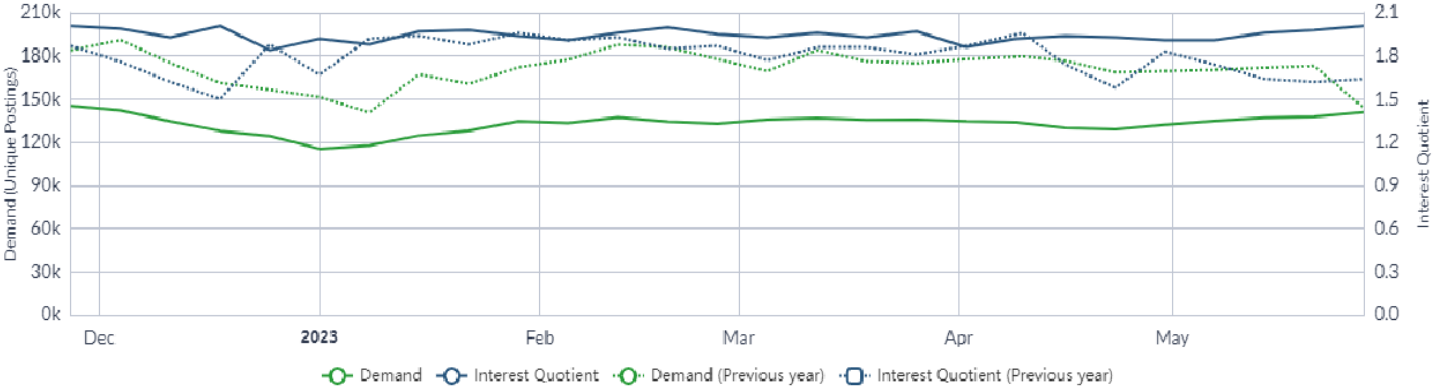
Source: NatWest UK regional PMI report for April 2023, released May 2023.

Labour Market and Job Postings

The latest data shows that the labour market continues to soften. The employment rate is up by 0.3 percentage points on the quarter to 75.9% whilst unemployment is still just below 4% although there are signs that it is beginning to increase. More troubling, **the number of people out of work due to long-term health conditions continues to increase to now over 2.5 million people**, whilst at the same time, economic inactivity for every other reason is falling. However, labour demand is continuing to hold up and earnings growth remains strong, at around 7%.

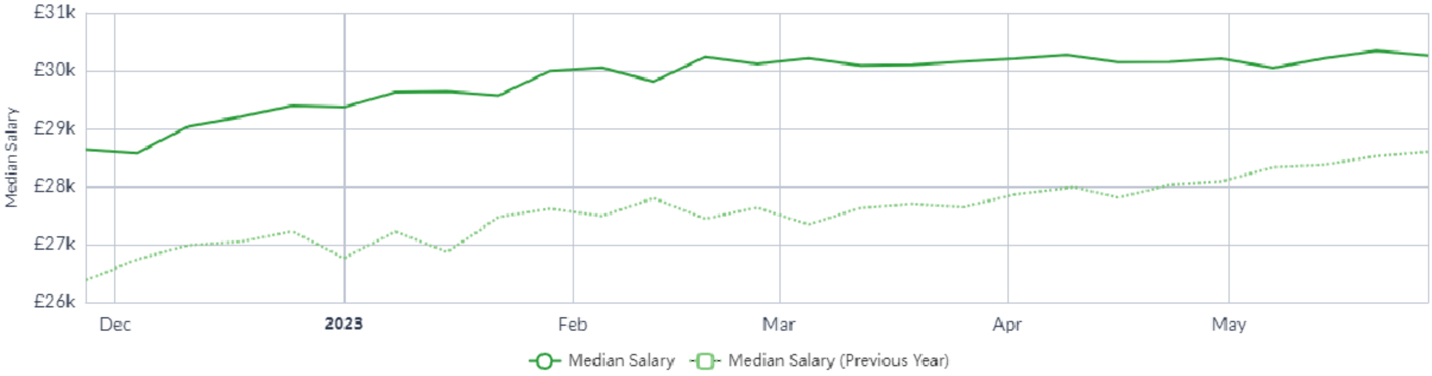
The latest job postings data shows that the **number of postings across the Midlands dropped 34.6% over the last six months to 1.10 million**. Despite employer demand narrowing, those seeking work - wanting a job, currently remains heightened.

Overall Demand and Interest for the Midlands:



Nevertheless, **advertised median salary across the Midlands has increased by 8.0%** year-on-year to £29,813; 4.8% below the national median advertised salary of £31,302.

Salary Trends for the Midlands:



Sectors Hiring in the Midlands:

Job posting demand was greatest for roles in teaching, engineering and IT. These sectors accounted for almost 30% of all job postings in the last six months.

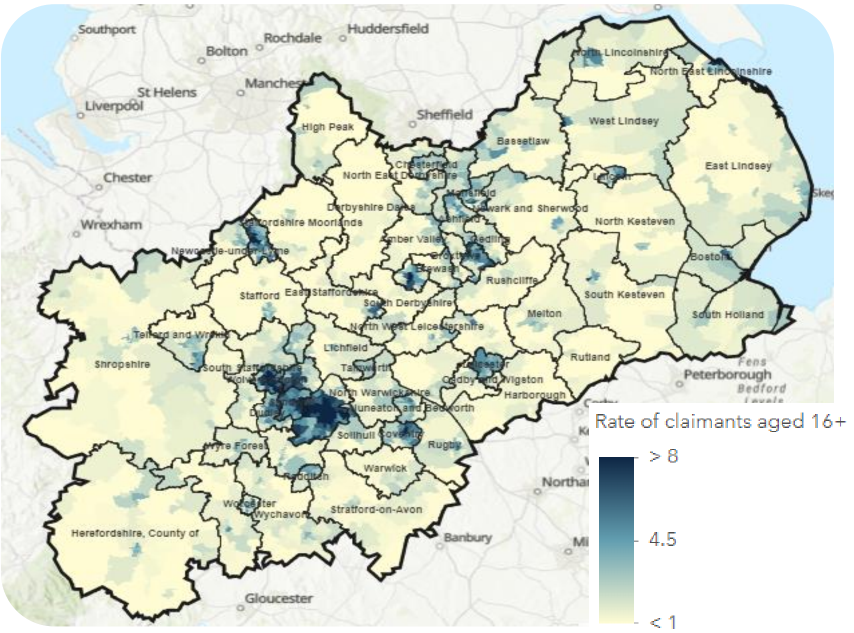
Source: Adzuna Limited Job Posting Intelligence, Accessed May 2023. The Interest Quotient uses jobseeker data to quantify the level of interest in particular roles.

Labour Market Impacts: Claimants

There were **283,280 claimants aged 16 years and over** in the Midlands Engine area in April 2023, an increase of 8,495 (+3.1%, UK +2.7%) claimants since the previous month. **There are 61,740 (+27.9%, UK +26.1%) more claimants when compared to March 2020**. East Lindsey and North East Lincolnshire had lower levels of claimants than March 2020 (-860 and -80 respectively).

The number of claimants as a percentage of residents aged 16 years and over was 3.4% in the Midlands Engine and 2.9% for the UK in April 2023.

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



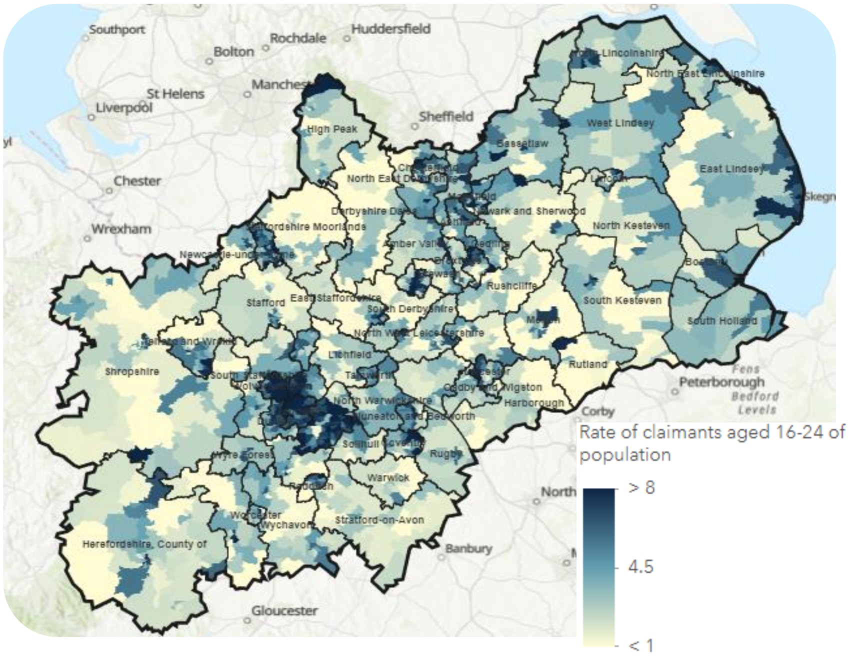
Out of the 1,511 wards within the Midlands Engine, 453 were at or above the UK average of 2.9% for the number of claimants as a percentage of the population aged 16 years and over in April 2023.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, with Lozells the highest at 15.7%. This was followed by Handsworth at 15.3% and then Aston at 14.8%. In contrast, the proportion was 0.1% in Keele (Newcastle-Under-Lyme) in April 2023.

There were **51,780 claimants aged 16-24 years old** in the Midlands Engine area in April 2023 – an increase of 720 youth claimants since March 2023. This equated to an increase of 1.4% for the Midlands Engine area (UK +0.8%). Since March 2020, **the number of youth claimants has increased by 7,585** (+17.2%, UK +13.5%). Notably, 10 local authorities had lower levels and a further 2 were the same level as March 2020.

The number of claimants as a percentage of residents aged between 16 and 24 years old was 4.6% in the Midlands Engine and 3.9% for the UK in April 2023.

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



Out of the 1,511 wards within the Midlands Engine, 642 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 April 2023.

The ward with the highest number of claimants as a percentage of the population was Oak Tree (Mansfield) at 14.2%. This was followed by Joiner's Square (Stoke-on-Trent) at 13.8% and then Portland (Mansfield) and Handsworth (Birmingham) both at 13.1%. In contrast, within the Midlands Engine there were 105 wards with no youth claimants in April 2023.

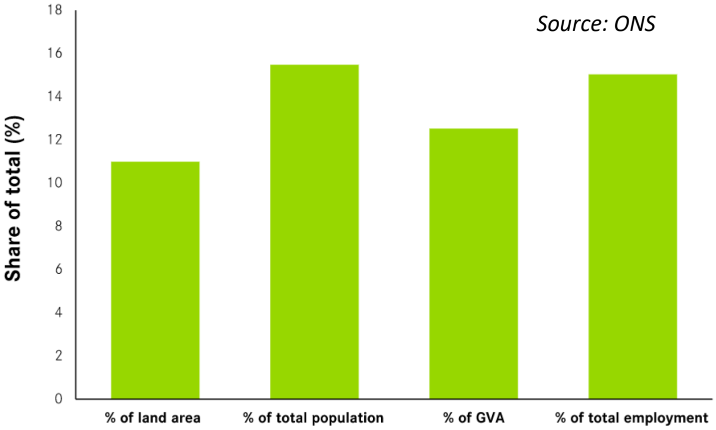
Source: ONS/ Department for Work and Pensions, May 2023.

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

The Role of the Midlands Engine in the British Economy

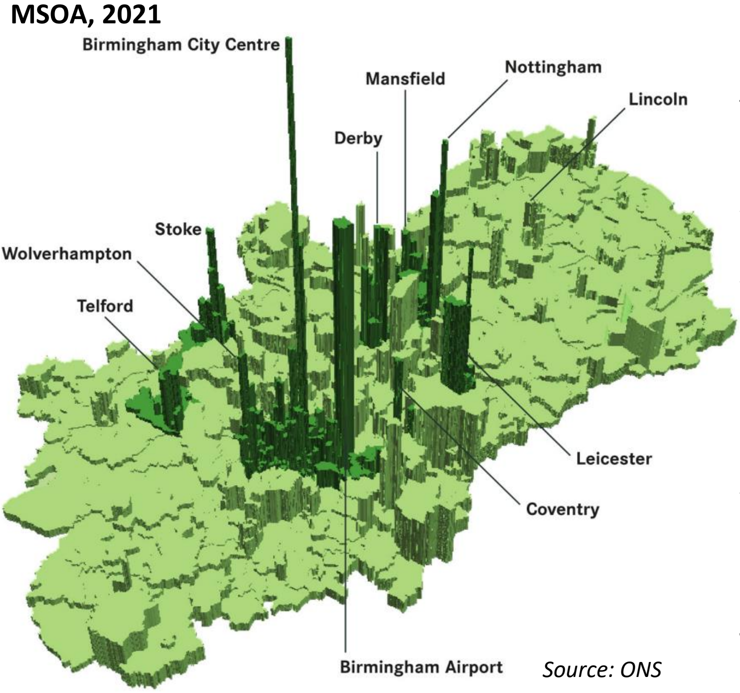
Centre for Cities' report, *All Cylinders: The Role of the Midlands Engine in the British Economy*, shows that the **Midlands Engine plays a large role in the UK economy, however its economy is £18 billion per year smaller than it should be**. Accounting for **89 per cent** of this output gap, its cities, and in particular city centres, are **not attracting enough high-skilled service export firms to increase productivity across the region**. Policy must address the barriers to growth if the Midlands Engine is going to generate prosperity locally and make a larger contribution to the national economy.

The Role of the Midlands in the British Economy



The Midlands Engine pan-regional partnership makes a significant contribution to the UK economy, accounting for **15 per cent** of the UK's total jobs despite only covering **11 per cent** of the UK's land area. That said, while **the region accounts for 15 per cent of total employment, it only accounts for 13 per cent of the UK's GVA.** This points to the relatively low productivity levels across the area.

The Geography of Jobs in the Midlands Engine by MSOA, 2021



Source: ONS

The economic geography of the Midlands is 'spiky' as much of it is concentrated in and around its cities and large towns. The eight urban areas of the Midlands Engine can be viewed as – the Birmingham conurbation, Nottingham, Leicester, Derby, Stoke, Coventry, Telford and Mansfield. **Despite accounting for 10 per cent of the region's land area, 53 per cent of employment is clustered within cities and large towns**. The city centre of the Birmingham conurbation is the most concentrated employment site in the Midlands Engine, accounting for **3 per cent of the total number of jobs in the region while accounting for just 0.02 per cent of the Midlands Engine's land area.**

Moreover, total employment patterns conceal variations in geographical preferences where 'exporting' firms choose to locate. The term exporters refers to firms which sell beyond their local market, including the UK and abroad. As they can theoretically locate anywhere (not being bound to one market) **they play a significant role in driving productivity growth**, understanding their locational choices is particularly important.

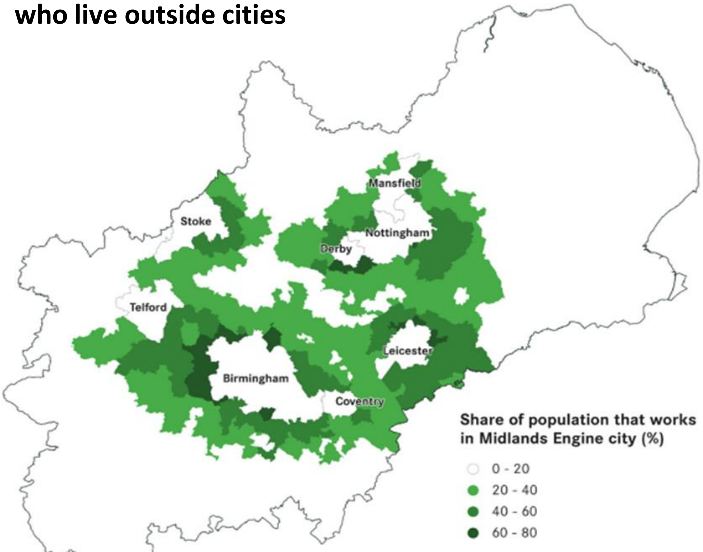
This plays into the Midlands Engine having a greater specialisation in manufacturing exports compared to the rest of Great Britain. **7 per cent of all jobs in Great Britain are in the manufacturing sector, but almost 12 per cent of all jobs are in manufacturing in the Midlands Engine**. However, **15 per cent of jobs in Great Britain are service exporting, but only 11 per cent in the Midlands Engine**. Similarly, cities and large towns account for **46 per cent of manufacturing** in the Midlands Engine, lower than their share of all jobs, in contrast to **53 per cent of service exporter jobs**. This suggests that the area's export base in particular shows preference for an urban location.

The economy of the Midlands Engine economy is thus **shaped by agglomeration**. These patterns occur as different places offer different benefits to exporting firms. Cities, and especially city centres, offer access to a large pool of workers and knowledge through face-to-face interactions with clients, collaborators and competitors. There are three main benefits of agglomeration sharing (ability to recruit from a larger pool of workers with relevant skills); matching (ability to share inputs, supply chains and infrastructure); and learning (ability to exchange ideas and information through knowledge spill over). Where businesses locate depends on trade-offs as cities and city centres trend to have higher costs. **Despite this 11 per cent of the service exporting jobs are found on less than 0.1 per cent of the Midlands Engine's land area** in dense city centres.

Source: Centre for Cities & Midlands Engine, 2023

The Role of the Midlands Engine in the British Economy

The Midlands Engine's cities provide jobs for people who live outside cities

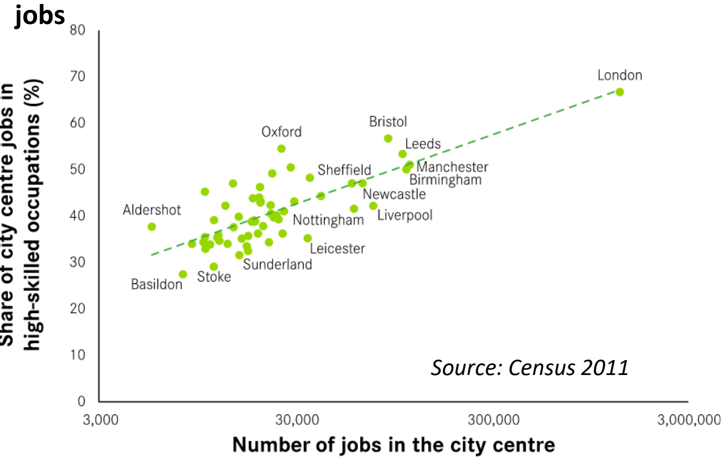


Source: Census 2011

Even though urban economies are the main centres of production in the Midlands Engine, their prosperity and opportunities are not limited to urban residents. **Almost one in five workers in the Midlands Engine who live outside an urban area works in on one of the region's urban economies**, where in total **13 per cent** of the urban workforce comes from outside of the largest built-up areas. Of these, Mansfield and Coventry rely the most on workers living outside of the built-up area, with 22 per cent and 21 per cent respectively doing so.

Cities and large towns also offer access to higher-paid jobs – where workplace wages are higher than resident wages. 7 out of the 8 core urban local authorities in the Midlands Engine have higher workplace wages than resident wage, only 5 out of 13 suburban local authorities do, as well as 7 out of 45 of non-urban local authorities do. This shows agglomeration benefits translating to higher wages for workers, **for example a commuter from Lichfield to Birmingham earns as estimated average annual boost to incomes of £3,900, or a 15 per cent increase,** compared to a job in Lichfield.

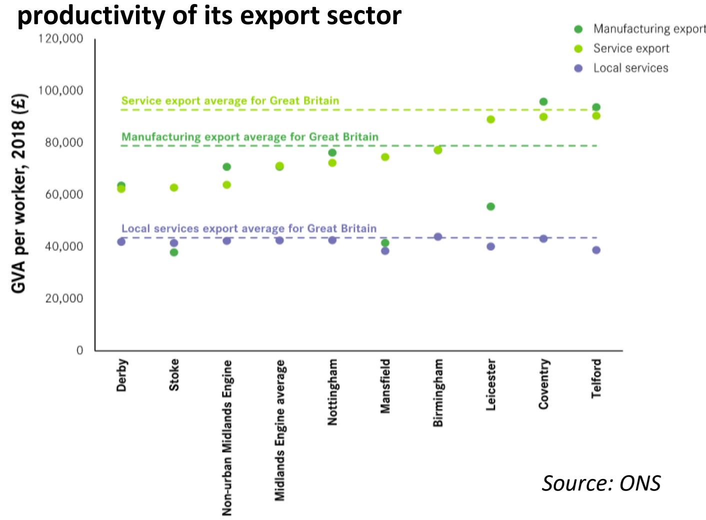
Larger city centres have higher shares of high skilled jobs



Source: Census 2011

Moreover, **as city centres get bigger, the share of jobs in high-skilled occupations increases**. Good news includes that the Birmingham city centre does sit on the trend line, reflecting a good mix of high-skilled jobs. **However, despite the Birmingham urban area being almost three times the size of Leeds in terms of population, the city centre economies of both cities are very similar in size.**

The Midlands Engine is underperforming in the productivity of its export sector



Source: ONS

The Midlands Engine underperformance is driven by underperforming of service exporting activities in these cities. Local services are both in low productivity and see little variation across Great Britain, with **the Midlands Engine having an average GVA per local service worker around £40,000**. Moreover, the **productivity of manufacturing in the Midlands Engine is at £70,800 per worker, £8,100 lower than the British average (£78,900)** contributing to the productivity puzzle and trade underperformance. **Areas like Stoke and Mansfield are considerably lower at £40,000 per worker**, suggesting specific issues to address around manufacturing in these places. In comparison, **the productivity of service exports in the Midlands Engine is comparable to manufacturing at £70,700 per worker, however its considerably lower than the British average of £92,700 (£22,000 less).** Although no city or large town has service export sector more productive than the country, the implication is that region's cities and large towns are not attracting enough higher-productivity service exporters.

What Needs to Change?

1. **Improving the skills of residents** – by targeting skills money from the areas Shared Prosperity Fund.
2. **Making city centres more attractive places to do business** – creating new high-quality office space and ensure availability of land with access to a significant workforce to meet future demand.
3. **Improving public transport infrastructure and density within the big cities.**
4. **Aim to secure devolution deals.**

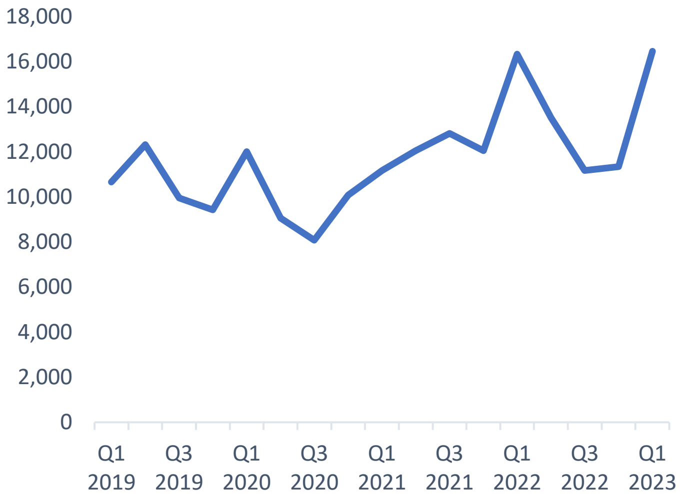
3. Business Environment

Midlands Business Births and Deaths

The latest [experimental low-level geographic analysis on business births and deaths was released by the Office for National Statistics (ONS) in May 2023](), highlighting that **business deaths have risen again at the start of the year**, continuing on from 2022 (in which business deaths were at an all-time high).

In Q1 2023, there were **16,465 business deaths in the Midlands Engine geographic area, an increase of 45% from the previous quarter (Q4 2022),** compared to a 27% increase nationally. Q1 2023 deaths figures are also slightly higher (+0.8%) than the same quarter a year ago (Q1 2022) and represent **the highest number of business closures in any quarter since the start of this data series in 2017.** This contrasts with the UK overall picture, in which deaths are still high, but 8% less than the same quarter in 2022.

Trends in Midlands Engine business deaths:

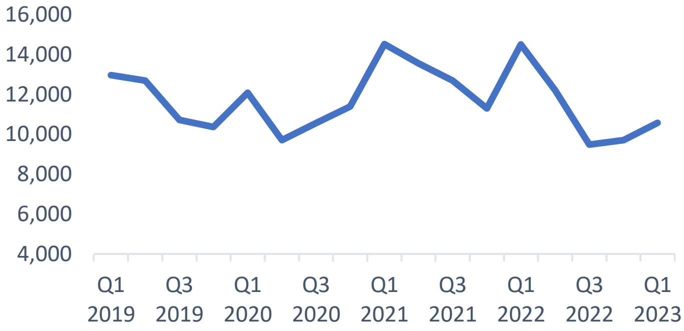


The Midlands Engine local authority areas with the **highest increase in business deaths between Q1 2022 and Q1 2023 were South Kesteven (+132%), Wolverhampton (+119%), Mansfield (+103%), and Erewash (+96%),** while 38 local authorities experienced a fall in deaths in this time period.

Looking at major sectors data nationally shows that **Accommodation and Food Services had the largest year-on-year increase in closures (up 15%), followed by Construction (+10%) and Arts / Entertainment** (+9%); while smaller sectors such as Agriculture and Real Estate have also suffered badly. Shorter term increases between the last 2 quarters are also present in the above sectors as well as **Transportation and Storage** (+49% between Q4 2022 and Q1 2023), Business Admin (+48%) and health & social care (+53%)

Regarding **business births, there were 10,580 in the Midlands Engine geography in Q1 2023.** This figure is 27% lower (UK = 22% lower) than the number of business creations in Quarter 1 2022 and is the **lowest number of business creations in a first quarter since the start of this data series in 2017.** More positively, quarter on quarter analysis (between Q4 2022 and Q1 2023) showed an 8.9% increase in business births across the Midlands Engine.

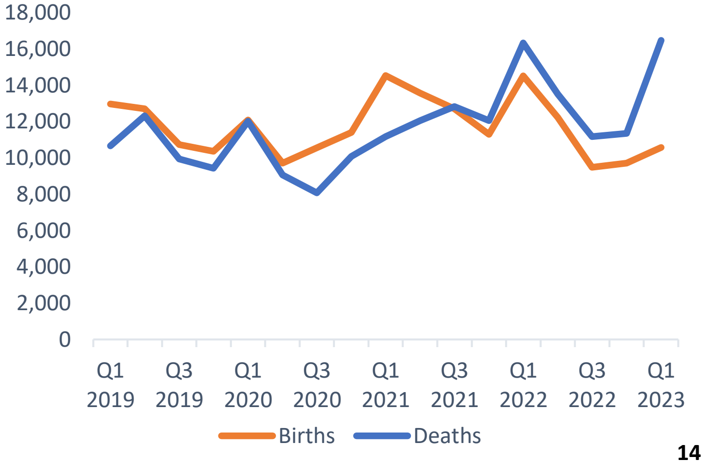
Trends in Midlands Engine business births:



However, business births are clearly struggling to recover from shocks of recent years and no doubt being affected by the cost of doing business crisis. **Nationally, the number of births decreased in all 16 industry groups in the last year,** with the most significant decrease coming in the **transport and storage industry. Only 5 local authority areas in the Midlands Engine saw business births increase compared to the same quarter in 2022** (Staffordshire Moorlands, Melton, Solihull, East Lindsey and Herefordshire).

Bringing business births and deaths data together suggests some concerning signs again in the Midlands economy. Although Q1 is always traditionally higher than other quarters for deaths – the **steep rise and level above births (which are historically low) is concerning.**

Quarterly trends in Midlands Engine business births and deaths:



Make UK – Industrial Strategy

Britain's manufacturers are calling for the establishment of a Royal Commission as a starting point to **develop a long term, modern Industrial Strategy** which would help provide companies with a vision and a stable environment to invest, access talent and grow their business.

This would be backed by a new **Industry Strategy Council** to ensure the strategy is monitored by an independent body, while the Cabinet Office should be given responsibility for policy co-ordination across Government not the Business Department. **The call was made on the back of a major report and survey published in May by [Make UK, 'Industrial Strategy – A Manufacturing Ambition](#)'.**

The report comes at a crucial time for the UK economy which risks being squeezed between the substantial impact of the **US Inflation Reduction Act (IRA) which is drawing in green investment in particular and, similar counter-measures being introduced by the EU.** In response, Make UK outlines an ambition not just to address the accepted **challenges around skills, innovation, infrastructure and the business environment** but, the **opportunities from a rapidly changing policy landscape including green transition, digitalisation, levelling up and accelerating technologies** such as AI and Augmented Reality.

The report also sets a **target of growing the manufacturing sector to 15% of GDP which Make UK estimates would add an extra £142bn in output** annually, creating high-skill, high-value jobs.

The survey data presented as part of the report suggests some interesting variations within manufacturers across the UK. **The top three priorities for Midlands' manufacturing firms for levelling up are better support for skills training, upgrading local transport infrastructure and net zero incentives;** but in comparison to other regions the West Midlands has a **high preference for more devolution** (while this is lower on the East Midlands radar), and a considerably **higher percentage of East Midlands manufacturers ranked skills and job opportunities as important** (75% compared to 55% in the West Midlands).

Key Findings

Regional Perspectives

Chart 4: What manufacturers want to see prioritised from the Governments levelling up agenda

% manufacturers reporting per region their top 3 priorities

	Upgrading local transport infrastructure including rail and road	Better support for skills training and creating better job opportunities for all	Improving digital connectivity including full 5G coverage for businesses	Increasing in the volume of affordable housing	Greater devolution for the different regions through Regional Mayors	Incentives for businesses to become net-zero
North East	54%	54%	46%	31%	62%	46%
North West	69%	69%	38%	8%	31%	46%
Yorkshire & the Humber	74%	74%	53%	32%	47%	53%
East Midlands	56%	75%	25%	19%	6%	56%
West Midlands	45%	55%	35%	15%	25%	45%
East Anglia	45%	73%	18%	27%	0%	55%
London	32%	64%	68%	36%	45%	32%
South East	38%	77%	46%	38%	31%	15%
South West	39%	78%	56%	56%	11%	61%

Source: Make UK, Levelling up, bridging the gap between policy and progress

Exploring the Investment Potential of Midlands Clusters

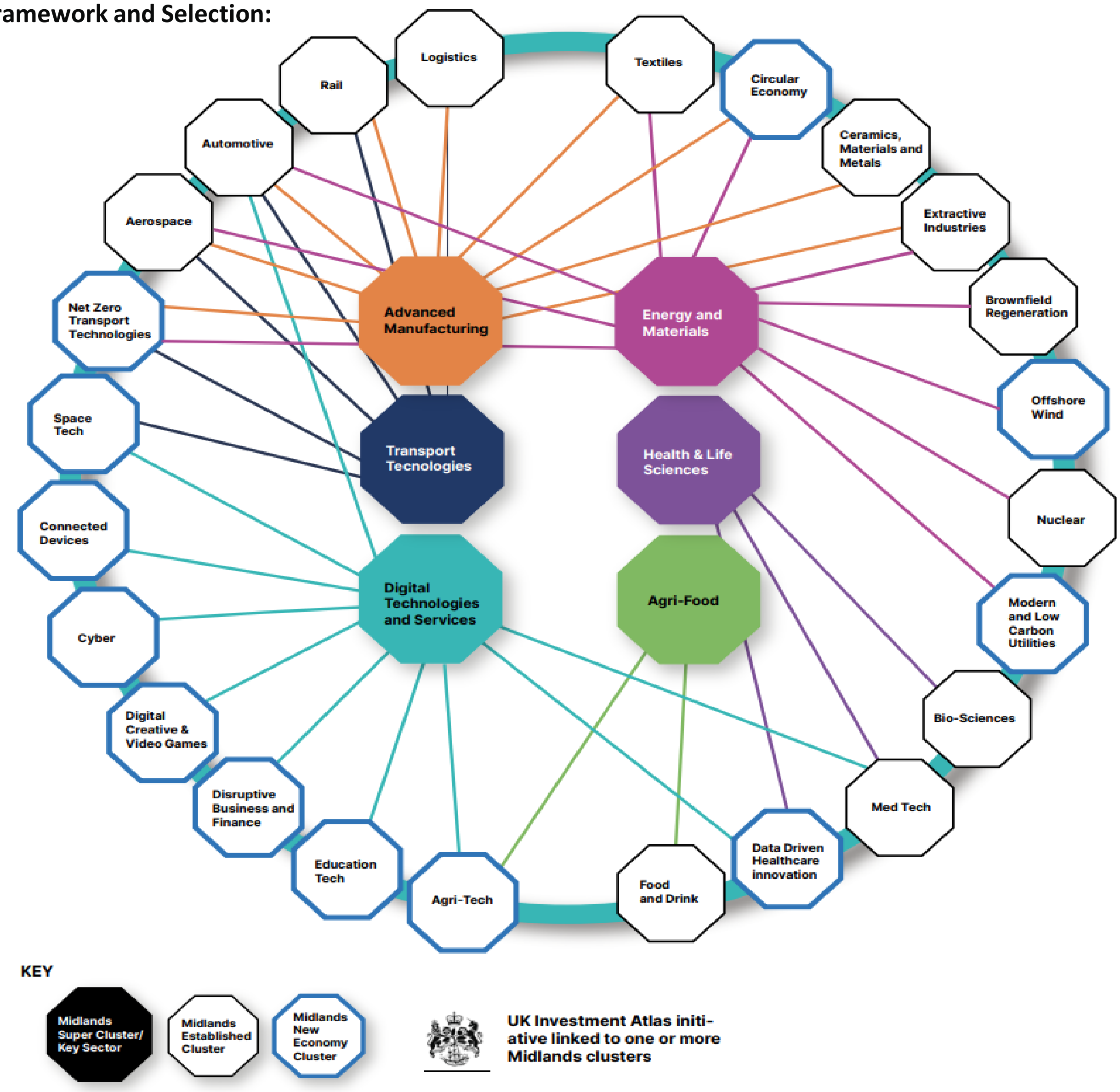
A new report, [Exploring the Investment Potential of Midlands Clusters](), has been produced and published by the Midlands Engine Partnership to launch a new programme of analysis, engagement and policy development focused on supporting our regional partners, businesses, and the UK Government to better **understand and develop clusters across the Midlands.**

Working in collaboration with The Data City, Beauhurst, Wavteq, CBI Economics and Midlands Engine Observatory, the project has **identified, selected and analysed a series of clusters in the Midlands Engine region**. The published report demonstrates the cluster framework and methodology applied, while **showcasing the analysis of 4 clusters identified (out of a total of 23).**

The work has identified and selected the following clusters; as depicted in the below diagram:

- **Six Midlands 'Super-Clusters'**; which are our key sectors where we have world-leading economic strengths and innovation assets distributed across the region
- **At least ten Midlands 'Established Clusters';** which incorporate significant concentrations of economic activity in multiple locations, linked to sectors of long-established industrial strength within the region
- **At least fourteen Midlands 'New Economy Clusters';** which include multiple concentrations of economic activity identified and labelled by partners as aligned to emerging knowledge, technology and innovation-intensive sectors.

Cluster Framework and Selection:



Exploring the Investment Potential of Midlands Clusters: Case Study Example

Over the course of the Clusters programme, Midlands Engine will publish a series of '**Snapshots' that will include the data and analysis of investment potential but also the insight and recommendations drawn from industry roundtables** and engagement we will convene with businesses and partners across each cluster.

The **four case-studies in the published report provide an example of how information will be presented. While the project also worked with The Data City to develop a suite of maps that help visualise key economic activity across the Midlands for each cluster.** These are initially focused on core **metrics such as business count, turnover and employee numbers** as well as illustrating innovation activity and assets such as universities. An example of some of the content published in the report for one of the four cluster case studies used (aerospace, agri-tech, health and life sciences and space) is included below. **All the published case studies and underlying data is available in the report.**

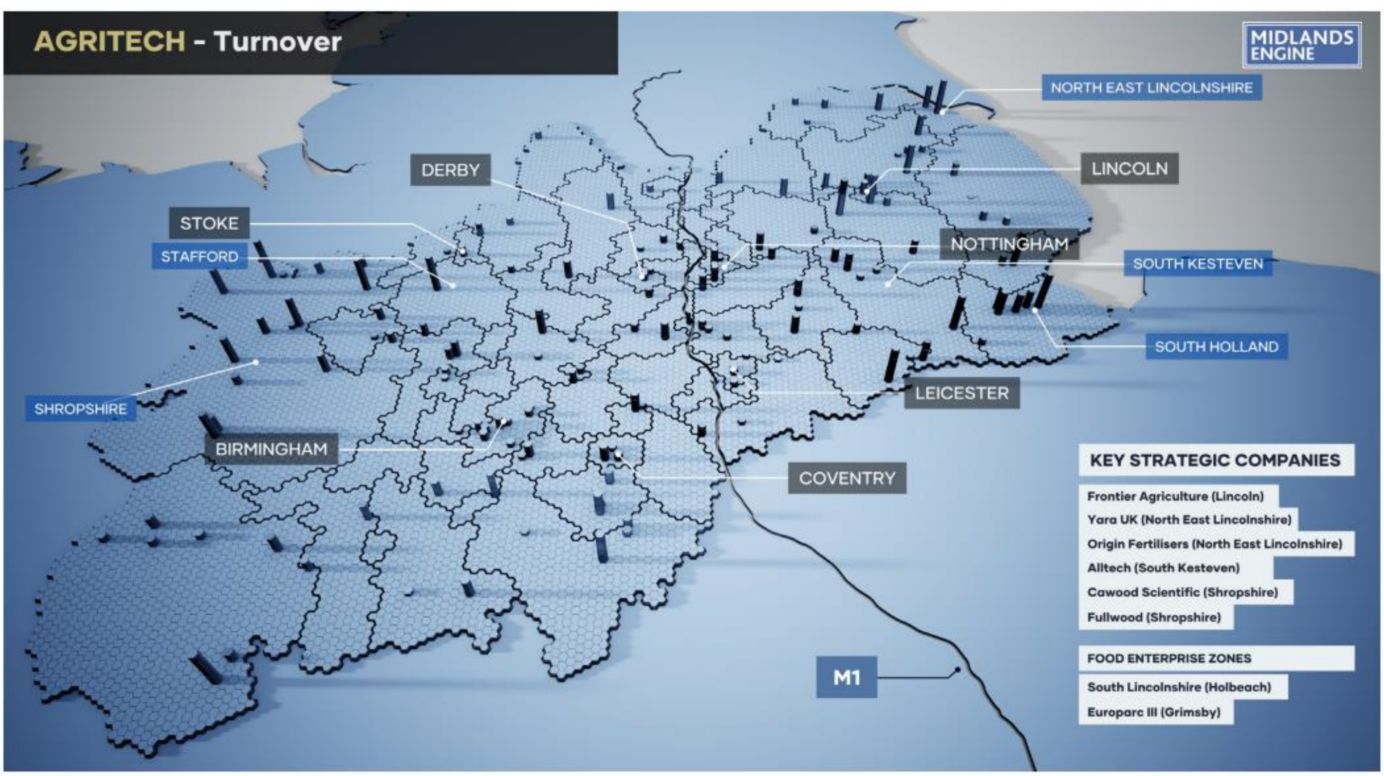
Example of Cluster Case Study: Agri-Tech

Agri-tech: a Midlands New Economy Cluster

At a glance…

Midlands New Economy Cluster

- **20%** of UK companies in Agri-tech are located in the Midlands Cluster
- **9% of High Growth** companies in the Agri-tech sector are based in the Midlands Cluster
- **3,808 or 10%** of UK employees in companies in this sector are located in the Midlands Cluster
- **16 of 51 (31%)** of investments into UK Agri-tech High Growth Companies were made into the Midlands Agri- Cluster
- **23%** of UK total FDI and **25%** of jobs created by inward investment related to this sector was into the Midlands Agri-tech Cluster
- **36%** of UK total DDI and **34%** of jobs created by inward investment related to this sector was into the Midlands Agri-tech Cluster
- Notable locations include: Greater Lincolnshire's Food Valley and significant clusters in Herefordshire and Shropshire, with further contributions across counties in the region in a wider agriculture sector with upwards of **90,000 jobs**
- The University of Nottingham's Agri-sciences campus at Sutton Bonington, Harper Adams University, University of Birmingham, Cranfield University and University of Lincoln are all world-leading centres of research and innovation for Agri-tech and associated subjects.



Female Led Companies

The new Gender Index 2023 report explores the upward trend of female-owned and ethnic-minority owned female-led companies. **Since 2022, the West Midlands has improved its position** and moved above the South East to 2nd position at 17.6%. **The East Midlands is 5th position** (16.7%). London remains the highest at 18.6%.

UK 2023 data:

Active companies		Female-led companies		Ethnic minority female-led companies		Female-led fast growth companies	
4,649,806	100.00%	822,780	17.69%	339,542	7.30%	1,622	0.03%

Midlands 2023 data:

Active companies		Female-led companies		Ethnic minority female-led companies		Female-led fast growth companies	
605,294	100.00%	107,945	17.83%	42,841	7.08%	210	0.03%

Top sectors by Female-led Percentage in the Midlands:

Sector Name	Total companies	Female-led	% Female-led
Household employers	209	76	36.36%
Health, wellbeing and social care	31,857	11,233	35.26%
Education	12,310	4,163	33.82%
Public health and safety services	1,544	501	32.45%
Service sector	28,112	8,438	30.02%
Administrative and support service activities	56,062	13,675	24.39%
Arts, entertainment and recreation	13,305	2,893	21.74%
Accommodation and food service activities	33,727	7,081	21.00%
Professional, scientific and technical services	66,560	12,126	18.22%
Logistics and storage services	35,093	6,333	18.05%
Wholesale and retail	92,181	16,443	17.84%
Agriculture, forestry and fishing	6,145	894	14.55%
Overseas organisations	83	12	14.46%
Real estate activities	57,377	8,095	14.11%
Information, communication and technology	36,821	4,280	11.62%
Manufacturing	38,069	4,292	11.27%
Financial services	20,922	2,132	10.19%
Water and waste services	2,558	243	9.50%
Construction	70,287	4,917	7.00%
Mining and quarrying	705	49	6.95%
Energy suppliers	1,367	69	5.05%

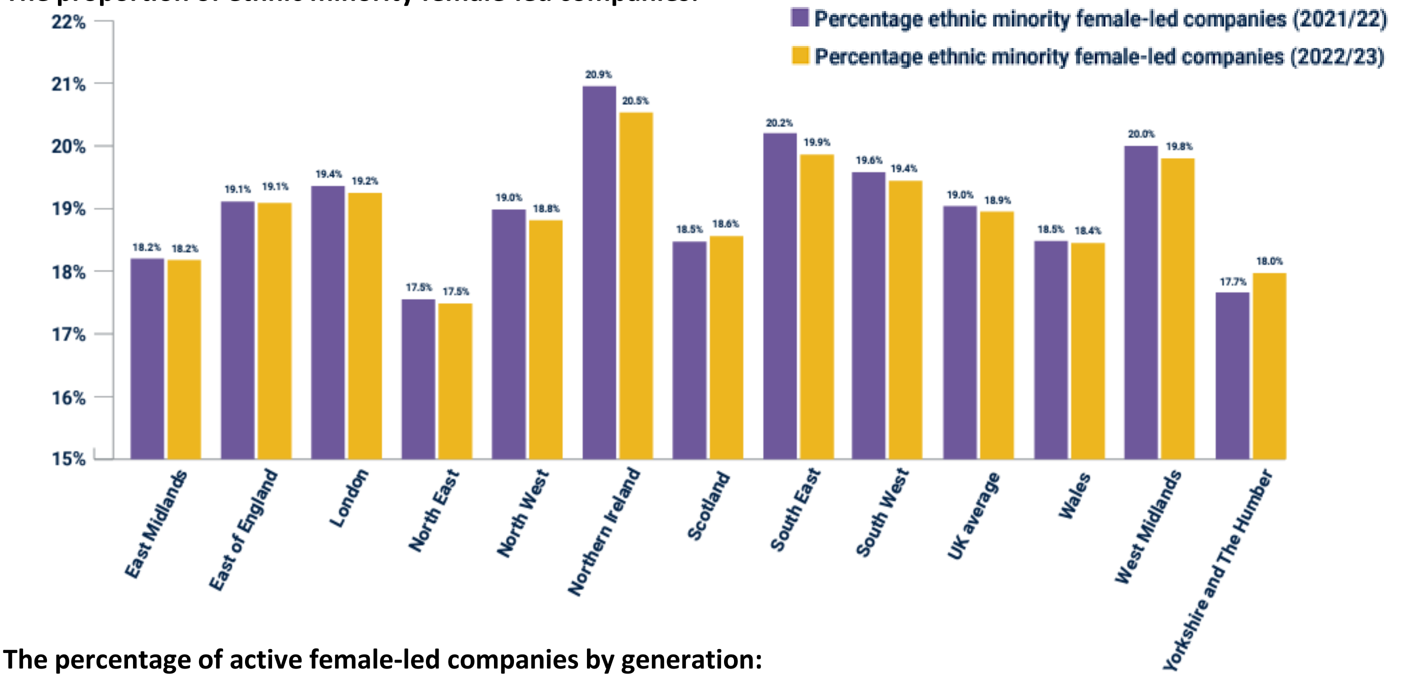
Source: The Gender Index

Household employers is the most common sector to be female-led, at 36.36%, but at just 76 female-led companies, this is small in comparison to the **wholesale and retail sector** with 16,443 female-led companies, equivalent to 17.84% of all companies in this sector as female-led.

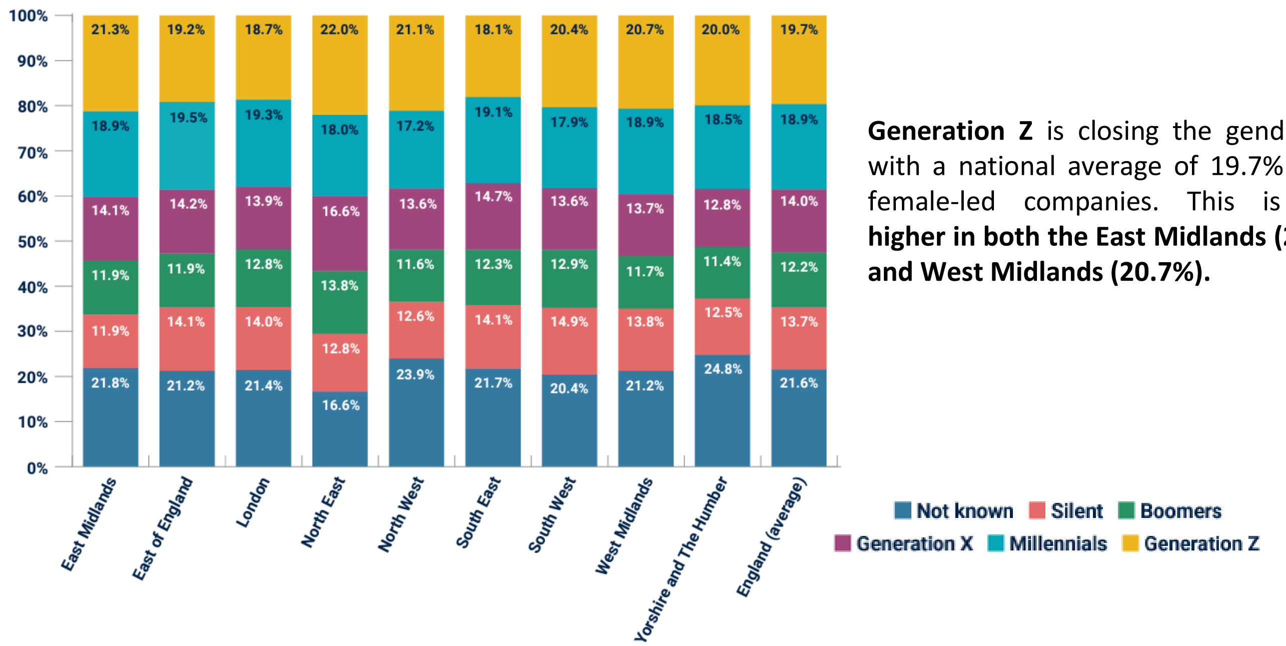
Female Led Companies

In the Midlands, there were 42,841 ethnic minority female-led companies in 2023. Since the previous year, the percentage has decreased in the West Midlands and remained the same in the East Midlands.

The proportion of ethnic minority female-led companies:



The percentage of active female-led companies by generation:



Generation Z is closing the gender gap with a national average of 19.7% active female-led companies. This is even **higher in both the East Midlands (21.3%) and West Midlands (20.7%).**

Across the UK, only around 0.4% of all companies qualify as fast growth. Among female-led companies however, only 0.2% of all female-led companies are fast growth. This is around 50% of the national average.

Within Enterprise Investment Scheme (EIS) qualifying companies that secured funding, **male-led companies capture roughly seven times more secured funding than female-led companies**, averaging 70% of the total funding. In the Midlands, **17.66% of companies receiving angel investment were female-led, similar to levels seen across the UK.**

Investment type	Total investments	Female-led	Female-led %
No Investment	109,279	92,984	18.88%
Angel	18,549	11,768	17.66%
Company	4,243	3,388	6.89%
Venture Capital	19	16	4.51%
Private Equity	57	38	4.08%

Local Business and Policy Intelligence By Sector

SECTOR	KEY INSIGHTS
Hospitality, Retail and Tourism	• With the business climate remaining uncertain and consumer demand low, **hospitality, retail and tourism businesses remain at particular risk** – owing to sustained higher costs and less spending from the public. • **Only a third of UK hospitality businesses are optimistic about their future** due to high energy prices and rising food costs, industry bosses have warned. Four of the UK's largest hospitality industry groups - the British Institute of Innkeeping, UKHospitality, the British Beer and Pub Association and Hospitality Ulster - **have issued a plea to the government.** • Examples of struggling regional firms in these sectors have been raised, for example **Severn Valley Railway has launched an urgent appeal** for donations as bosses warn the attraction may not survive its current financial crisis. The railway has been profoundly affected by changes in the financial climate over the past three years, as a result of the Covid-19 pandemic, the war in Ukraine, post-Brexit supply chain issues and the cost-of-living crisis. • However, more positively **UK consumers picked up the pace of their spending in April, and sales volumes over the three months to April grew by the most since mid-2021**, according to ONS retail sales data, that suggested limited impact from the surge in inflation. **Sales volumes in April rose by a slightly stronger-than-expected 0.5% from March**, while in the February-to-April period, sales were up by 0.8% from the previous three months.
Construction and Infrastructure	• According to official ONS data, **monthly UK construction output is estimated to have increased 0.2% in volume terms in March 2023**; this came from an increase in new work (0.7%), partially offset by a decrease in repair and maintenance (0.6% fall) on the month. **Quarterly construction output increased 0.7% in Quarter 1 (Jan to Mar) 2023 compared with Quarter 4 (Oct to Dec) 2022; the increase came solely from a rise in repair and maintenance (4.9%),** as new work saw a decrease of 1.9%. • The annual rate of construction output price growth was **8.5% in the 12 months to March 2023; this has slowed slightly** from the record annual price growth found in May and June. • Data for April - from the S&P Global / CIPS UK Purchasing Managers Index for the construction industry – shows that **activity in the sector increased again in April albeit with "lopsided" growth**. Residential house-building suffering its steepest decline since May 2020, **weighed down by weaker demand and higher mortgage rates,** in contract to strong commercial construction growth. • Separately, across both the East and West Midlands, leaders continue to acknowledge the need to understand infrastructure opportunities and how to attract investment; for example the West Midlands Combined Authority (WMCA) has launched its **2023 Investment Prospectus**, while an inquiry has been launched by the East Midlands All-Party Parliamentary Group (APPG) into the **social and economic benefits of public infrastructure in the region.**
Manufacturing	• British car manufacturing made further gains in April, with **output increasing for the third month in a row, up 9.9%,** according to the latest figures published by the Society of Motor Manufacturers and Traders (SMMT). **66,527 cars rolled out of factory gates, 5,973 more than in April last year as global supply chain shortages, most notably of semiconductors, continued to ease.** • The Government published its National Semiconductor Strategy in May, focused on securing a **long-term semiconductor supply chain for Britain.** The British Chambers of Commerce have commented saying the strategy is a **"welcome first step".**
Cross-Sector Clusters	• A new "Open for Business" report from the Centre for Progressive Policy (CPP) shows that **innovation and investment need not be confined to our big cities**: many towns, small cities and rural and coastal areas with underperforming local economies already **contain pockets of high potential industries, that have demonstrated impressive growth in recent years.** • From a total of 95 "pockets of potential" in 72 underperforming local economics, the report **highlights 21 Midlands Engine locations (the most of any region) with at least one high potential sector / sub-sector**: largely related to **manufacturing but also agriculture, wholesale / retail and information and communication.** • A separate report from The Economy 2030 Inquiry highlights key characteristics of successful **"turnaround cities"** – an interesting perspective for use in Midlands and wider UK places.

Business Insights and Impact on the UK Economy

ONS have published the final results from Wave 82 of the [Business Insights and Conditions Survey (BICS)](#).

Financial Performance

18.3% of West Midlands businesses and 19.8% of East Midlands businesses reported that the business turnover in April 2023 when compared to the previous month had increased. While **36.1% of West Midlands businesses and 34.1% of East Midlands businesses reported turnover had decreased.**

33.8% of West Midlands businesses and 33.1% of East Midlands businesses expect turnover to increase in June 2023. While 7.7% of West Midlands businesses and 9.1% of East Midlands businesses expect turnover to decrease in June 2023.

Prices

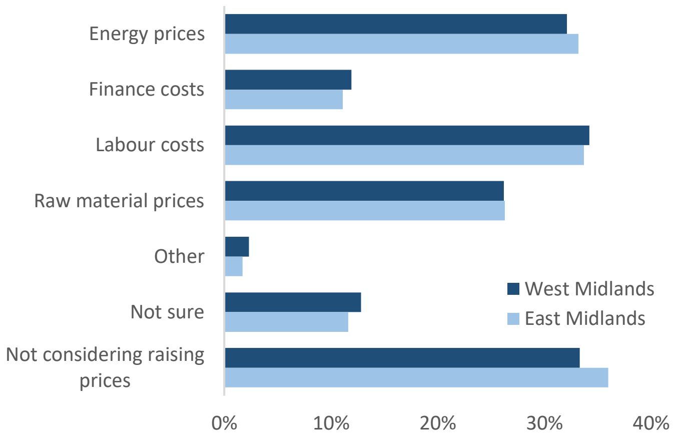
30.6% of West Midlands businesses and 31.7% of East Midlands businesses reported that the prices of goods or services brought in April 2023 when compared to the previous month had increased. While 1.8% of West Midlands businesses and 2.3% of East Midlands businesses reported a decrease.

19.7% of West Midlands businesses and 21.3% of East Midlands businesses reported that the prices of goods or services sold in April 2023 when compared to the previous month had increased. While 2.0% of West Midlands businesses and 2.2% of East Midlands businesses reported the prices had decreased.

17.6% of West Midlands businesses and 15.0% of East Midlands businesses expect the prices of goods or services sold in June 2023 to increase. While 1.1% of West Midlands businesses and 1.6% of East Midlands businesses expect the prices of goods or services sold to decrease.

34.2% of West Midlands businesses and 33.7% of East Midlands businesses reported labour costs was a factor for the business to consider rising prices in June 2023.

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



Demand for Goods and Services

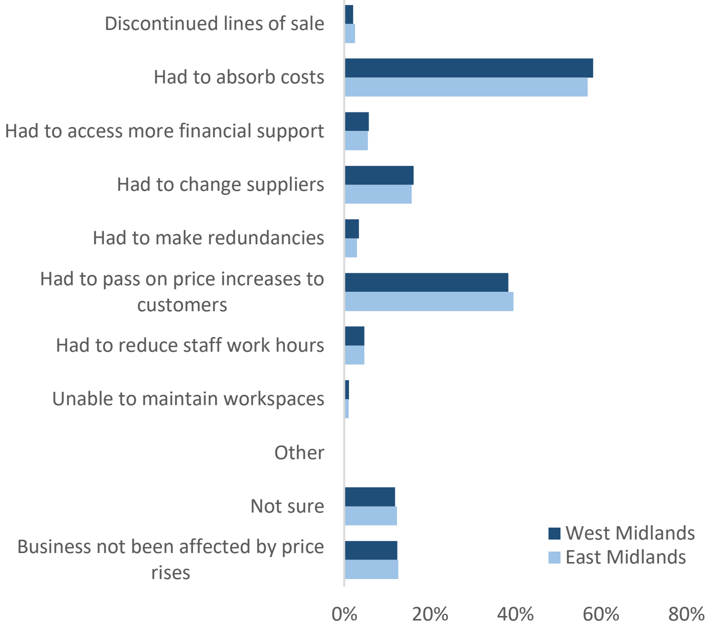
12.1% of West Midlands businesses and 13.0% of East Midlands businesses reported the domestic demand for goods or services in April 2023 when compared to the previous month had increased. 18.9% of West Midlands businesses and 19.8% of East Midlands businesses reported that domestic demand had decreased.

4.1% of West Midlands businesses and 4.0% of East Midlands businesses reported the international demand for goods or services in April 2023 when compared to February 2023 had increased. 7.4% of West Midlands businesses and 6.9% of East Midlands businesses reported that international demand had decreased.

Impacts of Price Rises

58.2% of West Midlands businesses and 56.9% of East Midlands businesses have had to absorb costs due to price rises.

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



Debts and Insolvency

27.6% of West Midlands businesses and 27.5% of East Midlands businesses reported repayments were up to 20% of turnover. 7.3% of West Midlands businesses and 8.3% of East Midlands businesses reported repayments were between 20% and 100% of turnover. 1.1% of West Midlands businesses and less than 1.0% of East Midlands businesses reported repayments were more than 100% of turnover.

48.2% of West Midlands businesses and 47.6% of East Midlands businesses had high confidence to meeting current debt obligations. 15.2% of West Midlands businesses and 16.9% of East Midlands businesses reported moderate or low confidence to meeting debt obligations.

4.9% of West Midlands businesses and 5.4% of East Midlands businesses reported moderate risk of insolvency. **85.4% of West Midlands businesses and 84.9% of East Midlands businesses reported either low or no risk if insolvency.**

Number of Employees

20.9% of West Midlands businesses and 19.6% of East Midlands businesses reported the number of employees had increased in April 2023 when compared to the previous month. 13.4% of West Midlands businesses and 14.5% of East Midlands businesses reported the number of employees had decreased.

22.4% of West Midlands businesses and 21.9% of East Midlands businesses expect the number of employees in June 2023 to increase. 5.7% of West Midlands businesses and 5.6% of East Midlands businesses expect the number of employees to decrease.

Recruitment Difficulties

29.6% of West Midlands businesses and 28.6% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in April 2023.

EU and Non-EU Workers

1.9% of West Midlands businesses and 2.2% of East Midlands businesses reported the number of workers from within the EU had increased in April 2023 when compared to the previous year. While 7.1% of West Midlands businesses and 6.6% of East Midlands businesses reported the number of workers from within the EU had decreased.

4.9% of West Midlands businesses and 4.0% of East Midlands businesses reported the number of workers from outside the EU had increased in April 2023 when compared to the previous year. While 2.7% of West Midlands businesses and 2.0% of East Midlands businesses reported the number of workers from outside the EU had decreased.

Net Zero

55.9% of West Midlands businesses and 59.0% of East Midlands businesses were either very or somewhat concerned about the impact climate change may have on the business. While 24.0% of West Midlands businesses and 25.6% of East Midlands businesses reported no concerns.

17.9% of West Midlands businesses and 17.7% of East Midlands businesses have a climate change strategy in place to protect the environment.

47.8% of West Midlands businesses and 46.6% have switched to LED bulbs in an effort to reduce carbon emissions.

Actions (if any), Midlands Businesses have Taken to Protect the Environment:

	West Midlands	East Midlands
Has a climate change strategy	17.9%	17.7%
Has a net zero or greenhouse gas emissions target	15.3%	15.2%
Has a net zero or greenhouse gas emissions target which includes supply chain	6.7%	7.0%
Has a nature or biodiversity strategy	2.4%	3.0%
Has a nature or biodiversity target	1.0%	1.6%
Monitors climate-related risks	9.2%	11.7%
Publishes an annual sustainability report	14.0%	13.8%
Has a nature or biodiversity target which includes supply chain		1.0%
Monitors nature or biodiversity-related risks	4.0%	4.5%
Other	5.1%	4.7%
Not sure	32.0%	30.4%
None of the above	31.8%	33.2%

Actions (if any), Midlands Businesses have Taken to Reduce Carbon Emissions:

	West Midlands	East Midlands
Adjusting heating and cooling systems	42.1%	42.2%
Electrifying your vehicle fleet	28.0%	30.6%
Installing a smart meter	23.1%	21.2%
Installing charging points	31.1%	33.1%
Installing your own renewable electricity or heating	11.2%	12.4%
Insulating your buildings	10.8%	12.4%
Introducing a cycle to work scheme	22.1%	19.6%
Switching to LED bulbs	47.8%	46.6%
Other	2.9%	2.4%
Not sure	17.1%	16.8%
No actions have been taken to reduce emissions	10.4%	11.7%

Overall Performance

26.2% of West Midlands businesses and 25.0% of East Midlands businesses reported that the overall performance in April 2023 when compared to the same month in the previous year had increased. While 20.5% of West Midlands businesses and 19.9% of East Midlands businesses, performance had decreased.

42.6% of West Midlands businesses and 40.9% of East Midlands businesses expect overall performance to increase over the next 12 months. While 7.7% of West Midlands businesses and 8.5% of East Midlands businesses expect performance to decrease.

Source: ONS: Wave 82 of the Business Insights and Conditions Survey. The West Midlands response rate was 25.5% and in the East Midlands the response rate was 26.5% where businesses have a presence in the region. There was a response rate of 24.4% for the West Midlands and 27.2% of East Midlands where businesses are headquartered in the region. Survey reference period: 1st to 30th April 2023. Survey live period: 2nd to 14th May 2023. As response rates are low and the data is unweighted and should be treated with caution.

5. Place Analysis

Growth for Cities

The recently released [Demos-PwC Good Growth for Cities]() report looks at how the **radical reshaping of public and private sector roles would help cities respond to current challenges** (the Index covers broad measures of economic wellbeing, including jobs, income, health, skills, work-life balance, housing, transport and the environment), **while at the same time steering towards growth and genuine levelling up.**

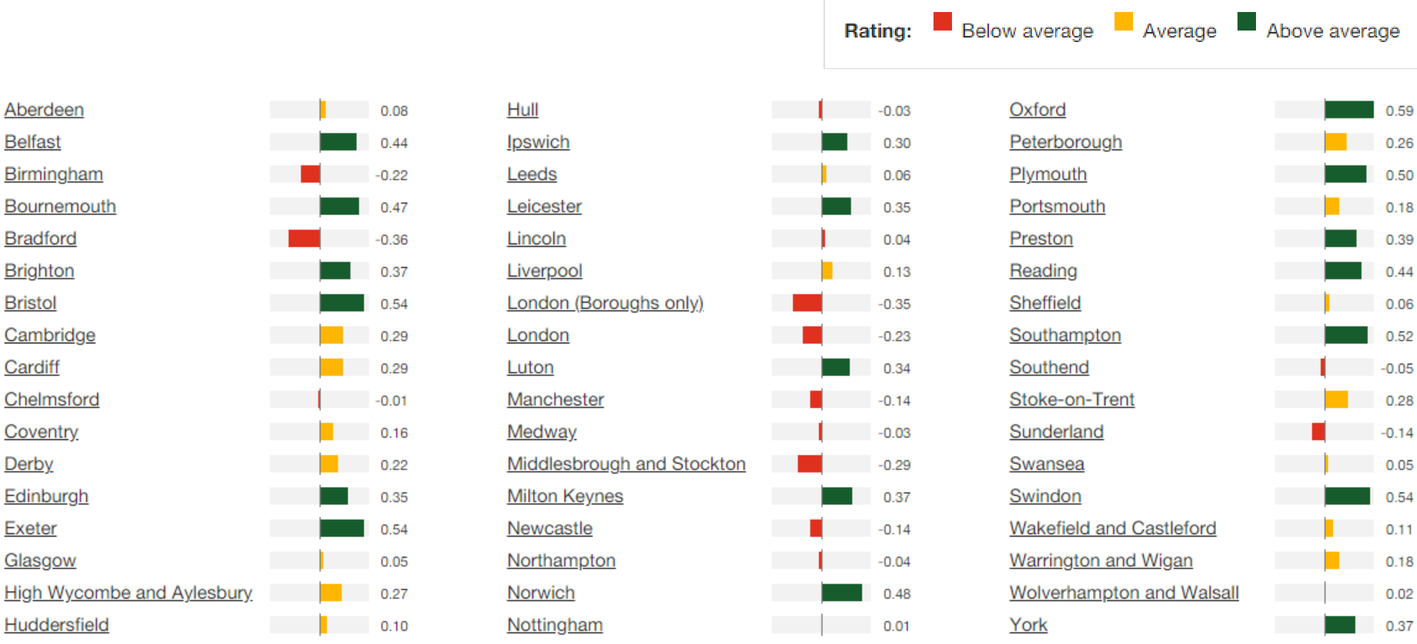
West Midlands Spotlight

- When measured against the priorities chosen by the public, cities in the West Midlands tend to perform below the national average, with the exception of Stoke-on-Trent. The highest performing city is Stoke-on-Trent, which comes 21st in our index. The lowest performing city is Birmingham, ranking 47th out of 51.
- **As a whole, the four cities in the West Midlands perform most strongly on the following criteria:**
    - **Work-life-balance:** Wolverhampton and Walsall and Birmingham score above the UK average, while Coventry and Stoke-on-Trent score similarly to the UK average.
    - **Income Distribution:** Stoke-on-Trent and Wolverhampton and Walsall score higher than the UK average, while Coventry and Birmingham score more similarly to the UK average.
    - Conversely, cities in the West Midlands score poorly on **High Streets, Jobs, Income and New Businesses** variables.
- Cities across the West Midlands perform quite differently across the index. The strongest performing city could be considered as Coventry, which is only significantly below the UK average on one variable, while Wolverhampton and Walsall perform lower than the UK average on six different variables.

East Midlands Spotlight

- When measured against the priorities chosen by the public, some cities in the East Midlands perform slightly above the national average, while some perform slightly below the average. The highest performing city is Leicester, which comes 16th in the index. The lowest performing city is Northampton, ranking 42nd out of 51.
- **As a whole, the six cities in the East Midlands perform well on the following criteria:**
    - **Transport:** Five of the six cities in the East Midlands score significantly above the UK average.
    - **Income Distribution:** Four of the six cities score higher than the UK average, while the other two are broadly similar to the average.
    - Cities in the East Midlands score poorly on **Income** and **High Streets** variables, with there also being average to poor performance on the **House price to earnings** variable.
- Cities across the East Midlands perform quite differently across the index. This is due to individual challenges that each city faces. In particular, there is mixed performance on the **new businesses** criteria. Leicester and Northampton both perform above average, while Derby, Lincoln and Nottingham are all below the UK average.

The Overall Score from the Growth for Cities Index Across All Cities for 2023:



Social Fabric Index

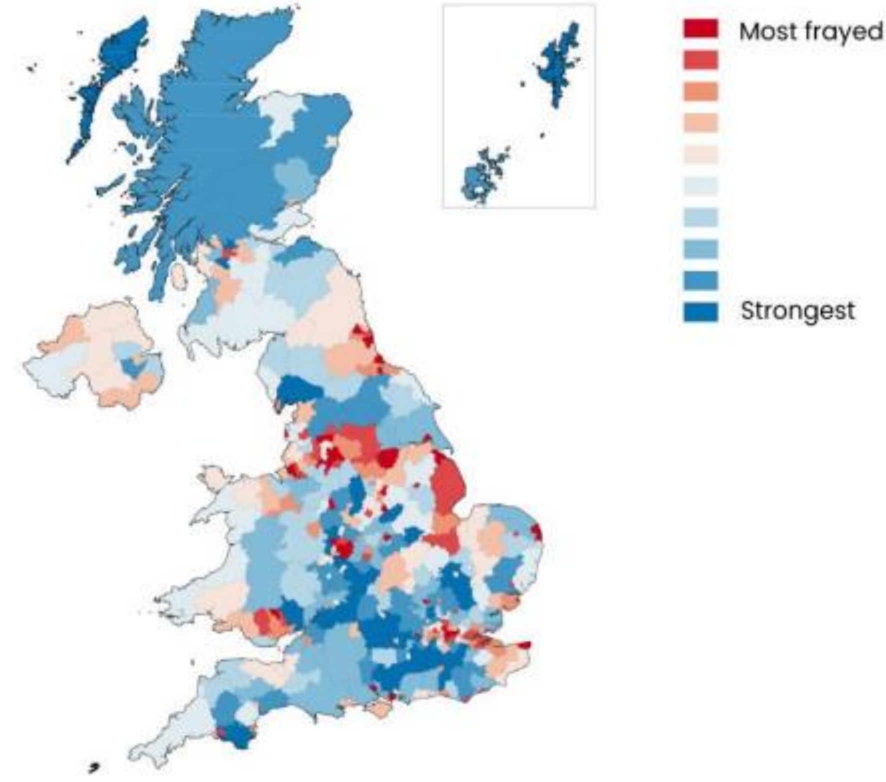
Onward published the first Social Fabric Index in 2020, the Index defines what is meant by community strength. It combines a range of data on the aspects of community which matter most to people to understand how the UK's social fabric varies geographically. The Social Fabric Index is an average of four threads and each thread has fibres:

- **Economic Value**: housing, income and saving and work
- **Relationships**: neighbourliness, membership & participation and community assets
- **Physical Infrastructure**: local assets, connectivity and green space
- **Positive Norms**: education, crime, family, health and democracy

The latest report provides an updated map of community strength for local authorities across the UK, using the most recent data. The four key findings from the 2023 Index are:

- The places with the most frayed social fabric tend to be concentrated along the North East coast from the Tyne to the Tees, the M62 corridor, and from East London along the Thames Estuary to Thanet. Kingston-Upon-Hull has the lowest score in the country.
- **The Home Counties has a high concentration of places with strong social fabric. But there are other clusters of strong communities in the rural Midlands (Bromsgrove, Derbyshire Dales and Stratford-on-Avon)** in particular and across much of northern Scotland. The strongest social fabric is in East Renfrewshire.
- Social Fabric Index scores are broadly unchanged from 2020. It seems that community has been resilient through the pandemic, with the scores for Relationships and Positive Social Norms remaining stable.
- Economic Value has declined across the board. This is mostly driven by insecure housing, unemployment, and inactivity. Secure tenancies have become less common in every single local authority except five.

Social Fabric Index Scores, (in deciles from weakest to strongest):



Sandwell and Wolverhampton are both in the lowest decile for Social Fabric, whereas neighbouring Bromsgrove and South Staffordshire are in the highest decile.

The Midlands within the Threads:

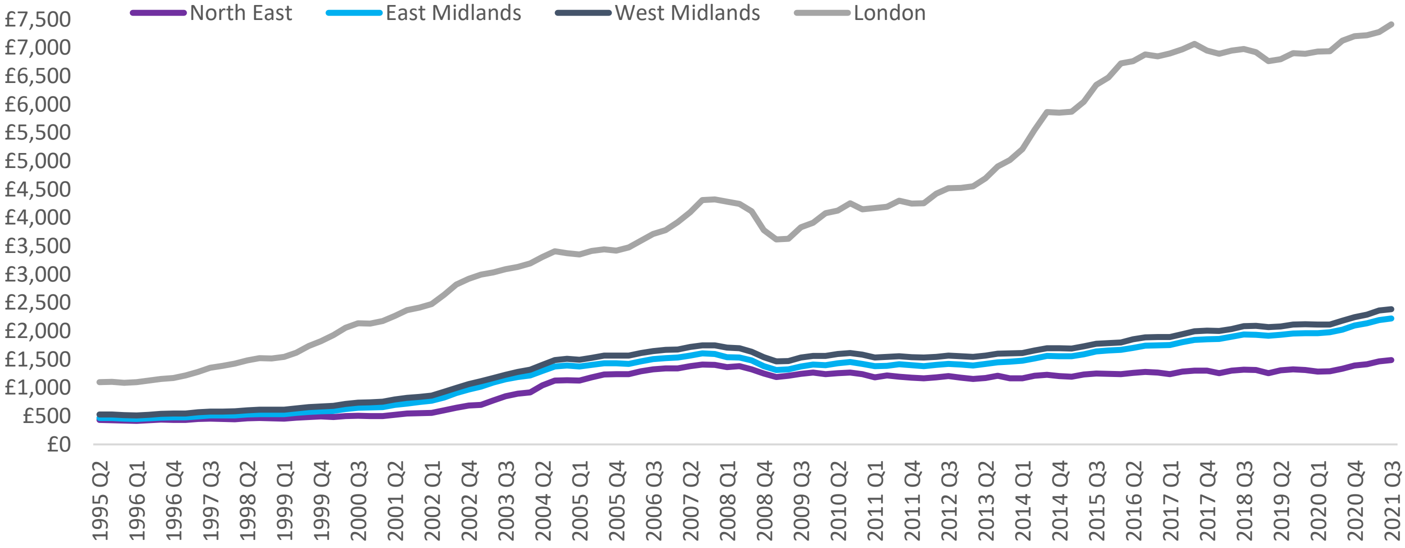
- **Relationships** - proportion of each region's local authorities in the top or bottom quintile: Bottom Quintile: West Midlands 20%, East Midlands 14%. Top Quintile: West Midlands 20%, East Midlands: 14%.
  - Strongest 10: Derbyshire Dales. Most Frayed 10: Nottingham and Lincoln.
- **Positive Social Norms**
  - Most Frayed 10: North East Lincolnshire and Sandwell.
- **Physical Infrastructure**
  - Strongest 10: Rutland, North Warwickshire and Bromsgrove.
- **Economic Value**
  - Strongest 10: Bromsgrove and South Staffordshire. Most Frayed 10: Nottingham and Birmingham.

Regional House Price Level Estimates

There are regional disparities in house price levels (HPLs) across England and Wales, and the magnitude of these disparities has changed over time. In Q2 1995, regional house price levels per square metre ranged from £1,097 in London to £412 in Wales. **The West Midlands had the 6th lowest HPL per square metre and the East Midlands had the 4th cheapest.** By 2001 HPLs per square metre had increased by 50% in both the East and West Midlands, compared to London which had increased by 107%, and the wider southerly regions increasing at rates over 80%.

By Q3 2021 **HPLs per square metre had increased by 378% in the East Midlands and 350% in the West Midlands to reach £2,226 and £2,390 respectively.** London increased by 576% to reach £7,414. The North East saw the smallest increase over this period, up 245% to £1,491, the lowest HPL per square metre our of all the UK regions.

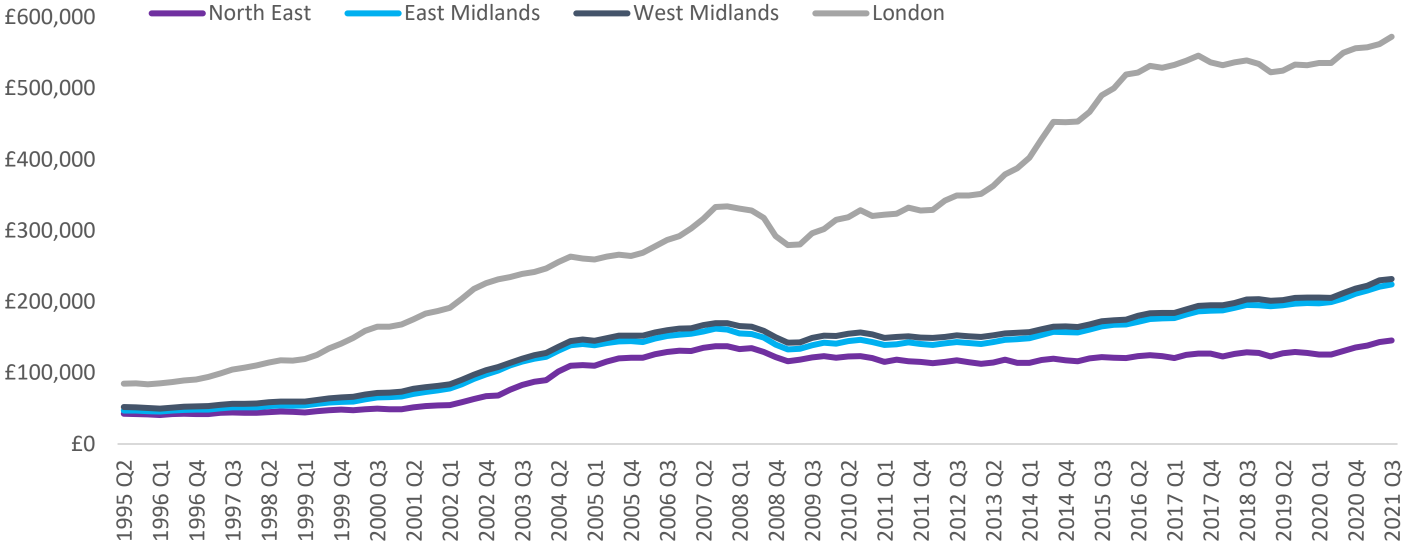
Regional house price level estimates - price per square metre for the Midlands and highest and lowest regions:



House prices per property have increased in the East Midlands from £46,872 in Q2 1995 to £224,169 in Q3 2021, an increase of 378%. House prices per property have increased in the West Midlands from £51,562 to £231,979, an increase of 350%. During this time, house prices increased by 576% in London to reach £572,235. The North East saw the smallest increase, at +245% to £145,272.

The regional disparity in house prices decreased following the 2008 global financial crisis, but there were disparities in the rates of recovery, with London being the fastest region to recover and the North East being the slowest. Following changes to Stamp Duty Land Taxes since the global Coronavirus pandemic started in Q1 2020, HPLs have generally increased more rapidly in the last two years of data compared with the previous three-year annual average.

Regional house price level estimates – price per property for the Midlands and highest and lowest regions:



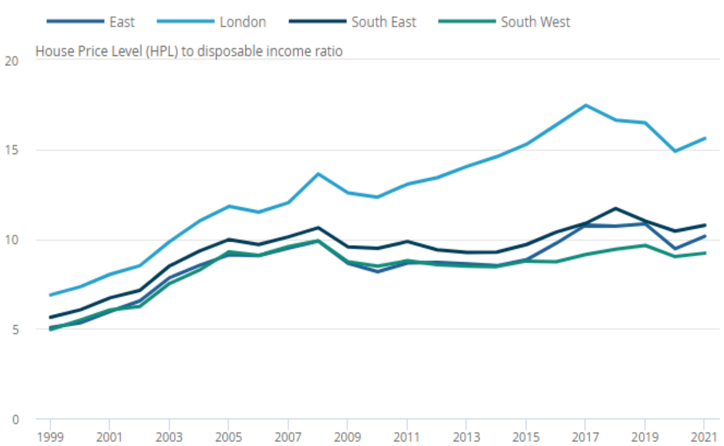
Source: ONS, Regional house price level estimates, England and Wales: 1995 to 2021

Regional House Price Level Estimates

Ratio of house price levels to disposable income
London consistently had the highest House Price Level to income ratio in England and Wales.

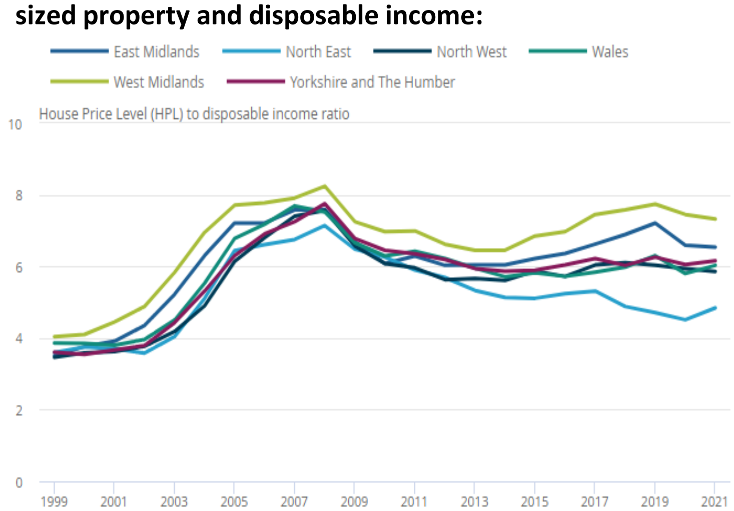
The regions of England and Wales can be split into three groups in terms of trends in HPL to disposable income ratios between the FYE 1999 and 2021. London has consistently been the region with the highest ratio of HPL to disposable income, **while regions in the Midlands and North of England and Wales have had the lowest ratio of HPLs to disposable income,** and many of these regions have traded places between 1999 and 2021. The ratio of HPLs to disposable income in the Southern English regions has generally been somewhere in between London and the other regions in England and Wales.

The ratio of House Price Levels (HPLs) for an average-sized property and disposable income:



Several regions had lower House Price Level to income ratios in 2021 than pre-global financial crisis.

The ratio of House Price Levels (HPLs) for an average-sized property and disposable income:



In the FYE 1999, at the beginning of the series, London had the highest ratio of HPLs to disposable income. The price of an average sized property was 6.9 times the disposable income in London.

The lowest ratio of HPLs to disposable income was in the North West and East Midlands, where the price of an average sized property was 3.5 times the disposable income in that region. The West Midlands was 4.0.

In the FYE 2005, the East Midlands was no longer the region with the lowest HPL to disposable income ratio, and the ratio was higher than four other regions in England and Wales, at 7.1, the West Midlands was 7.7.

The ratio of HPLs to disposable income reached a relative peak in most regions in 2008. The East Midlands reached a peak of 7.6 and the West Midlands reached a peak of 8.2. London came in at 13.6. Following this the ratio of HPLs to disposable income decreased in all regions between 2008 and 2010 during the global financial crisis because HPLs decreased steeply while disposable income continued to increase, albeit marginally. This does not necessarily mean that housing was more affordable in this period since this indicator does not consider the full economic climate at the time. Between 2008 to 2010, HPL to income ratios decreased to 6.1 in the East Midlands, and 7.0 in the West Midlands. London decreased to 12.3.

The change in the ratio of HPLs to disposable income varied widely across regions since 2010. The varied recovery rates across regions following the global financial crisis led to differing changes in the HPL to disposable income ratios across the English regions and Wales. London experienced a fast rebound in HPLs and consequently the ratio of HPLs to disposable income in London had reached its pre-financial crisis peak by the FYE 2014 and quickly accelerated. By FYE 2017, the price of an average sized property was 17.5 times that of disposable income. In the East Midlands ratios decreased to a low of 6.0 in 2012 before rebounding to 7.21 by 2021. In the West Midlands ratios decreased to a low of 6.5 in 2013/14, before rebounding to 7.7 in 2019.

House price to income ratios decreased during Covid in the East Midlands, down to 6.6 in 2020, the West Midlands also decreased to 7.5. By 2021, ratios had further decreased in the East Midlands to 6.5, and decreased in the West Midlands to 7.3.

Source: [*ONS, Regional house price level estimates, England and Wales: 1995 to 2021*]()

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MIDLANDS ENGINE OBSERVATORY

In Partnership: