OBSERVATORY

MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

EDITION 40: JULY 2023

Executive Summary

The July version of the Midlands Engine Economic Monitor reports at a welcome time of **falling inflation**, with annual CPI rising by 7.9% in June, down from 8.7% in May. It is hoped that this trend will continue, and the national and regional economy **will have more consistent stability and confidence moving into the second half of 2023.**

- This already appears reflected in reports of **modest growth and stability within some regional barometers**: for example, the West Midlands Business Activity Index remains above the 50-growth mark despite a small decrease in June (52.6), **the continued strength of sentiment within East Midlands and West Midlands Future Activity Indexes**, and findings from the EM Chamber that the region may be bucking the national economic trend.
- But rising interest rates have prompted UK growth forecasters, such as EY, to **downgrade their expectations for 2024;** despite expecting more growth than originally forecast in 2023.
- While there are plenty of metrics that suggest the UK economy remains in a very difficult situation. The OBR have set out three key risks that have significant fiscal and real-life implications: the **rise in health-related inactivity**, the **rise in gas prices on energy demand and supply**, and the **vulnerability of current government debt levels.**
- These issues are providing a drag on growth and future prospects in the Midlands, in particular high prices: ONS survey data suggests that 18.5% of West Midlands businesses and 19.3% of East Midlands businesses reported the **main concern for business in August 2023 will be inflation of goods and services.**

Reflecting this lack of a stable business environment, business births remain low regionally and nationally according to experimental ONS data up to Quarter 2 2023: **there were 10,360 business births in the Midlands Engine area in Q2 2023,** 15% lower (UK = 14% lower) than the number of business creations in Quarter 2 2022 and is the **lowest number of business creations in a second quarter since 2018** (excluding 2020 Q2 as a majorly Covid-affected quarter). More positively, the **level of business closures has decreased considerably in the most recent quarter.** In Q2 2023, there were 12,090 business deaths in the Midlands Engine area, a **decrease of 27% from Q1 2023.**

As for coverage on employment and skills in this monitor, it reports on **softening demand but some increases in supply** – reflecting a continually **imbalanced labour market**, particularly in terms of skills shortages:

- According to KPMG and REC, a fall in permanent job placements in the Midlands has continued for a seventh month in a row. This aligns with Adzuna data that shows the **number of postings across the region dropped by 32.7% over the last six months.**
- There were 274,895 claimants aged 16 years and over in the Midlands Engine area in June 2023, **an increase of 3,430 (+1.3%, UK +1.5%) claimants since the previous month.** There were 50,695 claimants aged 16-24 years old in the Midlands Engine area in June 2023 – **an increase of 365 youth claimants since May 2023.** This equated to an increase of 0.7% for the Midlands Engine area (UK +0.5%).
- ONS' latest BIC survey finds that **18.3% of West Midlands businesses and 19.4% of East Midlands reported the workforce required extra support/training in management or leadership skills.**

As demonstrated, different sectors are feeling the impacts in different ways, and are reporting varying experiences:

- **Construction:** The rise in mortgage interest rates and cost of living crisis is already plunging the UK construction industry into recession, according to the Construction Products Association.
- **Services:** The latest flash UK PMI services output index fell to a six-month low of 51.3, while there has been reports of an "uncertain future" in Birmingham's fintech sector compared to other parts of the UK.
- **Manufacturing and Engineering:** A new report and data dashboard from the Royal Academy of Engineering and MetroDynamics has reinforced the importance of the sector to the Midlands and the UK; given confidence by Tata's decision to build a Gigafactory in Somerset. More concerningly, the manufacturing output index in the latest Flash UK PMI hit a seven-month low of 46.5, indicating that a majority of businesses were contracting.
- **Retail:** There was surprisingly positive retail sales in June thanks to the hot weather and a rebound in food sales.
- **Visitor Economy:** The monitor covers the regional findings in the Great Britain Day Visits Survey, reinforcing the Midlands as a place with an important visitor offer. Also, Birmingham will be the new home for Visit Britain.
- **Education**: Specifically looking at Foreign Direct Investment into Midlands Universities.

A sector and priority with particular emphasis in this monitor is the green economy and sustainability. Including:

- **Greenhouse Gas Emissions Data:** highlighting a 9.4% increase in CO_2e emissions across the Midlands Engine area between 2020 and 2021, compared to a 7.4% increase across the UK. But a 34.2% decrease overall since 2005.
- **Cluster Snapshots:** covering recent releases from the clusters project on net zero transport and offshore wind.
- **Sustainability as a cross-cutter:** using food as example (from the Sustainable Food Report 2022), to demonstrate the importance of enabling sustainability and greening of all sectors in the economy; but also the importance of the food chain as a key cluster across the Midlands.

1. Economic Outlook

Global and National Outlook

Global

Eurozone

The Chief Economist at Hamburg Commercial Bank has warned the eurozone economy will **likely move further into contraction territory** in the months ahead, as the services sector keeps losing steam, adding that there was an increased probability of the German economy sliding into recession in the second half of this year. The bloc's services sector remained in growth territory, despite a drop in its PMI reading to a six-month low of 51.1. The decline in the manufacturing sector deepened further after its reading fell to a 38-month low of 42.7. **Eurozone inflation slowed more than expected to 5.5 per cent in June.**

Spanish Election

Spain faces an uncertain political future after election deadlock. Feijóo's PP becomes the largest party in congress but neither he nor PM Sánchez have a clear path to form government. **The deadlock leaves the EU's fourth-largest economy in limbo and opens the door to weeks or months of messy negotiations over voting alliances** — or repeat elections, as occurred in 2015-16 and 2019.

Climate Change and Wildfires

Scientists are clear that extreme weather events, including heatwaves, will become more frequent and intense with every fraction of a degree of warming. In July, with average temperatures already at least 1.1C hotter globally than pre-industrial levels, swaths of **the US, Europe and Asia sweltered under "heat domes."** Record highs were reached from China to Italy. As holidaymakers in Rhodes and Crete are **evacuated to safety from wildfires**, a study published by academics at Dartmouth found that **heatwaves, brought on by human-caused climate change, cost the global economy an estimated $16tn over a 21-year period from the 1990s.**

Commonwealth Games

The 2026 Host City Victoria in Australia has pulled out of hosting the competition as predicted costs had spiralled to as much as A$7bn (£3.7bn) from the A$2.6bn (£1.35bn) initially projected last year.

Ukraine

More than 60,000 tonnes of grain have been destroyed in the past week, as **Russian drones have attacked Ukrainian ports on the River Danube and the Black Sea port city of Odesa, destroying grain storage infrastructure.** Global markets have seen the price of grain rise by 8% within a day of **Russia's pullout from the grain deal**, on 17th July.

National

Interest Rates

Rising interest rates and the higher cost of living appear to be taking an increased toll on households. Meanwhile, **manufacturers are cutting production** in response to a worryingly severe downturn in orders, both from domestic and export markets. A UK survey was conducted against a backdrop of sharply rising mortgage rates, after stubbornly high readings for inflation and wage growth **led the Bank of England to raise its benchmark rate to a 15-year high of 5 per cent in June.** The survey did not fully reflect more encouraging data on UK inflation published last week, which has led some investors to scale back their expectations for the peak in interest rates.

Credit

Lenders reported a **fall in demand for car financing and personal loans.** The Finance and Leasing Association, a trade body, reported a 10 per cent annual decline in new car finance loans in May, while demand for new credit cards fell by 4 per cent in the same period. Approval rates are slowing which is partly to do with the affordability tests that lenders do when assessing people for credit. There has also been a modest decline in borrowing as households reduced spend. Tighter lending conditions were an additional strain on household finances, with lenders stating this could lead to higher arrears and default rates. Introductory periods on credit cards have shrunk by nearly one-fifth since the middle of last year. **This has reduced the amount of time borrowers can spread interest-free repayments from 10 to 8 months before high interest rates kick in.**

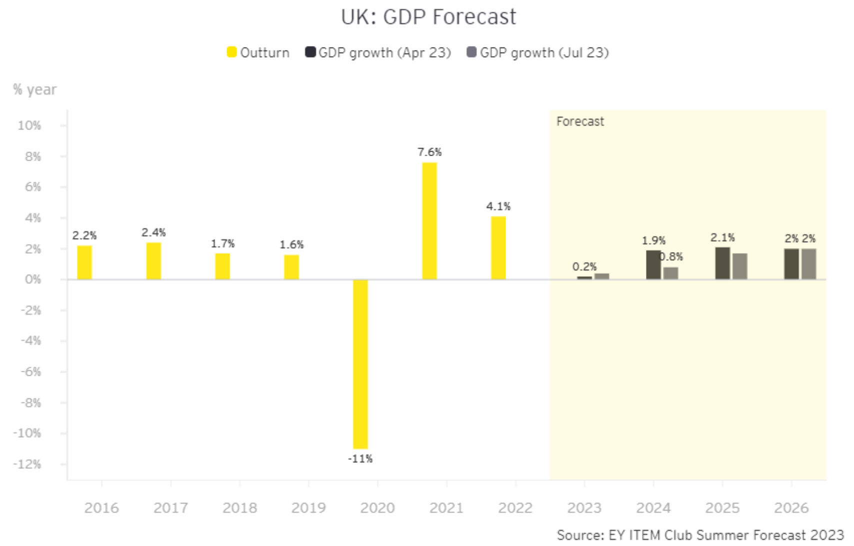
Housebuilding

The government has announced plans to **focus on building homes in city centres and liberalising planning restrictions**, as it seeks to meet its manifesto promise to build **1 million new homes** in England by the end of the current parliament. The levelling up secretary says he wants to make it easier to convert empty retail premises and betting shops into flats and houses.

Strikes

The leader of England's senior doctors has called on the government to improve its pay offer to avert further industrial action in August after NHS consultants walked out for a day this month for the first time in more than a decade. This comes as **consultants were being "actively recruited by agencies from overseas, even governments from overseas" and were increasingly being drawn to the private sector or retiring**. Meanwhile RMT leader Mick Lynch, has already announced **provisional strike dates** of 24th and 25th August.

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• Rising interest rates have prompted the EY Item Club to **downgrade its UK growth forecast for 2024, but it has improved its growth prospects for 2023** given falling inflation and strong business investment in the first part of the year. - According to the new EY ITEM Club Summer Forecast, the **UK economy is expected to grow 0.4% in 2023**, up from the 0.2% growth projected in April's Spring Forecast - However, the impact of rising interest rates – which have a delayed effect on economic growth – means the **UK economy is only expected to grow 0.8% in 2024, down from April's 1.9% forecast.** - A strong start to 2023 for business investment means **1.4% growth is now expected this** year – up from the 0.3% contraction forecast in April. But **higher interest rates will limit businesses' appetite to spend in 2024.**  • Furthermore, research from **East Midlands Chamber suggests that the region's economic performance is bucking the national trend.** • More broadly, the Office for Budget Responsibility has published its second Fiscal Risks and Sustainability Report, examining the aftershocks of three key risks that they identify as crystallising since 2020, all of which have future fiscal implications: the rise in **health-related inactivity**, the **rise in gas prices on energy demand and supply**, and the **vulnerability of current government debt levels.**
Trading Conditions	• The most recent data demonstrated a **welcome fall in the headline Consumer Price Inflation** (CPI) in the UK. Annual consumer price inflation rose by 7.9 in June, down from 8.7 per cent in May. This fall was largely driven by **price decreases in motor fuels which were partially offset by price increases in food, and restaurants and hotels.** • Business groups have highlighted this as a relief for small firms, for example the FSB focus on the **positive of falling transport costs,** while the British Chambers of Commerce suggest the overall fall to be a "**glimmer of hope" despite costs and prices remaining "stubbornly high."** • It will be important to continue tracking the distributional impact of the high cost of living and changes within this, **especially for different groups of people and across different regions in the UK.** City-Redi at the University of Birmingham have explored this in detail within a collection of reports on the cost of living, while the Centre for Cities' Cost of Living Tracker allows cross-regional comparison of estimated prices. • The regional business base continues to stress issues relating to costs and prices, as highlighted by the East Midlands Chamber. The Chamber has also commented on the "**relief" of falling inflation** but pleaded for no complacency and more business investment to drive growth.
Labour Market	• **A fall in permanent job placements in the Midlands has continued for a seventh month in a row.** The regional survey by KPMG and REC, conducted between June 12 and 26, also found that temporary work rose for the first time since December

2. Economic and Labour Market Impacts

Business Activity

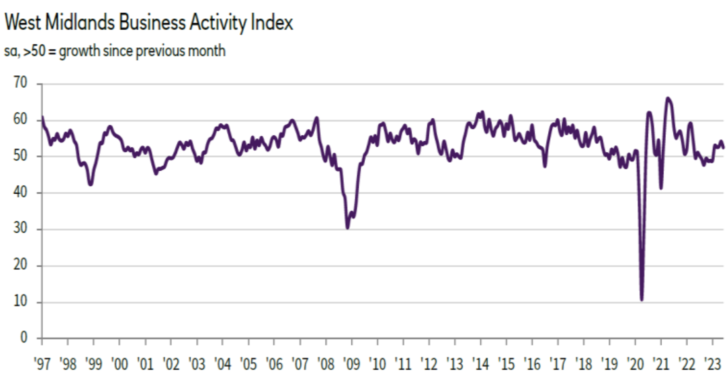
Business Activity Index

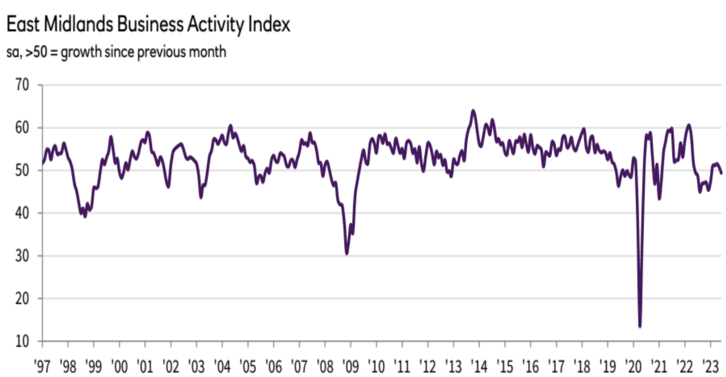
The **West Midlands Business Activity Index decreased from 54.2 in May 2023 to 52.6 in June 2023,** although remained above the 50-growth mark for the fifth consecutive month. The rise was linked to better-than-usual weather, new clients and demand resilience. The slowdown reflected signs of economic deceleration.

The East Midlands Business Activity Index decreased from 50.8 in May 2023 to 49.4 in June 2023, a renewed decline in output for the first time in five months. Firms reported the decrease in activity was linked to sufficient capacity being available to work through new business.

The UK Business Activity Index decreased from 54.0 in May 2023 to 52.8 in June 2023.

Business Activity Index trends:





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

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

Demand

The **West Midlands New Business Index decreased from 53.8 in May 2023 to 53.0 in June 2023**. The slowdown in growth linked to the de-stocking initiative at some clients. The **East Midlands New Business Index increased from 51.2 in May 2023 to 52.6 in June 2023.** For both regions, this was the fifth consecutive month to increase (and the second fastest growth for the East Midlands since March 2022). The rise in new work for both regions was linked to new customers and demand resilience.

Exports

The **West Midlands Export Climate Index decreased from 52.6 in May 2023 to 51.2 in June 2023**. The **East Midlands Export Climate Index decreased from 52.5 in May 2023 to 51.4 in June 2023.** Despite the decline, for both regions, the latest figures continue to show improvements in the export climate.

Business Capacity

The **West Midlands Employment Index decreased from 52.1 in May 2023 to 50.2 in June 2023**. The **East Midlands Employment Index decreased from 51.4 in May 2023 to 50.7 in June 2023.**

The **West Midlands Outstanding Business Index decreased from 46.8 in May 2023 to 45.0 in June 2023.** The **East Midlands Outstanding Business Index decreased from 48.2 in May 2023 to 47.8 in June 2023.** The 7th and 9th consecutive month respectively under the 50-mark threshold.

Prices

The **West Midlands Input Prices Index decreased from 63.5 in May 2023 to 61.4 in June 2023.** The **East Midlands Input Prices Index decreased from 66.9 in May 2023 to 64.9 in June 2023.** The figures still show sharp input costs but the rate of inflation has eased for the seventh month in a row for both regions.

The **West Midlands Prices Charged Index decreased from 58.6 in April 2023 to 57.6 in June 2023**. The **East Midlands Prices Charged Index decreased from 58.9 in May 2023 to 58.0 in June 2023.**

Outlook

The **West Midlands Future Business Activity Index decreased from 78.5 in May 2023 to 74.4 in June 2023.** Despite slipping to a six-month low, firms remained confident that output will increase over the year. Optimism in firms was linked to predictions of demand conditions to remain favourable, hopes of geopolitical issues diminishing and the launch of new products and services.

The **East Midlands Future Activity Index increased from 71.1 in May 2023 to 73.6 in June 2023**, the highest level seen since January 2022. Firms were optimistic for the next 12 months due to investment in new products and machinery and hopes of greater economic certainty.

Out of the twelve UK regions, **the West Midlands was the second highest** and the **East Midlands was the third highest** for the **Future Business Activity Index** in June 2023.

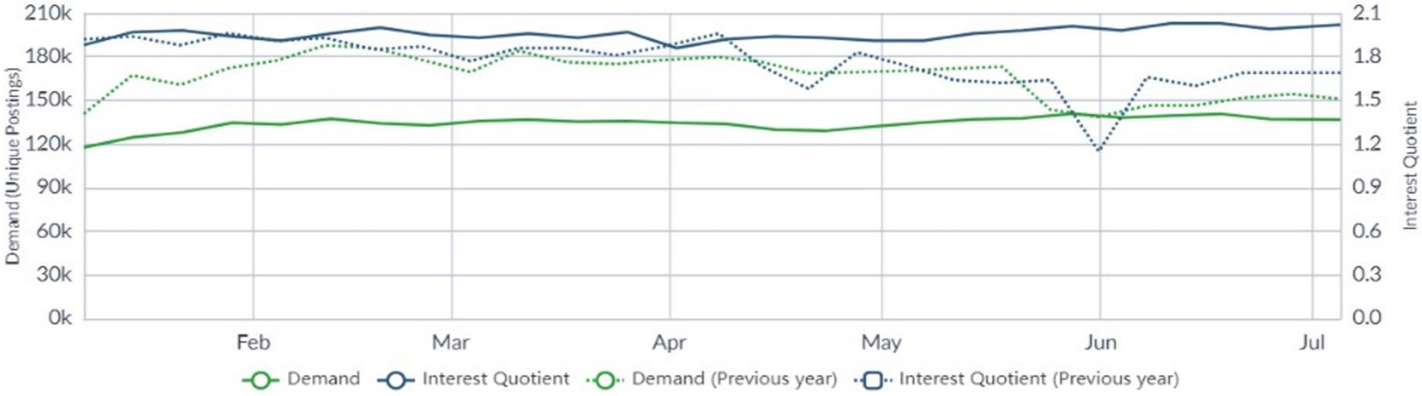
Source: NatWest: UK regional PMI report for June 2023, released July 2023.

Labour Market and Job Postings

The current economic landscape offers a mixed outlook. On the positive side, there is a reduction in economic inactivity and a widespread employment recovery. However, concerning issues include escalating unemployment, indications of short-term joblessness leading to prolonged unemployment, and persistently high worklessness due to long-term health conditions. These factors underscore potential imbalances between labour supply and demand, particularly in terms of skills shortages.

The latest job postings data shows that the **number of postings across the Midlands dropped 32.7% over the last six months to just over 1.08 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 £30,159.

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.

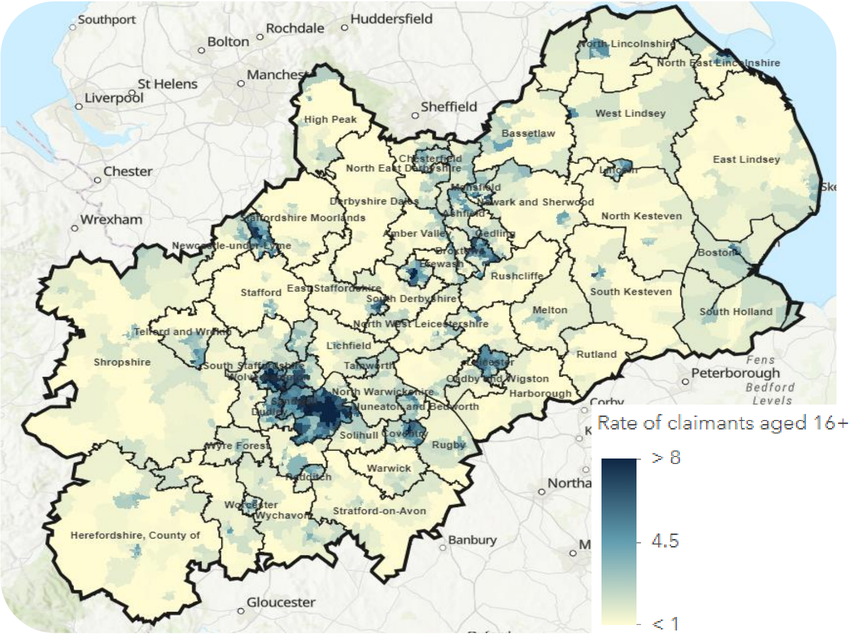
Source: Adzuna Limited Job Posting Intelligence, Accessed July 2023. The Interest Quotient uses jobseeker data to quantify the level of interest in particular roles.

Labour Market Impacts: Claimants

There were **274,895 claimants aged 16 years and over** in the Midlands Engine area in June 2023, an increase of 3,430 (+1.3%, UK +1.5%) claimants since the previous month. **There are 53,355 (+24.1%, UK +22.3%) more claimants when compared to March 2020**. East Lindsey, North East Lincolnshire, North Lincolnshire and West Lindsey had lower levels of claimants than in March 2020 (-1,155, -280, -125 and -25 respectively).

The number of claimants as a percentage of residents aged 16 years and over was 3.3% in the Midlands Engine and 2.8% for the UK in June 2023.

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



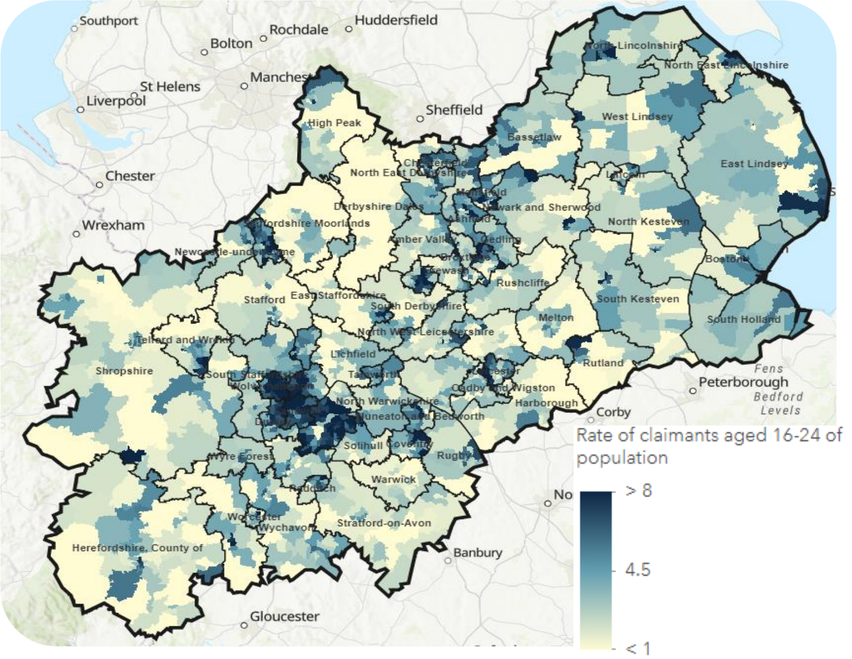
Out of the 1,511 wards within the Midlands Engine, **454 were at or above the UK average of 2.8%** for the number of claimants as a percentage of the population aged 16 years and over in June 2023.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, with Handsworth the highest at 15.6%. This was followed by Lozells at 15.4% and then Birchfield at 15.0%. In contrast, the lowest proportion was in Keele (Newcastle-Under-Lyme) at 0.1% in June 2023.

There were **50,695 claimants aged 16-24 years old** in the Midlands Engine area in June 2023 – an increase of 365 youth claimants since May 2023. This equated to an increase of 0.7% for the Midlands Engine area (UK +0.5%). Since March 2020, **the number of youth claimants has increased by 6,500** (+14.7%, UK +10.5%). Notably, 16 local authorities had lower levels and 2 are the same as March 2020 levels.

The number of claimants as a percentage of residents aged between 16 and 24 years old was 4.5% in the Midlands Engine and 3.8% for the UK in June 2023.

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



Out of the 1,511 wards within the Midlands Engine, **623 were at or above the UK average of 3.8%** for the number of claimants as a percentage of the population aged 16–24 years and over in June 2023.

The ward with the highest number of claimants as a percentage of the population was Portland (Mansfield) at 16.8%. This was followed by Handsworth at 15.0%.and Newgate (Mansfield) at 14.1%. In contrast, within the Midlands Engine there were 119 wards with no youth claimants in June 2023.

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

Visitor Economy

The [Great Britain Day Visits Survey (GBDVS)] produced by Visit England covers the main estimates for the volume and value of domestic trips taken by British residents in Great Britain from April 2021 to December 2022.

Overall, there were 1.1bn Tourism Day Visits where visitors spent £45bn in Great Britain in 2022; in England this amounted to 945m visits with a spend of £34.7bn. At the same time Scotland had 95m visits with £4bn spend and Wales had 62m visits with £2.4bn spent. **Regionally, in the East Midlands and West Midlands there were 75m and 88m Tourism Day Visits respectively where the Midlands made up 17% share of England (8% in the East Midlands and 9% in the West Midlands).**

In 2022, London (18%), the South East (17%) and the North West (13%) welcomed the highest **share of domestic Tourism Day Visits** whilst the **West Midlands was in sixth place and the East Midlands was in joint seventh** with Yorkshire and the Humber. Likewise, **the most popular quarter to visit the Midlands was Q3** (Jul – Sep) including 22m visits in the East Midlands and 26m visits in the West Midlands, meanwhile **the least popular quarter was Q1** (Jan – Mar) including 13m visits in the East Midlands and 15m in the West Midlands. It is also worth adding that the **West Midlands hosted the same number of visitors in Q4 and Q3** alongside the South West.

When looking at regional **spend by region, the East Midlands and West Midlands had a spend of £2.9bn and £3.9bn** respectively making up **18% share of England** (8% in the East Midlands and 10% in the West Midlands). In general, **spend from tourism day visits to each English region increased between 2021 and 2022,** however there was a large disparity as 21% (£8bn) of expenditure was spent in London as opposed the 79% (£30.4bn) in the Rest of England. Outside of London, the North West (16%) and the South East (15%) received the highest **shares of spend** across all English regions in 2022 whilst the **West Midlands was in joint fourth** place with the South West **and the East Midlands in joint sixth place** with the Yorkshire and the Humber. Quarterly, **spend in the East Midlands peaked in Q2** (Apr – Jun) **at £1.2bn – this was also a 478% increase from the previous quarter**, and the **largest increase between all regions and quarters in 2022**. On the other hand, **the West Midlands spend peaked at £1.2bn in Q4** (Oct – Dec) **which is the same quarter where London peaked overall at £2.1bn.**

Tourism day visits and spend for the Midlands and England wide

	Tourism Day Visits					Tourism Spend				
	2021 (Apr-Dec)	2022 (Apr-Dec)	% Change	2022	2022 % Share of England	2021 (Apr-Dec)	2022 (Apr-Dec)	% Change	2022	2022 % Share of England
West Midlands	56m	74m	32%	88m	9%	£2.3bn	£3.4bn	48%	£3.9bn	8%
East Midlands	44m	61m	38%	75m	8%	£1.3bn	£2.6bn	99%	£2.9bn	9%
Midlands	**100m**	**135m**	**35%**	**163m**	**17%**	**£3.5bn**	**£5.9bn**	**67%**	**£6.8bn**	**17%**
England	545m	772m	41%	945m		£21.2bn	£31.2bn	47%	£38.7bn	

Tourism day visits into the Midlands and for England wide by quarter in 2022

	Q1 2022	Q2 2022	% change vs Q2 2021	Q3 2022	% change vs Q3 2021	Q4 2022	% change vs Q4 2021
West Midlands	15m	21m	92%	26m	34%	26m	4%
East Midlands	13m	21m	140%	22m	26%	18m	1%
England	173m	224m	68%	273m	27%	274m	39%

Spend from day visits into the Midlands and for England wide by quarter in 2022

	Q1 2022	Q2 2022	% change vs Q2 2021	Q3 2022	% change vs Q3 2021	Q4 2022	% change vs Q4 2021
West Midlands	£533m	£1.16bn	272%	£1.0bn	22%	£1.16bn	6%
East Midlands	£377m	£1.2bn	478%	£686m	40%	£642m	10%
England	£7.5bn	£10.0bn	155%	£10.8bn	21%	£10.7bn	28%

Visit England also recently published the [Visitor Attraction Trends in England 2022] report. It provides a comprehensive England-wide analysis of trends plus visits data (including international visitors). However, findings should be treated with caution as in some cases there are low base sizes.

Visitor Admission Trends 2022

Most regions saw **admissions growth** of around 20-30% (total average was +42%) in 2021/22, but this was notably higher in London (+141%) and the North West (+42%). However, this was not the case for the Midlands**, with the East Midlands having the lowest increase by 16% followed by the West Midlands at a 19% increase** (matching the East of England growth rate).

Visit Admission Recovery compared to 2019

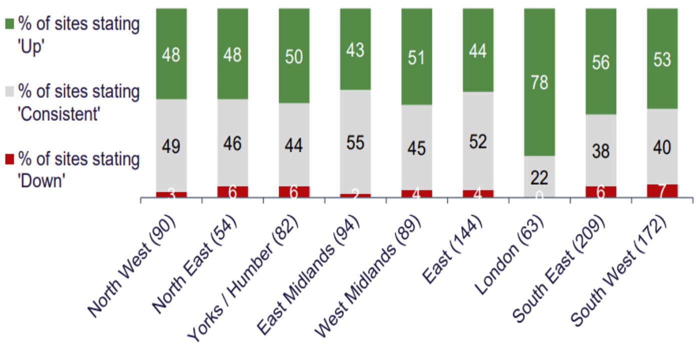
When looking at regional recovery compared to 2019 visit volumes. London was the worst hit region in 2020 and 2021. However, a much stronger performance in 2022, meant visit volumes were down by 38% compared with 2019 (compared to -77% in 2020). The East of England was least affected by the pandemic, and has been the quickest to recover, now only 8% behind 2019 levels, and closely followed by Yorkshire & The Humber at 9% down on 2019. **The West Midlands and East Midlands were 27% and 29% respectively behind 2019 levels**, just behind London, North East (-40%) and the South East (-41%).

Visitor Origin Profile

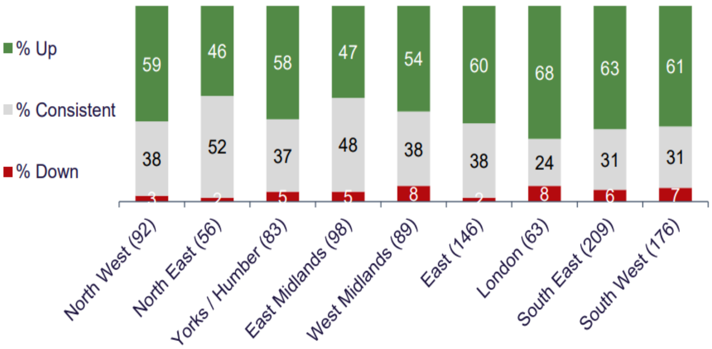
The **average share of visitors who come from overseas** quoted by attractions is 9%. This is fairly consistent across most regions, ranging from 6% (North East and Yorkshire & The Humber) to 11% (South East), with the **East Midlands at 7% and the West Midlands at 8%.** The exception to this is London, where the average proportion quoted is 22%.

There **was growth in overseas visits across all regions**, with a net (% reporting an increase minus % reporting a decrease) increase of over 40% across all regions. Domestic visits also increased across all regions.

2021/22 Stated change in volume of overseas visitors (%):



2021/22 Stated change in volume of local/day trip visitors (%):



Source: Visit England, Visitor Attraction Trends in England 2022. Please note, figures in brackets represent sample sizes of attractions upon which data is based. Base: All answering overseas visitor question (997). Base: All answering local visitor question (1,012).

The **family audience expanded** across all regions, the **East Midlands increased by 33% and the West Midlands by 42%.**

Admission Charge 2022

On average the 2021/22, visits to sites with free admission increased by 79% and for paid admission increasing by 24%. **For both Midlands regions, visitor numbers increased by 29% for sites with free admission and increased by 12% for the East Midlands and increased by 13% for West Midlands for paid admissions.**

Adult Admission Charge Trends 2022

Entrance prices rose between 4% and 6% for most regions, and was lower than market inflation levels of 9.2%. Average entrance fees in 2022 were lowest in the North (£8.60 +5% change), and highest in London (£13.23, +3% change). **The East Midlands average charge in 2022 was £9.50, increasing by 6% since 2021/22 and the West Midlands average charge was £10.52, increasing by 4%.**

Gross Revenue Trend 2022

Gross revenue increased across the country (excluding London, average revenue growth of between 22%-33%). London recorded the highest level of growth (+72%), with **the West Midlands increasing by 26% and the East Midlands increasing by 25%,** down to the North West increasing by 22%.

Returning to Pre-pandemic Staffing Levels

On average 73% of attractions are back to pre-pandemic staffing levels. **70% of West Midlands attraction and 75% of East Midlands attractions are back to pre-pandemic staffing levels.**

Marketing Expenditure Trends 2022

On average marketing expenditure was up by 39%. **The smallest increase across the regions was in the East Midlands where the marketing budget increased by 27%. While in the West Midlands the increase was 49% which matched the Yorkshire and Humber change and just behind London increasing by 57%.**

Sustainability Strategy

For both regions in the Midlands, 44% of attractions have an environmental business strategy. The North East was the highest at 57% down to the East of England at 38%.

24% of West Midlands based attractions and 29% of East Midlands based attractions have a budget to help meet environmental objectives. Yorkshire and The Humber were the highest at 39% down to the East of England at 23%.

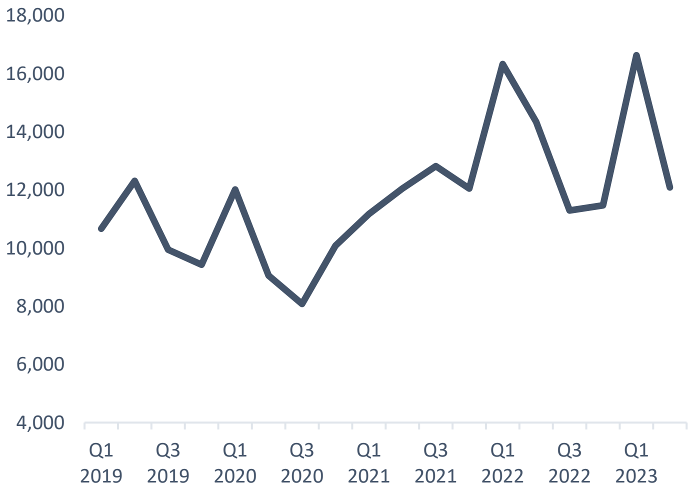
3. Business Environment

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 July 2023](), highlighting that **business deaths have fallen from highs at the start of the year**, while business births remain disappointingly low, likely to reflect the current difficult business environment.

In Q2 2023, there were **12,090 business deaths in the Midlands Engine geographic area, a decrease of 27% from the previous quarter (Q1 2023),** compared to a 21% decrease nationally. Q2 2023 deaths figures are also considerably lower (-16%) than the same quarter a year ago (Q2 2022), representing a **positive fall in business closures in the region**; albeit from recent record highs. And as shown in the graph below, business **deaths are still fairly high compared to historic levels, and there is a lot of volatility in the data,** reflecting uncertainty in economic conditions.

Trends in Midlands Engine business deaths:

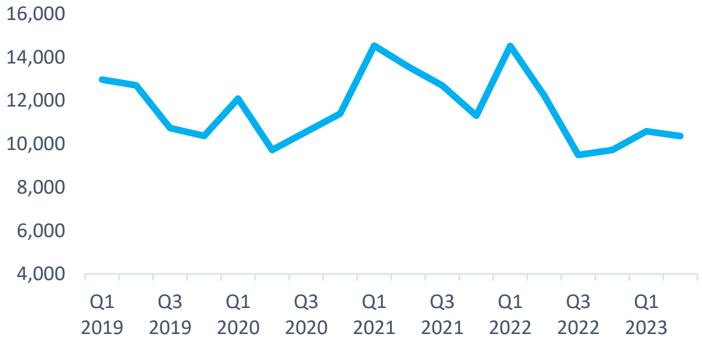


The Midlands Engine local authority areas with the **highest decrease in business deaths between Q2 2022 and Q2 2023 were Cannock Chase (-56%%), Wychavon (-51%), Oadby and Wigston (-44%), and Wyre Forest (-43%),** while some local authority areas experienced a rise in deaths in this time period – including North Warwickshire, South Staffordshire, High Peak and Amber Valley – all reporting a 20%+ increase.

Across the UK, the number of business closures (business deaths) in Quarter 2 (Apr to June) 2023 was 84,150. This is **15% lower than in Quarter 2 2022, with 14 out of 16 main industrial groups showing a decrease in closures.** The most **significant decrease in closures came in the professional, scientific and technical industry** (down 25%).

Regarding **business births, there were 10,360 in the Midlands Engine geography in Q2 2023.** This figure is 15% lower (UK = 14% lower) than the number of business creations in Quarter 2 2022 and is the **lowest number of business creations in a second quarter since 2018** (excluding 2020 Q2 as a majorly Covid-affected quarter). Quarter on quarter analysis (between Q1 2023 and Q2 2023) shows a slight decrease in business births across the Midlands Engine (-2%), similar to the UK.

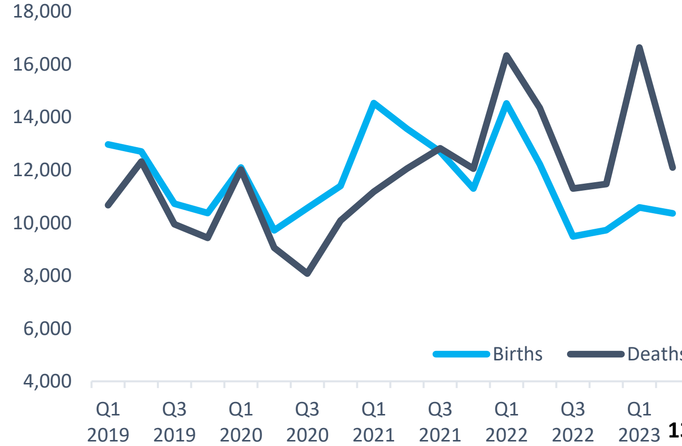
Trends in Midlands Engine business births:



Business birth levels 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 business creations decreased in 14 out of 16 industry groups during this quarter, compared with Q2 2022.** The most significant decrease came in the transport industry. There are some positive signs in some local authority areas though, for example in **Oadby & Wigston where 135 births were recorded in Q2 2022, up 93% quarter-on-quarter and +59% year-to-year.**

Bringing business births and deaths data together suggests a **mixed picture regarding the Midlands business environment** and economy: while levels of business births are still struggling to recover from shocks of recent years, thankfully the **level of business deaths has fallen substantially**, at least in the latest quarter.

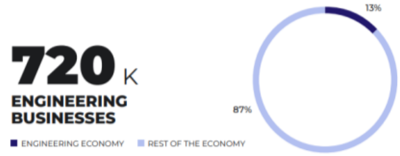
Trends in Midlands Engine business births and deaths:



Understanding the Engineering Economy

A new study commissioned by the Royal Academy of Engineering was tasked with delivering a detailed place-based understanding of engineering across the UK. This includes a full report and an interactive dashboard of the data.

Their results include reporting on the contribution of engineering to the UK economy, 2019:



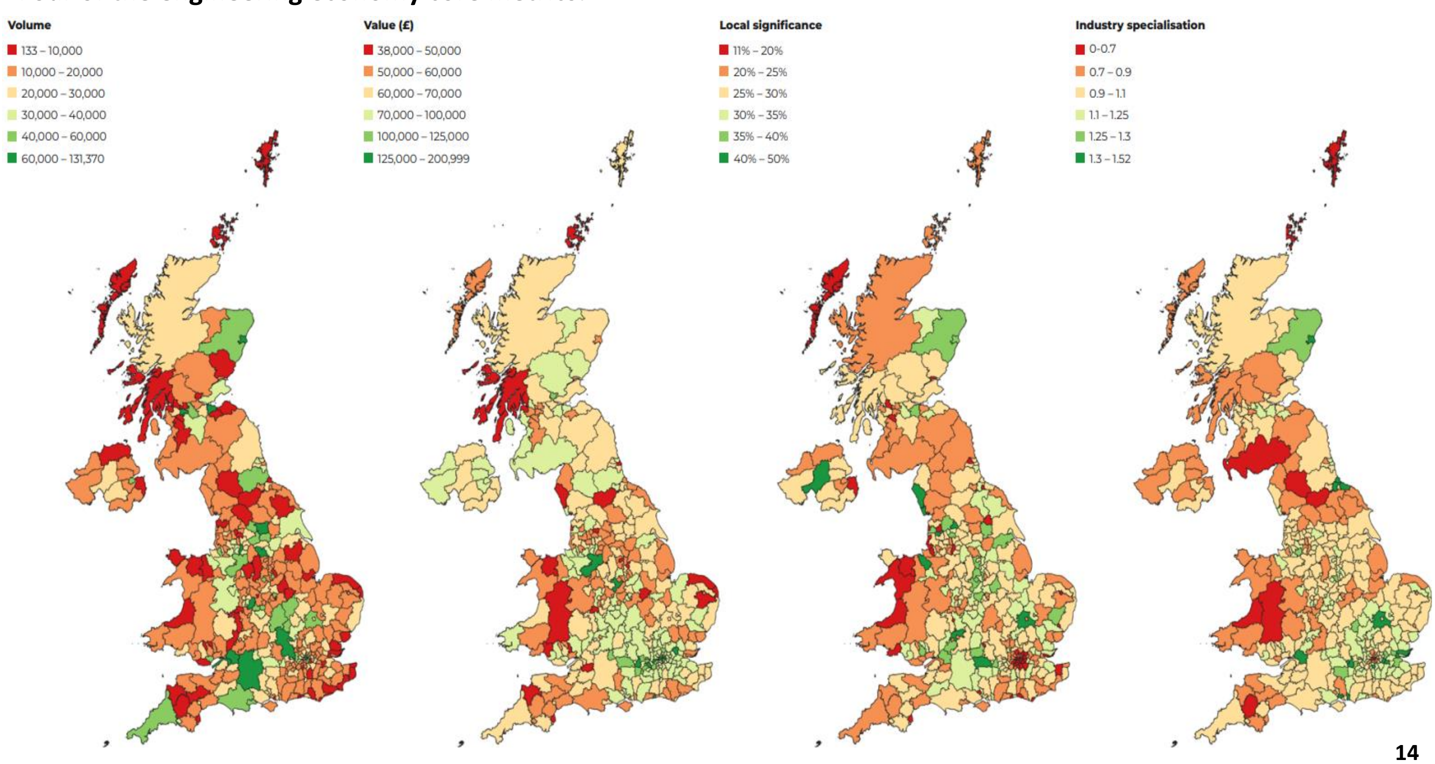
In 2019, the UK engineering economy employed 8.1 million people, more than a quarter of the UK workforce. Around 720,000 engineering businesses (13% of UK total) contributed more than 30% of the UK's total economic output.

The places with large volumes of engineering employment tend to have a much higher population density. Cities, urban centres and their surrounding areas are more often the places with the highest absolute volume of workers. However, large volumes do not always translate into high local significance in cities as engineering is often 'one of many' rather than a dominant presence. This is most evident in London boroughs. **Industry specialisation, referring to the concentration of engineering businesses, has a similar distribution but differs in that most specialised places tend to be near cities – South Gloucestershire-Bristol, South Cambridgeshire-Cambridge, Fareham-Portsmouth and a clear loop around London all reflect the pull of city regions rather than city centres specifically.**

The prominence of cities is diluted somewhat when considering local significance. Representing 26% of jobs nationally, engineering cannot be overlooked anywhere. It makes up at least 11% of employment in any local authority (Isles of Scilly being the smallest) and 50% at its highest (found in Copeland, Cumbria). **It is highly significant to the local labour market in more sparsely populated places, providing large numbers of jobs which tend to be concentrated on larger sites and generate above average value per job.** However, rurality is not always a consistent indicator for significance.

In terms of value, there is not a North-South divide to the same extent as there is in national GVA proportions. **Whilst many of the strongest places for value are in the South East, there are also several places across the Midlands, North West and Scotland which are above average. Outside of London, high-value engineering economies include South Derbyshire, Cheshire East, Wokingham and Stratford-on-Avon.** However, values are more variable from place to place outside of the central South East, with a stronger likelihood that the highest performance in a sub-region will be a city centre and its adjacent boroughs.

Four of the engineering economy core metrics:



Understanding the Engineering Economy

Typologies:

High-Flying Innovators: These places are collectively high in value and volume, with a high proportion of their engineering jobs in R&D-related occupations. This is typified by economies which have major businesses, institutions and technological strengths embedded locally, delivering value and generating talent.. These are high-knowledge, high-enterprise, high-innovation places, with tech strengths at the forefront of the emerging economy, for example in AI, cleantech, cyber, data processing, space economy and telecoms.

High-Volume Engineering Cities: Strong source of innovation, containing a similar level of R&D employment to High-Flying Innovators, usually supported by universities, research assets and business networks. Birmingham, Edinburgh, Belfast, Glasgow, Cambridge, Bristol and several others attract some of the highest volumes of employment and are attractive environments for engineering businesses, which have increased in number over time.
Birmingham, Coventry, Leicester, Nottingham

Thriving Engineering Enterprise: These places tend to be located on the outskirts of cities, accommodating larger businesses which value proximity to urban centres but require more physical space.
Telford and Wrekin, North Lincolnshire, Derby, Solihull

High-Value, Hidden Gems: Show greater concentrations of ICT and scientific and technical activities than traditional manufacturing. They are located outside of London and often in rural locations with a strong industrial heritage. These tend to be less prominent in the mainstream innovation narrative which often focuses on cities.
Rushcliffe, South Derbyshire, North Warwickshire, Stratford-on-Avon

High Value, Low-Growth: Typified by places that have engineering jobs that are high in value but are less locally significant, and where there have not been significant levels of enterprise growth in recent years. This perhaps suggests that these places may have 'peaked'. However, despite low growth, these places contain a significant number of R&D-related jobs in their engineering economies and still represent high-value engineering.
Worcester

Economically Significant Engineering: Local Engines dominate across the UK and represent important providers of employment in the national engineering economy. Manufacturing forms a core part of this employment and while activity may not be nationally significant, engineering here is very important to local and regional economies.
Shropshire, Herefordshire, Malvern Hills, Wychavon, Warwick, Rugby, Harborough, Rutland, South Kesteven, South Holland, North Kesteven, West Lindsey, North East Lincolnshire, Newark and Sherwood, Bassetlaw, , Mansfield, Bolsover, Chesterfield, North East Derbyshire, Derbyshire Dales, Staffordshire Moorlands, Stoke-on-Trent, Stafford, South Staffordshire, East Staffordshire, Lichfield, Tamworth, Dudley, Sandwell, Walsall, Wolverhampton, Nuneaton and Bedworth, Hinckley and Bosworth, Charnwood, Oadby and Wigston, Broxtowe, Gelding

High-Performing, Big Business: Places where engineering dominates a large proportion of overall employment, which is provided by a smaller number of bigger businesses.
North West Leicestershire, Melton, Ashfield, Amber Valley

Underperforming Specialists: Local Engines contains some places where engineering is very specialised, but where that specialism has not necessarily transferred into economic benefit. These Industry Specialists are in industrial coastal towns with higher levels of deprivation. The concentration of engineering expertise suggests that there are strengths to capitalise on, but wider place performance indicates there are economic and societal challenges impacting the enterprise environment.
Cannock Chase, Erewash

Embedded Engineering: Places are those where engineering is least distinctive in the local economic mix. Many of these economies are rural in nature, however engineering does still play an important supporting role in these places in terms of employment.
Wyre Forest, Bromsgrove

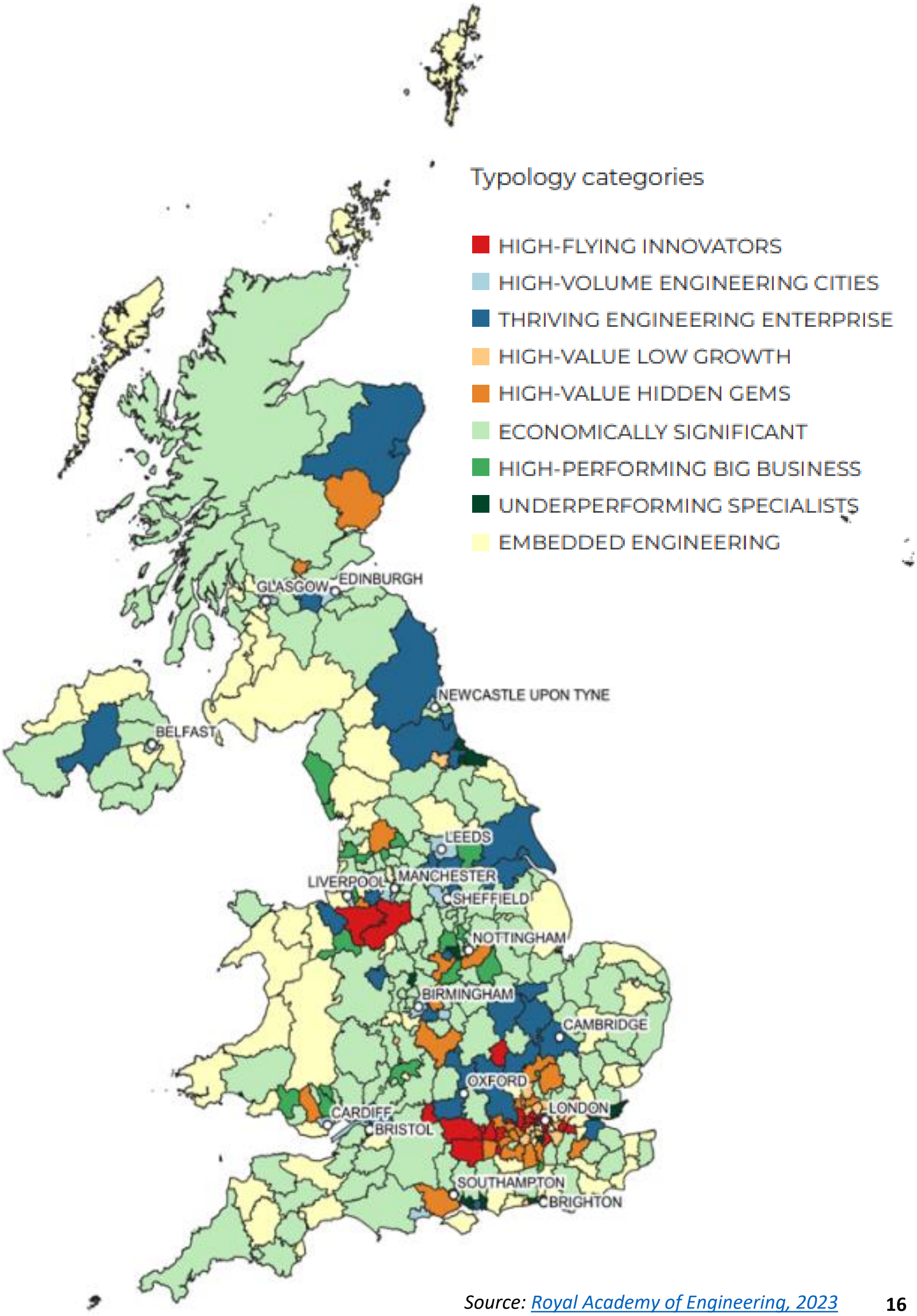
Source: Royal Academy of Engineering, 2023

Understanding the Engineering Economy

City regions and Combined Authorities are important vehicles for the national engineering economy. These combine dense, R&D-intensive activity in city centres with specialised 'near city' Thriving Engineering Enterprises in the connected surrounding rural/town economies.

There are fewer concentrations of high value engineering in distinctively rural areas, though there are exceptions in places which also have a strong industrial heritage, like Lancashire and Derbyshire. The very point of there being few instances of high-value, high-R&D engineering in rural areas – for example Mid Wales and **the Marches**, Cornwall, Cumbria, East Anglia and the North West of Scotland – demonstrates the critical importance of doing more to connect innovation for those outside of a city-region centre of gravity. Rural or out-of-town should not mean disconnected.

Typology categories:



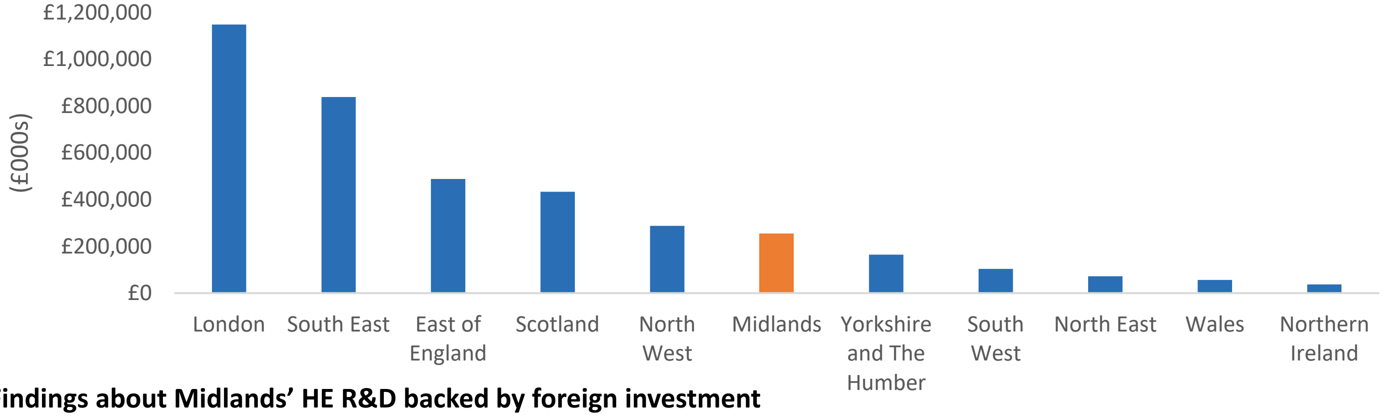
Source: Royal Academy of Engineering, 2023

Foreign Direct Investment into Midlands Universities’ R&D

Findings about UK’s HE R&D backed by foreign investment

- Between 2015/16 and 2021/22, foreign direct investment (FDI) constituted nearly 60% of the total private sector funding received by UK Higher Education Providers (HEPs) for Research and Development (R&D) activities. While the pandemic initially saw a decline in FDI (down 5.4% to £590m in 2020/21), there has been a recovery to pre-pandemic levels (up 7% to £631m in 2020/21), underscoring the resilience of the UK's higher education sector.
- **Despite the overall positive trend in the absolute values of FDI in HE R&D activities, the growth rate had been steadily declining until 2020/21.** However, between 2020/21 and 2021/2022, there was a noteworthy growth rate of 7%, the highest recorded in the last seven years. This growth was primarily driven by a significant increase in FDI from non-EU sources (up 8% to £467m). FDI from EU sources also contributed to this trend, with a 4% increase to £164m, although it remains below pre-pandemic levels.
- **It is important to note that FDI is not evenly distributed across the UK, with London and the South East dominating the inflow.** From 2015 to 2022, the regions and nations that received the highest amount of FDI from both EU and non-EU sources were London (£1.1bn), the South East (£839m), East of England (£488m), Scotland (£433m), the North West (£287m), and the Midlands (£254m).

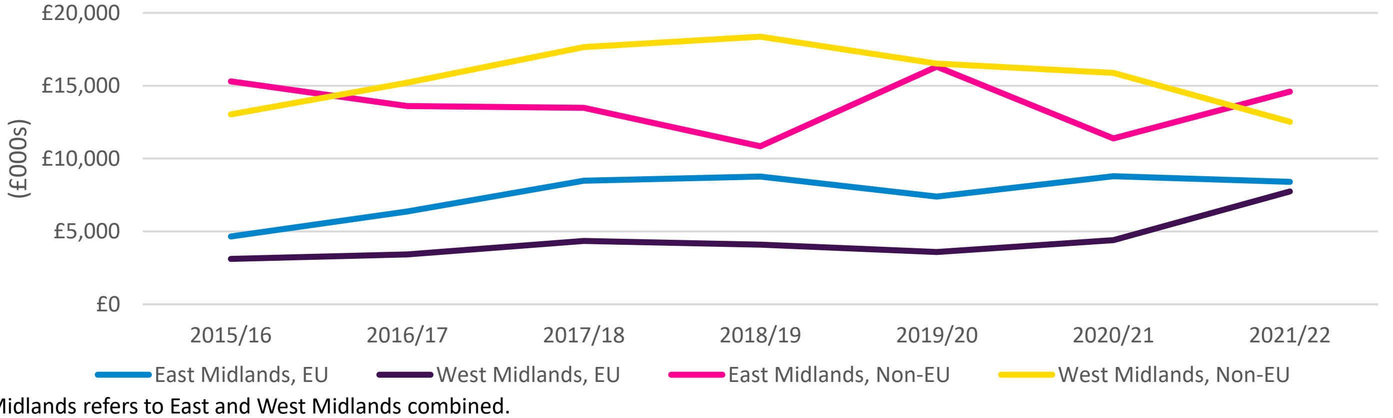
Accumulated FDI into HEPs’ R&D activities by regions/Devolved Nations, 2015-2022:



Findings about Midlands’ HE R&D backed by foreign investment

- FDI has become a major source of funding for R&D in HEPs in the Midlands region. **Midlands HEPs attracted 6% of total FDI into R&D activities performed by UK HEPs between 2015/16 and 2021/22. This has led the Midlands to attract £288m in FDI – 41% of total R&D activities performed by Midlands HEPs (East and West) – and become the fifth largest recipient of FDI into UK HEPs’ R&D.**
- 29% (£83.5m) of total FDI into the Midlands HEPs' R&D in 2015-22 came from EU sources, while 71% (£204.7m) came from non-EU sources. In 2015-22, HEPs in the East Midlands received over 53% more FDI than those in the West Midlands from EU sources (£53m compared to £30.7m), while the West Midlands received 13% more non-EU FDI than the East Midlands (£109.2m compared to £95.5m).
- Over the same period, there was a 108% increase in EU FDI for R&D activities performed by Midlands HEPs. In contrast, non-EU FDI for Midlands HEPs’ R&D activities decreased by 4%.

Absolute values of FDI from non-/EU sources into East Midlands /West Midlands’ HEPs’ R&D activities by academic year, 2015-22:



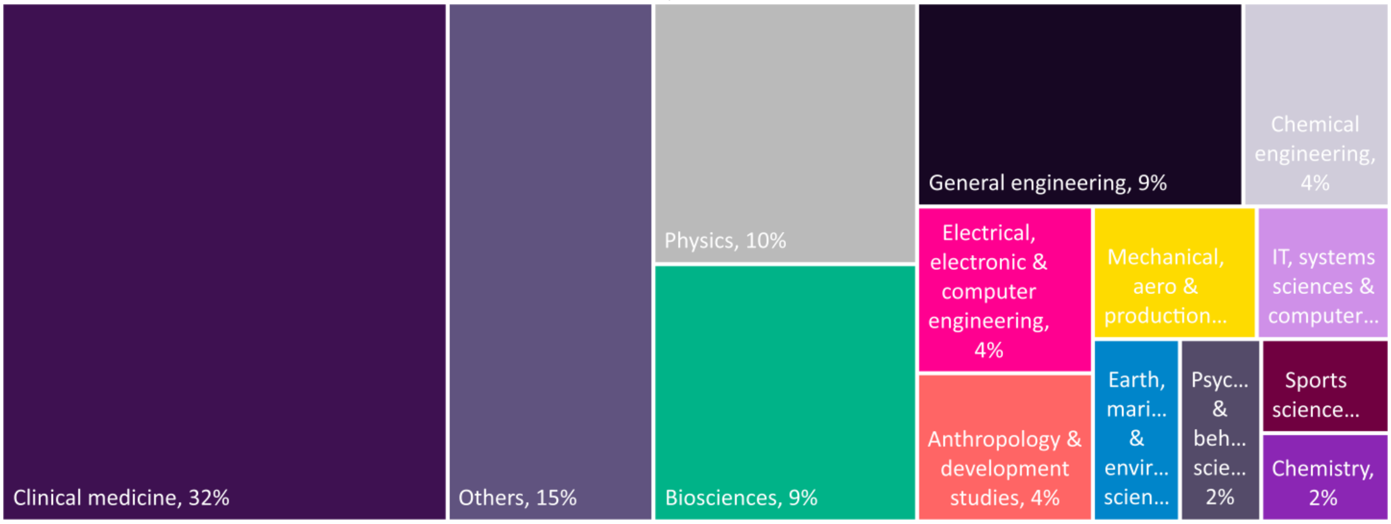
Midlands refers to East and West Midlands combined.

Source: National Centre for Universities and Business, 2023, Foreign Direct Investment into Midlands Universities’ R&D v2 - Infogram

Foreign Direct Investment into Midlands Universities' R&D

The analysis shows that FDI is more diversely distributed across R&D academic fields in the Midlands compared to the rest of England and the UK, which indicates that the region offers a relatively more versatile and diverse portfolio of expertise.

FDI distribution across academic fields in the Midlands, 2021-2022:



- **Between 2015/16 and 2021/22, there were significant increases in the proportion of FDI various academic fields in the Midlands attracted. These include clinical medicine and general engineering, which saw their share of FDI increase by 18% to 32% and by 6% to 9%. Conversely, there were other key R&D fields that saw a decline in their proportion of FDI, such as physics, which decreased by 5% to 10%.**
- West Midlands HEPs received nearly all FDI into general engineering in the Midlands (94%), which amounted to £41.2m in 2015-22. In contrast, East Midlands received significantly more FDI into biosciences (71%), electrical, electronic & computer engineering (73%), physics (70%) and IT, systems sciences & computer software engineering (60%), all of which amounted to £46.4m over the same period.
- **However, some fields in the Midlands' R&D sector received far less FDI than the average across England. These fields include clinical medicine and pharmacy & pharmacology.** Overall, the data highlights the diverse range of expertise and potential investment opportunities in the Midlands' R&D sector.

Comparison between Midlands FDI in 2021/22 and average England FDI in 2015-2022 by expertise fields:

Fields	Midlands FDI (£000s)	Average England FDI (£000s)
Clinical medicine	£12,325	£24,230
Biosciences	£3,609	£3,534
Physics	£3,672	£2,709
General engineering	£3,543	£2,410
Mechanical, aero & production engineering	£4,757	£1,900
Earth, marine & environmental sciences	£1,364	£1,501
Pharmacy & pharmacology	£351	£961

- Very large, very high research-intensive and broad discipline universities in the Midlands received the largest proportion of FDI for R&D activities, accounting for 60% (£166m) of all FDI between 2015 and 2022. High research driven HEPs, STEM specialists and Excellent research across discipline HEPs attracted 16%, 13% and 8% of FDI, respectively – amounting to £45.3m, £36m, and £23.5m.

Across the East and West Midlands, the top five universities that attracted the most FDI between 2015 and 2022 into R&D activities accounted for 84%. These universities are the University of Warwick (21%), Nottingham (20%), Birmingham (19%), Cranfield (12%) and Leicester (11%). Together, these institutions received a total of £232m in FDI between 2015 and 2022, which underscores their importance as key drivers of research and innovation in the Midlands.

Midlands refers to East and West Midlands combined.

Source: National Centre for Universities and Business, 2023; [Foreign Direct Investment into Midlands Universities' R&D v2 - Infogram]

Local Business and Policy Intelligence By Sector

SECTOR	KEY INSIGHTS
Services	• The flash UK PMI services output index, a measure of activity in the sector, fell to a **six-month low of 51.3**, according to new data released 24th July. • More specifically, **Birmingham's fintech sector faces an uncertain** future, with more of its firms flagging the potential risk of failure by the end of 2023 than in any other region of the UK. • That's according to new research commissioned by specialist business advisory firm FRP, which found that **58% of businesses in the sector weren't confident of their ability to trade through the next six months**, as challenges relating to inflation and interest rates persist. • This was the **highest proportion of the regions and UK nations surveyed**, which also included fintech hubs in the North East (Durham and Newcastle, 56%), in London (46%), the North (Manchester and Leeds, 42%) and Scotland (Edinburgh and Glasgow, 40%). • The fears are likely to be linked to challenging trading conditions, with more than a fifth (22%) seeing the **valuation of their business fall over the past 12 months**, as they continued to contend with rising input costs. Almost two fifths (38%) also expect their valuation to decline over the next year.
Construction and Infrastructure	• The rise in mortgage interest rates and cost of living crisis is **already plunging the UK construction industry into recession, according to building products manufacturers.** • The Construction Products Association (CPA) says that the construction industry will experience an acute recession this year driven **by double-digit falls in private housing new build and private housing repair, maintenance, and improvement (RMI)** – the two largest sectors of the construction industry in the UK. • In stark contrast to what the CPA was predicting this time last year, according to the CPA's Summer Forecasts, UK **construction output is set to fall by 7.0% in 2023 before recovering slowly in 2024 with growth of just 0.7%.** • On wider infrastructure, regional businesses who are trying to secure new premises are still finding it **difficult to find one suitable for the business needs**, even on a pan-regional and national basis. • Perhaps more positively for the ability to fill skills gaps, **bricklayers, plasterers and other construction jobs have been added to the government's "shortage occupation list"**, making it easier for foreign builders to come to Britain. • While two business organisations have reaffirmed an agreement to help companies in the rail sector benefit from more opportunities to grow. **The Civil Engineering Contractors Association (CECA) Midlands and Rail Forum have updated and refreshed their previous Memorandum of Understanding (MoU)** originally established in 2019.
Retail, Hospitality and Tourism	• **British retail sales grew faster than expected in June despite continued high inflation**, thanks to unusually hot weather and a rebound in food sales after King Charles' coronation disrupted spending in May, official figures from ONS show. • **Sales volumes in June were 0.7% higher than in May, the ONS** said, a bigger increase than the 0.2% forecast by economists in a Reuters poll. • Compared with a year earlier, sales were 1.0% lower, beating forecasts for a 1.5% decline. **As well as the bounce-back in food sales, department stores and furniture shops also had a strong month.** • National tourism agency **VisitBritain/VisitEngland has selected Birmingham as the location for its new headquarters.** The body – which raises Britain's profile worldwide to develop its visitor economy – said it picked Birmingham "thanks to its strong international and UK transport links and availability of local talent". • The **Midlands Food, Drink and Hospitality Awards 2023** took place on July 10th, with 27 winners from across the region in categories ranging from Chef of the Year and Fine Dining Restaurant of the Year to Food/Drink Festival of the Year. **A full list of winners can be located here.**
Manufacturing	• The manufacturing output index in the latest Flash UK PMI hit a **seven-month low of 46.5, indicating that a majority of businesses were reporting a contraction.** • Manufacturers said a **downturn in European markets was hitting demand for new orders** (chiming with research from Make UK / BDO across regions in the UK). They bolstered their output partly by running down backlogs of work as previous blockages in supply chains eased and it became easier to hire staff who were previously in short supply. • More positively, Tata Group's investment into a UK Gigafactory in Somerset provides a **confidence boost to the UK automotive sector,** many supply chains and expertise of which are centred around the Midlands.
Logistics & Transport	• Logistics and transport firms in the Midlands are **still seeing effects from Brexit with exporting and importing costs with some cases of delayed shipping due to customs.** • Furthermore, **issues with attraction and retention of drivers continue**, with **facilities for drivers throughout the UK deemed not good enough compared to European facilities.**

Business Insights and Impact on the UK Economy

ONS have published the final results from Wave 87 of the Business Insights and Conditions Survey (BICS).

Trade

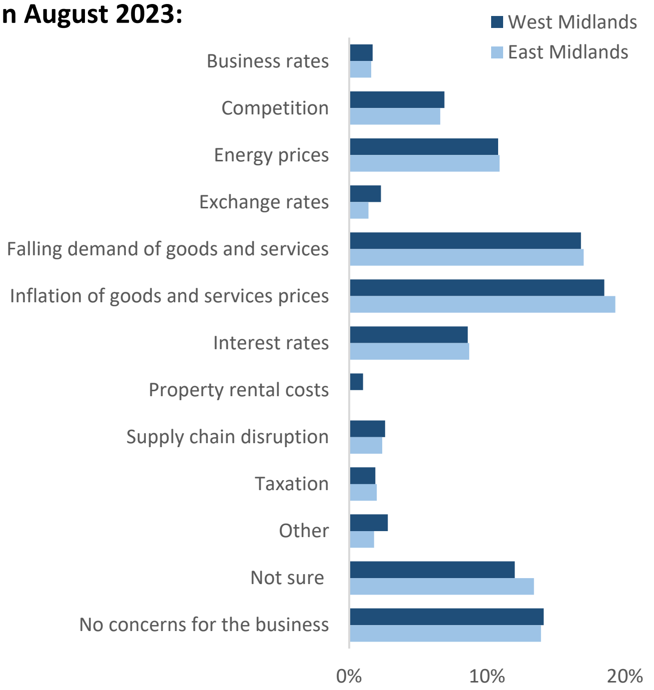
19.1% of West Midlands businesses and 17.3% of East Midlands businesses reported that exporting increased in June 2023 when compared to the same month in the previous year. While 21.3% of West Midlands businesses and 18.4% of East Midlands businesses reported exporting less.

18.5% of West Midlands businesses and 16.1% of East Midlands businesses reported that importing increased in June 2023 when compared to the same month in the previous year. While **15.0% of West Midlands businesses and 12.7% of East Midlands businesses reported importing less.**

Main Concern

18.5% of West Midlands businesses and 19.3% of East Midlands businesses reported the main concern for business in August 2023 will be inflation of goods and services.

Main Concerns (if any) for Businesses in the Midlands in August 2023:



Employees Hourly Wages

13.8% of West Midlands businesses and 12.5% of East Midlands businesses reported hourly wages in June 2023 increased when compared to the previous month. While 1.3% of West Midlands businesses and 1.5% of East Midlands businesses reported a wage decrease.

Worker Shortages

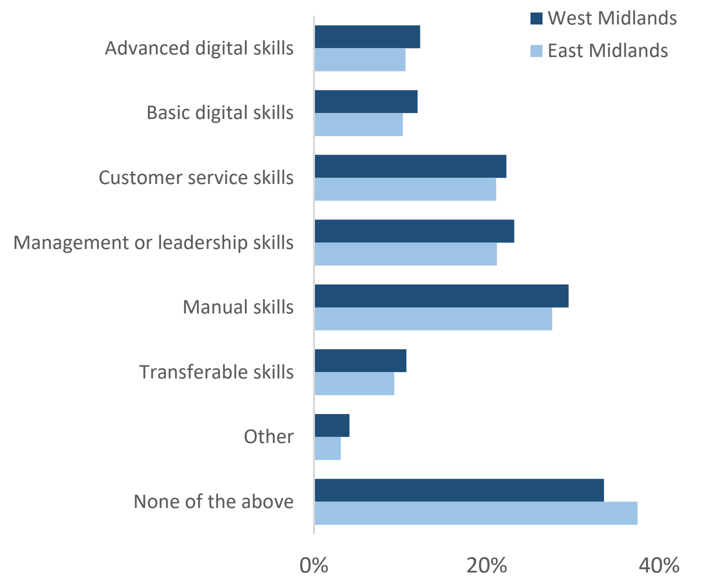
26.5% of West Midlands businesses and 24.4% of East Midlands businesses reported to currently experiencing a shortage of workers.

The shortage meant that 53.9% of West Midlands businesses and 57.3% of East Midlands businesses had employees working increased hours.

Skills Demand

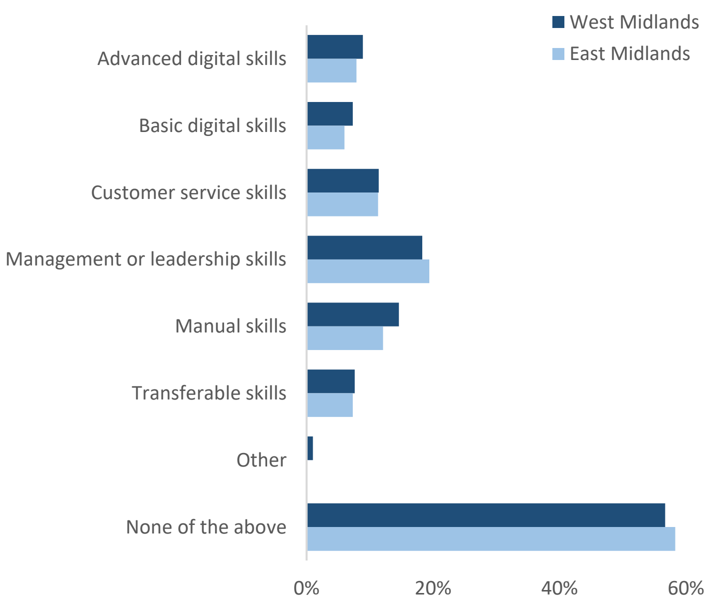
29.5% of West Midlands businesses and 27.6% of East Midlands reported a high demand for manual skills in the last 12 months.

Skills (if applicable) Midlands businesses had a high demand for in the last 12 months:



18.3% of West Midlands businesses and 19.4% of East Midlands reported the workforce required extra support/training in management or leadership skills.

Skills (if applicable) Midlands businesses report the workforce require extra support/training in:



Please note – the survey reference period: 1st to 30th June 2023. Survey live period: 10th to 23rd July 2023. The response rates are low and the data is unweighted and should be treated with caution.

4. Green Economy and Sustainability

Cluster Snapshot: Net Zero Transport Technologies

As part of the Midlands Engine Exploring the Investment Potential of Midlands Clusters project, we have published further snapshots that combine the data we've collated as part of the main report into individual snapshots providing insights and policy recommendations focused on individual clusters. This snapshot looks at the recently published Net Zero Transport Technologies cluster.

Net Zero Transport technologies is a truly pan-regional cluster with regional networks and initiatives to drive innovation framed by the national Net Zero strategy. These include the Energy Research Accelerator, Coventry Very Light Rail, and internationally significant sites such as the MIRA Technology Park and UK Battery Industrialisation Centre.

Cluster in Context

- **Almost 4,000 jobs**; 27% of national and largest region outside of London & SE.
- 7**% of Midlands university graduates studied relevant subjects to net zero transport technologies**, including from 4 of top 25 UK universities for Engineering and Technology, and Natural Sciences.
- **Over 200 businesses**; 17% of UK total and 252% growth since 2013.
- **17 high growth companies** (59% of UK) and 4 £100m+ turnover companies (50% of UK).
- **Over 28% of Innovate UK funding to net zero transport technologies businesses since 2005** has been awarded to those with a Midlands address.
- **4% of cluster relevant UK Foreign Direct Investment Capex and 7% of cluster relevant UK Domestic Direct Investment Capex 2017-2021.**

Business Ecosystem

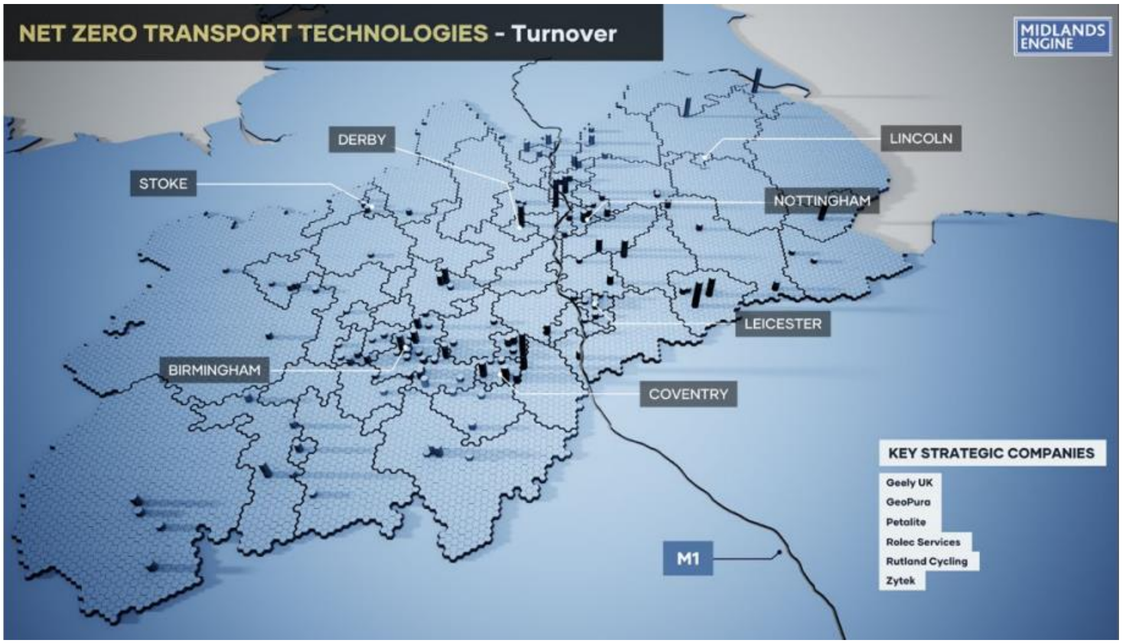
The cluster has **215 businesses** (17% of the UK), the largest of any region outside of London and the South East. Out of these, **4 have a turnover of over £100m+** (50% of UK) and there are **17 high growth companies** (59% of UK), with **128 incorporations between 2017-2022.** 4% of companies in the cluster are foreign owned which is 3 percentage points higher than the national average (1%).

Innovation Ecosystem

Viewing innovation**, 38 high growth companies utilised accelerators** and there are **17 relevant spin-outs**. There is also **7 Midlands universities with high research ranking in relevant subjects**, and **86 high growth company grants with £27m Innovate UK funding since 2005** (28% of Innovate UK funding to net zero transport had a Midlands location).

Talent Ecosystem

The cluster has **3,882 estimated employees** (22% of national; largest region outside of London and South East) with an **average salary of £41,986** (2% higher than the national average). The ecosystem has **15,230 further education leavers and 9,530 graduates** in relevant subjects with the region **retaining 97.3% of those graduates over a three-year period**.



Cluster Snapshot: Offshore Wind

Another recently published snapshot as part of the wider Clusters project relates to [Offshore Wind](). *Note, this is a cluster with relatively few studies or data attached to it, thus the data presented should be taken with caution and in full knowledge of limitations outlined in the snapshot.*

A target of major direct investment in the UK, the major cluster location for offshore wind & related supply chain is around the **Humber Offshore Wind Cluster in North East Lincolnshire**, with Department for Business and Trade allocating it a 'High Potential Opportunity'. Although the cluster is smaller than others, it is experiencing high growth. Already home to eight operational offshore wind farms, including the world's largest at Hornsea 2, a further seven wind farms are in development or under construction.

Cluster in Context

- **Almost 400 jobs;** 5% of national.
- **7% of Midlands university graduates studied relevant subjects to offshore wind**, including from 4 of top 25 UK universities for Engineering and Technology, and Natural Sciences.
- **Over 60 businesses;** 7% of UK total and 126% growth since 2013.
- **7 high growth companies (13% of UK).**
- **Over 42% of Innovate UK funding to offshore wind businesses since 2005** has been awarded to those with a Midlands address.

Business Ecosystem
The cluster has **61 businesses** (7% of the UK). Out of these there are **7 high growth companies** (13% of UK), with **17 incorporations between 2017-2022**, 8% of the UK. 10% of companies in the dataset are known to be foreign-owned (6), a lower proportion than nationally.

Innovation Ecosystem
Viewing innovation**, 17 high growth companies utilised accelerators** and there is 1 **relevant spin-out tracked.** There are also **8 Midlands universities with high research ranking in relevant subjects**, moreover there are **14 high growth company grants with £3.7m Innovate UK funding since 2005** (42% of Innovate UK funding to offshore wind had a Midlands location).

Talent Ecosystem
The cluster has 369 **estimated employees** (22% of national; with an **average salary of £34,530** (10% lower than the national average). The ecosystem has **18,550 further education leavers and 10,320 graduates** in relevant subjects with the region **retaining 89.2% of those graduates over a three-year period**.

Midlands Greenhouse Gas Emissions

Carbon Dioxide

In 2021, the Midlands Engine area **produced a total of 60,602 Kt carbon dioxide (CO_2e) emissions**. The Midlands Engine area has **increased by 9.0% (+4,994 Kt CO_2e)**, compared to an increase of 7.4% across the UK since 2020.

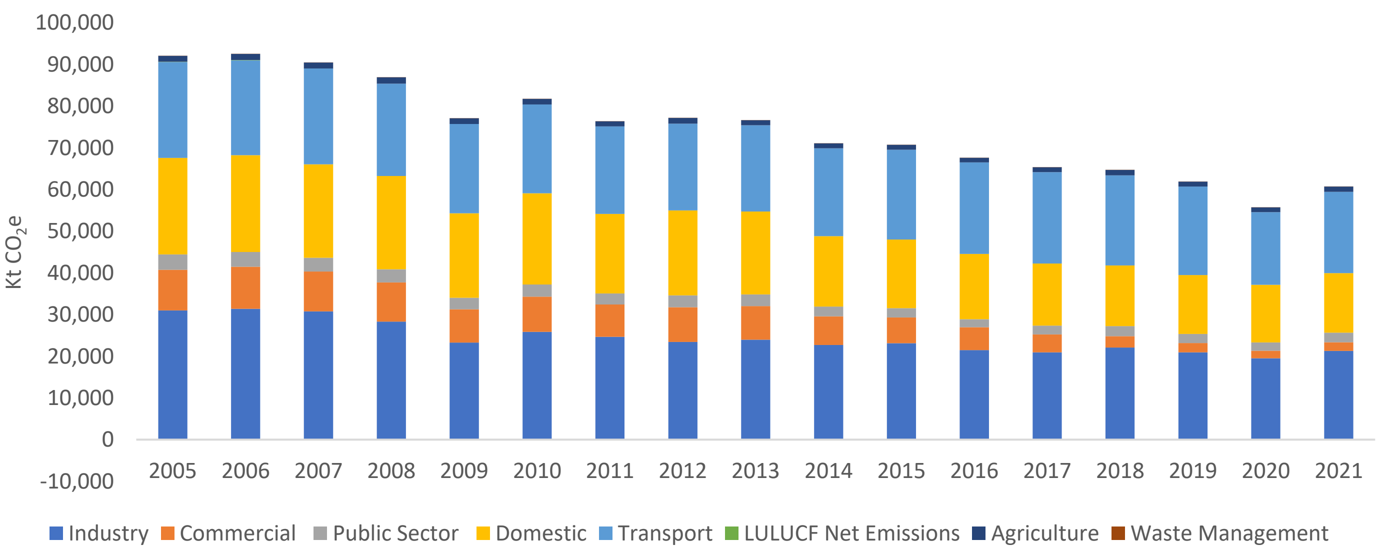
In 2021, emissions in the Midlands Engine area can be split by:

- **21,278 Kt CO_2e** (35.1% of total vs 25.1% in UK) in the **industrial sector**
- **19,481 Kt CO_2e** (32.1% of total vs 34.7% in UK) in the **transport sector**
- **14,294 Kt CO_2e** (23.6% of total vs 29.0% in UK) from **domestic sources**
- **2,282 Kt CO_2e** (3.8% of total vs 4.8% in UK) in the **public sector**
- **2,107 Kt CO_2e** (3.5% of total vs 5.2% in UK) in the **commercial sector**
- **1,258 Kt CO_2e** (2.1% of total vs 2.8% in UK) in the **agricultural sector**
- **19 Kt CO_2e** (0.0% of total vs 0.1% in UK) in the **waste management sector**
- the **land use, land use change and forestry sector** (LULUCF) has a negative contribution to carbon emissions, at **-115 Kt CO_2e** (-0.2%) of the total carbon emissions in the Midlands Engine area, (across the UK this sector is also net negative at -1.8%).

Since 2005, **total CO_2e emissions have decreased by 31,487** (-34.2%) across the Midlands Engine area, the UK decreased by 39.4% during this time period.

- The **industry sector reduced its emissions** by 31.4%, (UK -42.6%)
- The **commercial sector has decreased** by 78.4%, (UK -76.4%)
- The **public sector has decreased** by 38.1%, (UK -37.2%)
- There was a 38.1% **reduction for domestic sources**, (UK -38.6%)
- The **transport emissions reduced** by 15.2% during this period, (UK -17.9%)
- The **LULUCF sector reduced** by 225.5%, (UK +59.7%)
- **Agricultural emissions reduced** by 11.3%, (UK -4.8%)
- **Waste management emissions reduced** by 42.2%, (UK -38.6%)

Change in CO_2e emissions in the Midlands Engine area:



Methane

- In 2021, the **Midlands Engine area produced a total of 7,847 kt CO_2e of methane emissions**. This has decreased by 104 kt CO_2e (-1.3%) since 2020, compared to a decrease of 0.8% across the UK. Since, 2005, methane emissions reduced by 1,669 kt CO_2e (-17.5%, UK -43.4%).

Nitrous Oxide

- In 2021, the **Midlands Engine area produced a total of 2,924 kt CO_2e of nitrous oxide emissions**. This has increased by 159 kt CO_2e (+5.7%) since 2020, compared to an increase of 2.4% across the UK. Since, 2005, nitrous oxide emissions reduced by 190 kt CO_2e (-6.1%, UK -17.3%).

Source: Department for Energy Security and Net Zero – released June 2023.

The food supply chain is worth £127bn to the UK economy, contributing 9.8% of GDP. Food counts among its number six FTSE 100 constituents with a combined market capitalisation just short of **£139bn**. **From Farm to Fork, the food supply chain employs a 4.2m strong workforce.**

The food supply chain itself is a network of stakeholders involved in growing, processing, distributing and selling food. The chain includes: Producers; Processors; Distributors; Consumers; and Government, NGOs, and Regulators.

Importance of Domestic Agriculture

Agriculture is the foundation of the food value chain, and in 2021 contributed **£11.2bn to the national economy**, employed about half a million people, supplied half the food we ate and managed **71% of UK land**. Farming sits at the lower end of the value proposition within the food industry and its tight margins create concern; if farmers go out of business, or reduce their production, the supply chain will follow suit. This is especially important as by 2045 the UK population is set to grow to 72m; up from 67.5m in 2022.

The Agricultural Balance Sheet

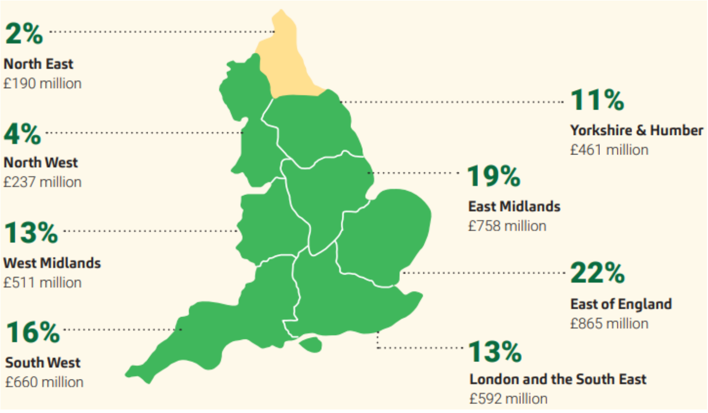
In 2021 agriculture's contribution to the national economy **grew by £0.9bn** as a result of growth in livestock and crop outputs, and despite falling income from falling subsidies it represented **9.9%** of farm income, down from **12%** in 2016. **Milk (£4.7bn) and beef (£3.2bn) were the biggest contributor to livestock output**. Meanwhile **wheat was the largest contributor to crop output** whilst fruit production fell in value, partly due to an **8% fall in average prices of food and decreasing production levels.**

Rising input prices (feed, fertiliser, labour and energy) are not reflected in sale prices and declines in production are likely to deepen, limiting farming's economic contribution. Numerically, **the median return on capital invested was -0.2% in 2020/21 and 52% of farms had a negative return on investment with pig and poultry farms having the highest average debts of any sector at £625,000 per farm.** In 2021/22 **the average farm income was £86,000** with only **48%** coming from agricultural activity. The remainder was made up of **32%** coming from subsidies and **19%** from diversified activities.

When looking at total net income from farming, the best performing region was the **East of England** at **£865m** (22%); **the East Midlands was second at £758m (19%) and the West Midlands was fifth with £511m (13%).**

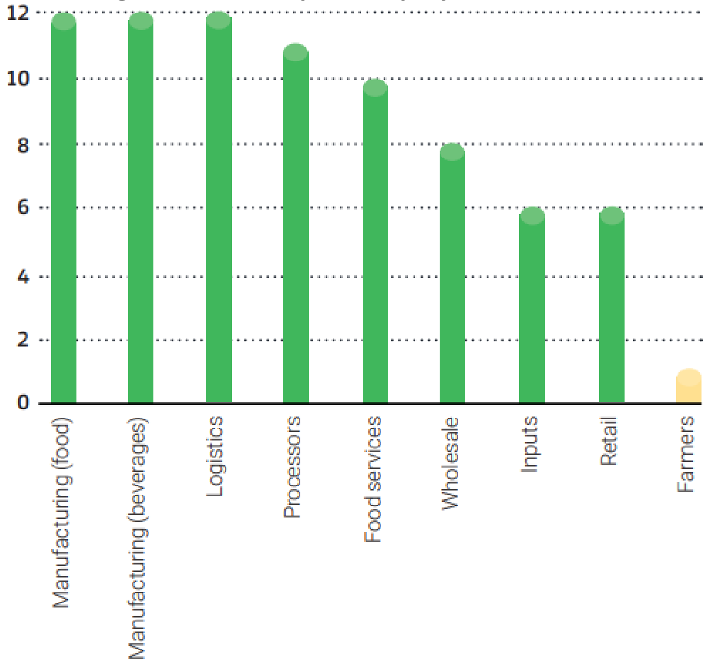
Source: Rural Policy Group, May 2023

Total (net) income from farming:



Land is the largest fixed asset in agriculture with a value of £243,756 million. Asset growth between 2020 and 2021 was **1.4%**, of that **1.2%** is attributable to increases in land value leaving only **0.2%** attributable to other assets. **Agriculture represents 0.5% of GDP** although this masks its importance to levelling up more rural locations. The distribution of wealth creation and opportunities from agriculture varies across the UK and is a significant source of economic growth and resilience in rural areas such as **Yorkshire, East Anglia and Lincolnshire.**

Percentage return on capital employed:



Agriculture Contribution to Government Goals

Agriculture is equigenic industry, food and farming goes far beyond its **£11,222m per year to the national economy**. For example, the sector contributes to government goals by employing **467,000** people on the commercial side supporting **Levelling Up**; supporting **health benefits** by growing nutritious produce aiming to reduce the **£74bn direct NHS expenditure related to excess weight issues**; providing **green spaces** providing a myriad of health benefits; production of **environmental goods**; and **fortifying our food security nationally**.

UK Food Valley – A Model for Rural Economic Growth

Rural enterprise is often undervalued and unrepresented in policy decision making; the Rural Policy Group contends that it deserves more consideration in the decisions which affect people's lives. For example, the UK Food Valley programme supports the food industry from farm to factory gate in the Greater Lincolnshire and Rutland LEP area. The food chain is at the heart of the Greater Lincolnshire economy, having been identified as one of four **"game changer"** sectors in the area demonstrating the potential of agriculture, fisheries and food to deliver substantial economic benefits.

There are multiple clusters within the UK Food Valley of which it is the UK leader including:

- **Fish Processing** – North East Lincolnshire is the UK centre of fish processing, with 60% of UK fish processing taking place in Grimsby and its vicinity.
- **Fresh Produce** – the sector supports 30,000 jobs with South Holland employing 42% of the workforce (against 4% nationally). Greater Lincolnshire is responsible for 26% of England's vegetables and salads, 19% of ornamentals and 13% of potatoes with a long-established greenhouse horticulture sector covering 89 ha (218 acres). Ornamentals are a key strength especially of the Food Valley.
- **Food Logistics and Marketing** – Greater Lincolnshire has 17,000 employees in food logistics, storage and marketing with a major cluster of food logistics in South Holland and Boston. Grimsby also has Europe's largest cold storage cluster.
- **Meat and Eggs** – the UK Food Valley is home to 8% of England's poultry farms and produces 20% of the nations' ducks, 18% of chickens and 7% of eggs. As well as poultry, Lincolnshire has 7% of the English pig herd and is a centre of meat processing for red meat.
- **Arable Crops** – Lincolnshire has the largest combined crop output of any county, with about 12% of England's arable crop output and 11% cereal output.
- **Plant and Alternative Proteins** – Greater Lincolnshire is seeing major investment into plant and alternative protein production – the area is responsible for 11% of national dried pea and bean production.
- **Agri-Tech and Food Technology** – the area is a UK sector leader for innovation and technology, receiving over £200m investment.
- **Employment** – The food chain within the area hired 75,000 people in agriculture, food processing and distribution in 2021. Moreover, the agriculture and food chain represent 14% of the workforce in the area compared to 4% nationally. The consumer food chain including retail and catering employs a further 47,000 people - taking food chain employment to over 120,000 jobs (23% of all jobs, vs 13% at UK level).

Challenges

The first year of Brexit posed new challenges for agriculture, food and farming and **exposed existing fragilities in global supply chains'** many of which are still to be resolved. There is still a danger of going backwards in terms of our food security, it is thus important to secure a resilient and sustainable food sector. The sector faces the following challenges:

- **Labour shortages** – after Brexit, some of the biggest challenges involved labour shortages – including 120,000 healthy pigs which were culled due to a lack of abattoir workers. The lack of skilled labour has led to a decline in food production – with the seasonal worker scheme not being fully utilised due to accessibility issues, some estimates suggest 80,000 migrant workers are needed to help British farming.
- **Additional bureaucratic demands** – trade barriers have made it more difficult to move food to the EU, with the Food & Drink Federation reported a £2bn drop in sales, equivalent of 27.4% to the EU in 2020.
- **Job exports to Europe** – due to restrictions in the freedoms of movement of people and goods, many UK businesses are having to move parts or their entire businesses to mainland Europe.
- **Moving from the Basic Payment Scheme** – payments are being phased out whilst businesses are not able to plan replacement income streams for European Land Management Schemes.
- **New trade deals** – there are potential threats from partners who are not bound by equivalents of standards and farm with economics of scale which are beyond reach of British farms.
- **Uncertainty** – there is a lack of a clear food strategy supporting UK producers.

Key Recommendations

The Rural Policy Group sees the following as pre-requisites for achieving the type of profitable and productive industry which can deliver on sustainability and climate goals:

1. **Strengthen food security ambitions** to make the UK 70% self-sufficient in food production by 2030.
2. **Collaboratively work towards fair value and fair dealing in the upstream and downstream food supply chain.**
3. **Agree a standardised baseline set of metrics** against which farms can measure and manage their environmental progress.
4. **Incorporate environmental metrics** such as biodiversity in land valuations, similar to the role soil quality plays in asset values.

Source: Rural Policy Group, May 2023

DISCLAIMER OF LIABILITY

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MIDLANDS ENGINE OBSERVATORY

In Partnership: