MIDLANDS ENGINE

OBSERVATORY

MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

EDITION 42: OCTOBER 2023

Executive Summary

Global events have unsurprisingly dominated the headlines in the last month, with many of the social, political and **economic effects of conflict in Israel/Gaza on the UK (and the Midlands) not yet known**. There has also been notable domestic decisions that impact the region, especially the **scrapping of HS2 Phase 2 from Birmingham to Manchester** – replaced by investment in other transport projects across the country, including in the Midlands.

October's monitor reports in touching distance of the Government's Autumn Statement (November 22nd), a critical event at a time of **subdued growth and confidence in the region and across the UK:**

- The UK economy is **teetering on the edge of a recession** under the weight of higher borrowing costs, according to S&P Global's 'flash' Purchasing Managers' Index (PMI) for the UK economy in October came in at 48.6.
- The **West Midlands Business Activity Index decreased from 50.0 in August 2023 to 49.3 in September 2023** and the **East Midlands Activity Index decreased from 47.1 to 46.8.** The UK figure fell a point to 48.5.
- Key sectors such as **retail, hospitality, construction and parts of manufacturing are particularly struggling.**

The notion of a relatively stagnant and stuck economy in the UK is reflected in **forecasts of sluggish growth for the rest of 2023 and into 2024.** Despite this, it is mostly consensus among forecasters that the **UK will avoid recession**, supported by falling inflation and interest rates which have now seemingly peaked. There are also pockets of growth, recovery and investment in the Midlands, for example:

- ONS have published **positive findings in relation to business births and deaths**, with the Midlands seeing a **greater decrease in deaths and a greater increase in births compared to the national average** (when looking at both change since the last quarter and change since the same quarter last year). Though this **contrasts with recent national data about higher and growing business closures across the UK in 2023**, using a narrower "insolvencies" definition.
- Positively for the Midlands region, **UK car manufacturing rose by almost 40 per cent in September**, according to the latest figures, representing the strongest month of growth in 2023.
- A **flurry of activity in the technology sector** has been announced recently, not least as part of Birmingham Tech Week and relevant to the Midlands: **Solihull was confirmed as home to the Government's new £80m UK Telecoms Lab, Tech Nation has relaunched with a £10bn funding pledge**, and 5 innovation-focused companies revealed **job-creating investment in the region.**

Technology and digital is a key focus of this month's monitor, reflecting the above announcements and wider activity in this space of late, such as the latest release of TechUK's Local Digital Capital Index – highlighting the strengths, challenges and opportunities of the digital ecosystem across regions in the UK. This includes an **overall regional ranking of 4th for the West Midlands and an overall cities and counties ranking of 6th and 7th for Derbyshire and Nottinghamshire, and Herefordshire, Worcestershire and Warwickshire respectively**. Furthermore, Midlands Engine Observatory have published **regional snapshots related to Artificial Intelligence and Quantum Technology.**

Hence the recent focus, **technology and digital will be key sectors for enabling growth and prosperity** across the region, especially as part of the Midlands' broader investment offer (including in tech and non-tech industries). This is also explored through data releases related to **capital investment shocks and foreign direct investment (FDI) flows.**

A host of annual and monthly updated statistics published this month are also covered in this month's monitor:

- **Businesses:** The latest ONS snapshot data for 2023 shows there were **377,925 enterprises in the Midlands Engine geography, a decrease of 1.4%** compared to March 2022 snapshot. The UK also decreased (-1.5%).
- **Small Area Income Estimates:** New data released shows differences in income across places in the Midlands.
- **Jobs:** In the Midlands Engine geography there were **4.6 million jobs in 2022**. This is an **increase of 2.6% (+117,000 jobs) since 2021**, above the national increase of 2.4%.

Despite the increase in jobs, the labour market remains problematic and a key barrier to prosperity in the region:

- There were **272,145 claimants aged 16 years and over** in the Midlands Engine area in September 2023, an **increase of 2,755 claimants (+1.0%, UK +0.9%) since the previous month.**
- **Unemployment in the Midlands Engine geography was 4.3% in the near ending 2023, an increase of 0.2pp from the previous year and above the UK rate,** while the latest job postings data shows that the **number of postings across the Midlands dropped 19.1% over the last six months to nearly 1.13 million.**

However, other parts of labour market in the Midlands have shown promising signs - for example **decreases in economic inactivity and increases in employment.** But gaps still remain to the national average and there is disparity within the Midlands Engine geography. As identified, Midlands partners are **using Local Skills Improvement Plans (LSIP) as one tool for fixing issues and supporting a better labour market.**

1. Economic Outlook

Global, National and Regional Outlook

Global

OECD Economic Outlook

The global economy proved more resilient than expected in the first half of 2023, but the **growth outlook remains weak.** With monetary policy becoming increasingly visible and a **weaker-than-expected recovery in China, global growth in 2024 is projected to be lower than in 2023.** While headline inflation has been declining, core inflation remains persistent, driven by the services sector and relatively tight labour markets. Risks continue to be tilted to the downside. **Inflation could continue to prove more persistent than anticipated, with further disruptions to energy and food markets still possible.**

Israel-Gaza war

As the conflict intensifies in Gaza, thousands of people desperate for food and basic items broke into aid warehouses in the besieged enclave. **Internet and phone connectivity were restored** for many people after Israel knocked out most communications in the territory late Friday. Prime Minister Benjamin Netanyahu announced on Saturday a "second stage" in the 3-week-old war and said Israel is determined to bring back 239 hostages taken by the militant group during its deadly Oct. 7 incursion. Four of the hostages have been released.

National

ONS report the Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 6.3% in the 12 months to September 2023, the same rate as in August. On a monthly basis, CPIH rose by 0.5% in September 2023, compared with a rise of 0.4% in September 2022. The Consumer Prices Index (CPI) rose by 6.7% in the 12 months to September 2023, the same rate as in August. On a monthly basis, CPI rose by 0.5% in September 2023, the same rate as in September 2022.

Conservative Party Conference Announcements

- **Scrapping the Northern leg of HS2 from Birmingham to Manchester**, with money promised for this line invested in other transport projects.
- **Advanced British Standard – A levels and T levels will be replaced by the Advanced British standard**, which will compass both A-levels and T-levels into one qualification. Whilst most A-level students currently study three A-levels, the Advanced British standard will also include studying maths and English to age 18. The subjects studied will also be tiered with 3 being majors and 2 being minors.
- **The government is set to introduce a historic new law to stop children who turn 14 this year or younger from ever legally being sold cigarettes in England**, creating the first 'smokefree generation'.

House Prices

The Halifax House Price Index for September 2023 revealed that **house prices have dropped 4.7% since September 2022**, with the average house price now £278,601. Month on Month there has been a 0.4% fall in house prices, **this is the sixth consecutive monthly fall in house prices,** though the pace of decline slowed compared to previous months. Nonetheless, Halifax noted that house prices still remain £39,400 higher than in March 2020, following the extraordinary growth seen during the pandemic.

Regional

HS2

Following the announcement of scrapping of the HS2 line to Manchester from Birmingham, **other projects in the Midlands have been promised, though not all of them are new projects.** The projects include:

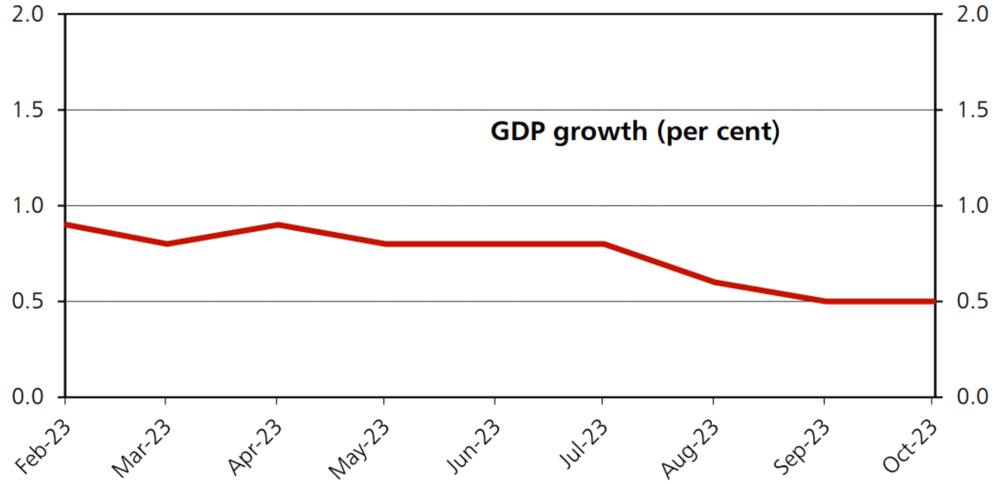
- £100 million will be shared across the North and Midlands to support the development and roll-out of **London-style contactless and smart ticketing**, supporting seamless travel by enabling contactless or smartcard payment.
- A brand new **£2.2 billion fund to transform local transport in every part of the Midlands** outside the mayoral combined authority areas and the new East Midlands combined authority - rural counties such as Shropshire, cities like Leicester and towns such as Evesham.
- **£250 million will fully fund ten smaller road schemes in the Midlands**, including the Shrewsbury North Western Relief Road and the A4123 Birchley Island, near Oldbury.
- A **Midlands Road Fund worth nearly £650 million** will be launched for new road schemes.
- **£230 million for more frequent bus services in the Midlands**, which could be spent on new bus stops around Telford and park and ride upgrades elsewhere in Shropshire and new bus lanes in Herefordshire.
- **£2.2 billion** for the Midlands to combat potholes and fix roads causing misery for drivers.
- £2 bus fare extended until the end of December 2024 instead of rising to £2.50 as planned.
- £1 billion more for local transport funding in West Midlands: This includes £100 million to deal with ongoing metro and Arden Cross cost pressures and £250 million to accelerate local transport projects over the next five years.
- **The East Midlands will get a brand new the City Regional Sustainable Transport settlement** of over £1.5 billion as it embarks its new status as a Combined Authority next year.

UK Economic Forecasts

Several economic forecasts for the UK have been published recently, important to the future prospects of the Midlands in the coming months and years. These precede the Office for Budget Responsibility forecast to accompany the Autumn Statement in November. **Key findings of recent prominent forecasts include:**

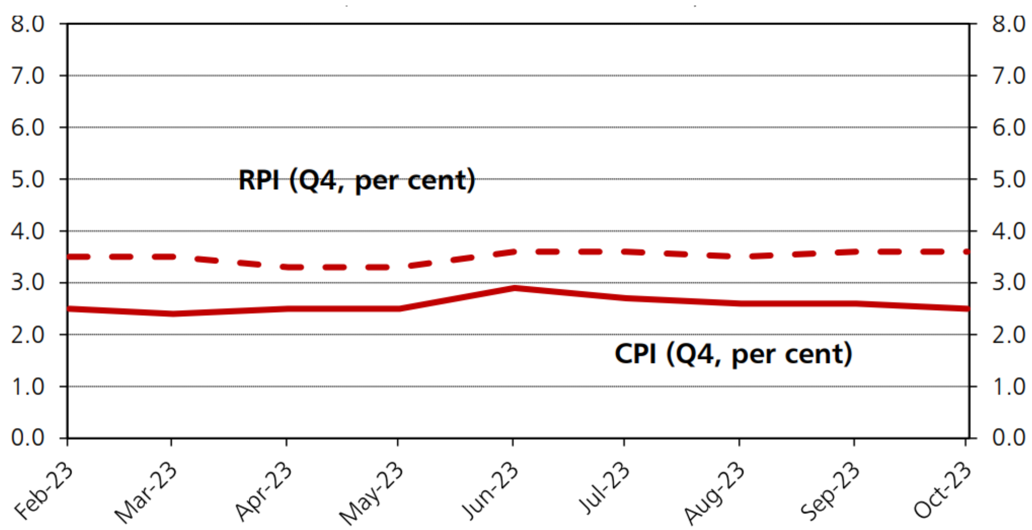
- An expectation of **sluggish growth for the remainder of 2023 and into 2024**; for example, NIESR have forecast that GDP will contract by 0.1% in the third quarter of 2023 and then growth 0.2% in the fourth quarter, while KPMG suggest real GDP growth slowing from 4.1% in 2022 to 0.4% in 2023 and 0.3% in 2024.
- The consensus is that the **UK will avoid a recession in 2023 and 2024**, however, with GDP growth expected at 0.5% and 0.4% respectively taking an average of forecasts (HM Treasury).

Average Independent Forecasts for 2024: GDP Growth:



- However, other forecasts are more pessimistic. The Institute for Fiscal Studies' Green Budget 2023 expects weak margins and policy headwinds to **drive a moderate recession through the first half of 2024, forecasting GDP will fall by 0.7% in 2024.**
- The IFS suggests that the UK economic outlook hinges on three primary factors: first, the **boost associated with the unwinding of the adverse terms-of-trade shock; second, the headwind associated with tighter monetary policy; and third, the potential for greater inflationary persistence – especially in wage setting.**
- The most recent Treasury average of forecasts for inflation suggests the **Consumer Prices Index (CPI) is to fall to around 2.5% in 2024, with the Retail Prices Index (RPI) falling to 3.9%**. This is expected to follow a fall of CPI inflation down to 4%-4.5% by the end of 2023.
- Meanwhile, the EY ITEM Club estimates that **higher interest rates have, so far, been a net positive for household incomes with the income boost from higher rates on savings accounts exceeding the extra amount spent on mortgage interest payments.** But this picture is set to reverse as deposit rates stabilise and more and more borrowers roll over fixed rate mortgages onto higher rates.

Average Independent forecasts for 2024: Inflation:



Policy Considerations

THEME	KEY INSIGHTS
Outlook	• The UK economy is **teetering on the edge of a recession** under the weight of higher borrowing costs, a closely watched survey suggests. S&P Global's 'flash' Purchasing Managers' Index (PMI) for the UK economy in October came in at 48.6 – below the 50 reading which indicates growth. • While the **rate of inflation remained stable at 6.7% in September**, according to new figures from the Office for National Statistics (ONS) released on October 18th. The soaring cost of motor fuel and hotel rooms has been blamed for keeping inflation high last month. • The Resolution Foundation's latest Macroeconomic Policy Outlook looks in detail at the **UK's inflation challenge, while the FSB highlight the strain of rising fuel prices.** • As for the Midlands, **business confidence in the East Midlands rose one point during October to 39 per cent, while the West Midlands fell two points to 34 per cent**, according to the latest Business Barometer from Lloyds Bank Commercial Banking. Midlands businesses identified their top target areas for growth in the next six months as **entering new markets (49 per cent), investing in their team, evolving their offer, and introducing new technology.** Overall, UK business confidence rose three points in October from 36 per cent to 39 per cent. • The **number of companies filing for administration across the Midlands has jumped by almost 20 per cent year-on-year**, according to the latest figures. Analysis of notices in The Gazette by Interpath Advisory reveals that a total of **43 companies based in the Midlands fell into administration in Q3 2023 – up from 36 companies in Q3 2022**. This represents a 19.4 per cent increase on last year.
Trading Conditions	• **Supply chain disruption remains one of the biggest challenges facing Midlands** businesses, according to new research from BDO LLP, as companies gear up for end of year trading. • According to BDO's bi-monthly Economic Engine survey of 500 mid-market businesses**, more than a quarter of Midlands companies (29 per cent) have ranked supply chain pressures as one of their top challenges,** with issues such as folding suppliers, stock shortages, and rising costs topping the list. • The same survey found that, **over the next six months a third of Midlands businesses intend to invest in efficiency, such as automation and AI**, 29 per cent are focusing on onshoring more or all of their supply chain, while 25 per cent plan to manage price rises by passing on the cost to customers. • Meanwhile, **35 per cent are investing in more diverse hiring practices, such as apprenticeships and targeting different schools and universities**, while a quarter of companies (25 per cent) are offering additional benefits to attract new recruits, including permanent remote working, subsidised travel, and childcare vouchers. • A new report published in Regional Studies examines the role of population density and accessibility in shaping innovation intensity in small geographies in England. It finds a **positive relationship between population density and innovation intensity, a consistent negative relationship between longer journey times to the nearest town centre and innovation intensity,** and a strong interaction effect between population density and accessibility. • While the Enterprise Research Centre recently published a research report **mapping net zero support for small businesses across England**. The focus of the project was on schemes, initiatives, and organisations offering specific or targeted initiatives to support small firms' net zero transition. As part of the work, the ERC have **published regional summary reports** including for the East Midlands and West Midlands.
Labour Market	• The **number of permanent placements in the Midlands continued to fall during September**, according to a report from KPMG and REC, but temp billings rose further. • The KPMG and REC, UK Report on Jobs: Midlands showed that **firms signalled a sustained and sharp reduction in permanent placements,** while temporary billings rose at a stronger rate than that seen in August. • Recruiters highlighted that **widespread reports of recruitment freezes and a lack of suitably skilled candidates weighed on permanent hiring and** pushed firms to take on temporary staff. • They also signalled a **softer improvement in candidate supply for both permanent and temporary roles during September**, with the respective growth rates easing to three- and four-month lows.

2. Economic and Labour Market Impacts

Business Activity

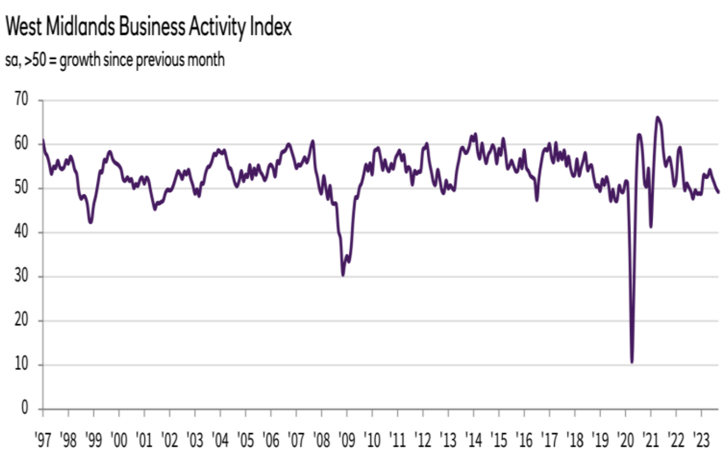
Business Activity Index

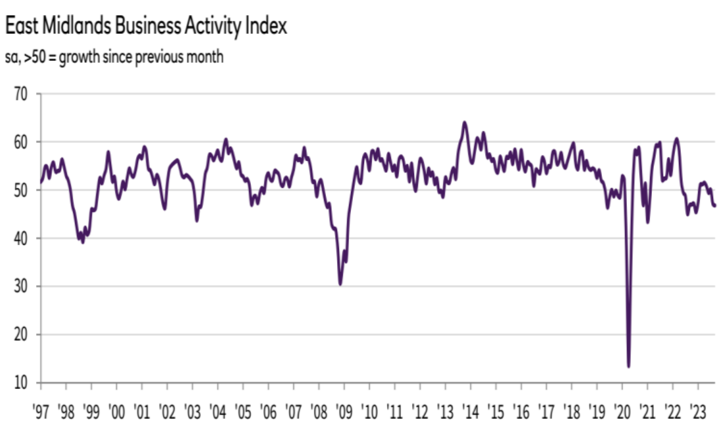
The **West Midlands Business Activity Index decreased from 50.0 in August 2023 to 49.3 in September 2023**. The decline in business activity was linked to reduced customer orders.

The East Midlands Business Activity Index decreased from 47.1 in August 2023 to 46.8 in September 2023, the fastest fall seen so far in 2023. Firms reported weaker demand conditions, the cost-of-living crisis and economic uncertainty caused lower business activity.

The UK Business Activity Index decreased from 48.6 in August 2023 to 48.5 in September 2023.

Business Activity Index trends:





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

Out of the 12 UK regions, the **West Midlands was the third highest and East Midlands was fifth lowest** for business activity in September 2023.

Demand

The latest West Midlands New Business Index shows broadly stagnant levels of new business (decreasing from 50.3 in August 2023 to 50.1 in September 2023). The East Midlands New Business Index decreased slightly from 46.8 in August 2023 to 46.7 in September 2023, the third consecutive month of contraction.

Exports

The West Midlands Export Climate Index decreased from 49.5 in August 2023 to 49.3 in September 2023. The East Midlands Export Climate Index decreased from 49.6 in August 2023 to 49.4 in September 2023.

Business Capacity

The West Midlands Employment Index remained at 49.4 in September 2023, a second month of decline in jobs. The East Midlands Employment Index decreased from 48.6 in August 2023 to 44.8 in September 2023, the third consecutive month of contraction.

The West Midlands Outstanding Business Index increased from 43.0 in August 2023 to 44.9 in September 2023. The East Midlands Outstanding Business Index increased from 42.8 in August 2023 to 44.1 in September 2023. The 10th and 12th consecutive month respectively under the 50-mark threshold.

Prices

The West Midlands Input Prices Index decreased from 59.6 in August 2023 to 55.4 in September 2023. Despite the fall, firms across both regions still reported an increase in expenses.

The West Midlands Prices Charged Index decreased from 54.9 in August 2023 to 54.6 in September 2023. The rate of inflation remains historically high but has eased to the weakest level seen since in two-and-a-half years. The East Midlands Prices Charged Index increased from 55.0 in August 2023 to 56.7 in September 2023. Hikes in charges was linked to the pass-through of higher costs to customers.

Outlook

The West Midlands Future Business Activity Index decreased slightly from 78.5 in August 2023 to 78.4 in September 2023, but was still among the highest levels seen since January 2022. Optimism in firms was linked to expectations of new business gains, demand would strengthen, planned investment and efficiency gains.

The East Midlands Future Activity Index decreased slightly from 69.6 in August 2023 to 69.4 in September 2023, although, firms remained positive for the next 12 months. Service firms saw business confidence fall slightly, whereas manufacturers recorded stronger sentiment.

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 September 2023.

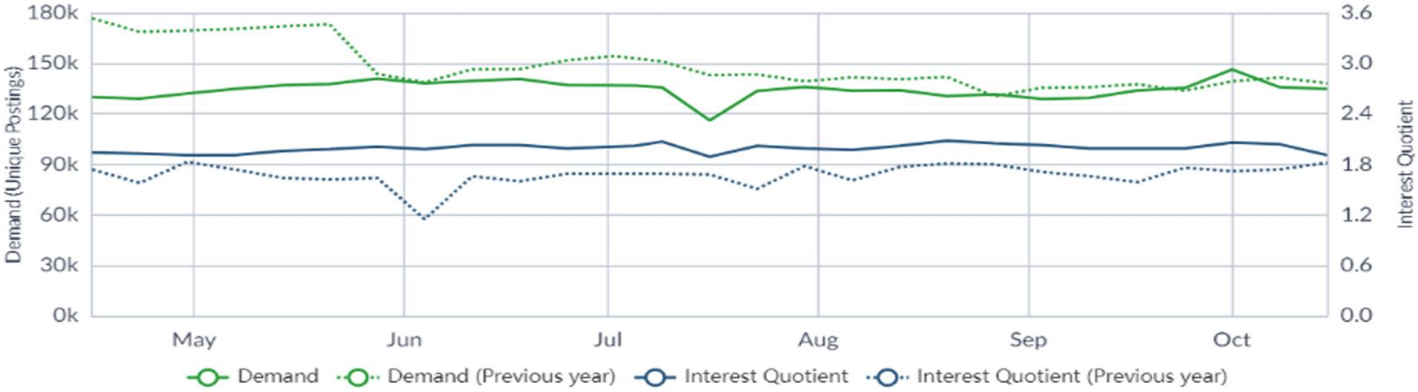
Source: NatWest: UK regional PMI report for September 2023, released October 2023.

Labour Market and Job Postings

The latest **national labour market data reveals a troubling scenario, with a significant drop in employment, a corresponding surge in unemployment, and a continued rise in economic inactivity.** These trends also include a 25% increase in young individuals not in employment or education equating to nearly one in six of all young people. **Moreover, short-term unemployment is transitioning into longer-term unemployment; whilst vacancies have also plummeted by over 20% in the past year.**

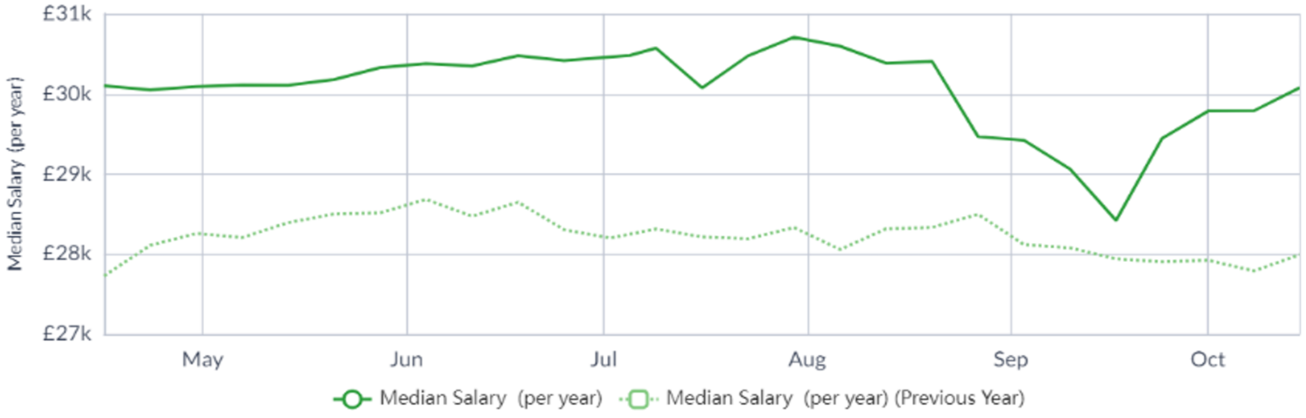
The latest job postings data shows that the **number of postings across the Midlands dropped 19.1% over the last six months to nearly 1.13 million**. Despite employer demand narrowing, those seeking work - wanting a job, currently remains heightened (2.0 Interest Quotient).

Overall Demand and Interest for the Midlands:



The **advertised median salary across the Midlands has increased by 6.9%** year-on-year to £30,189.

Salary Trends for the Midlands:



Sectors Hiring in the Midlands:

Job posting demand was greatest for roles in teaching, engineering and hospitality & catering. These sectors accounted for 29% of all job postings in the last six months.

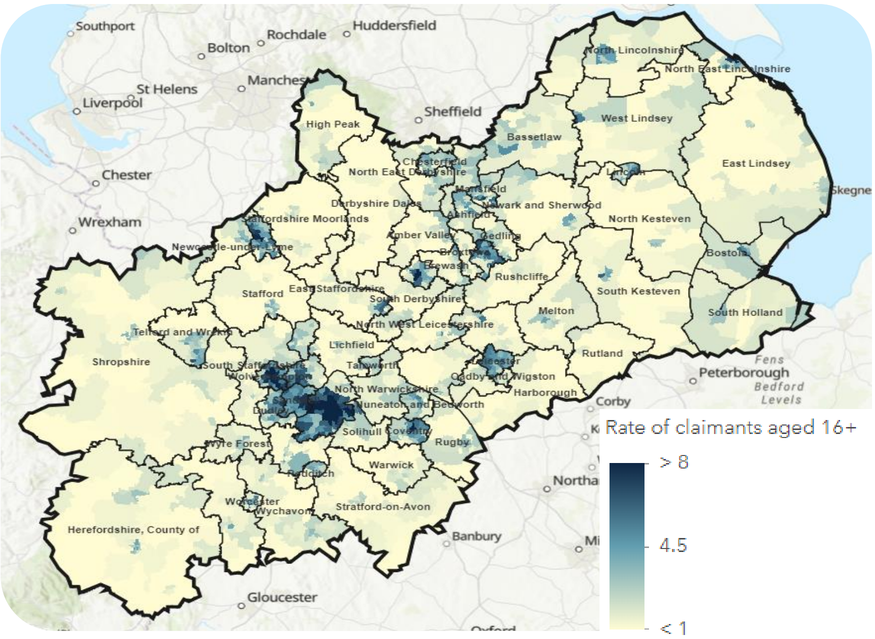
Source: Adzuna Limited Job Posting Intelligence, Accessed Sept 2023. The Interest Quotient uses jobseeker data to quantify the level of interest in particular roles.

Labour Market Impacts: Claimants

There were **272,145 claimants aged 16 years and over** in the Midlands Engine area in September 2023, an increase of 2,755 claimants (+1.0%, UK +0.9%) since the previous month. **There are 50,605 more claimants (+22.8%, UK +21.7%) when compared to March 2020**. East Lindsey, North East Lincolnshire, North Lincolnshire and West Lindsey all have lower levels of claimants now than in March 2020 (-1,240, -420, -155 and -5 respectively).

The number of claimants as a percentage of residents aged 16 years and over was 3.2% in the Midlands Engine and 2.8% for the UK in September 2023.

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



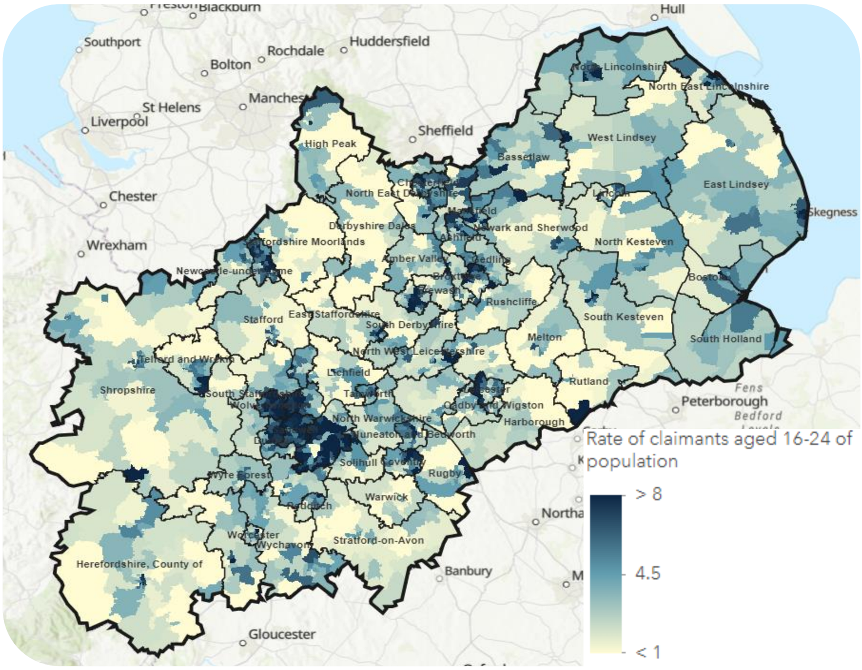
Out of the 1,511 wards within the Midlands Engine, **453 were at or above the UK average of 2.8%** for the number of claimants as a percentage of the population aged 16 years and over in September 2023.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, with Handsworth the highest at 16.5%. This was followed by Lozells at 15.8% and then Aston at 15.1%. In contrast, the lowest proportions were in Keele (Newcastle-Under-Lyme) with 0.1% and Ashby Castle (North West Leicestershire) with 0.2%.

There were **52,665 claimants aged 16-24 years old** in the Midlands Engine area in September 2023 – an increase of 1,000 youth claimants since August 2023. This equated to an increase of 1.9% for the Midlands Engine area (UK +1.3%). Since March 2020, **the number of youth claimants has increased by 8,470** (+19.2%, UK +14.2%). Notably, 11 local authorities are lower than March 2020 levels.

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

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



Out of the 1,511 wards within the Midlands Engine, **635 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 September 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 (Birmingham) at 16.5% and Joiner's Square (Stoke-on-Trent) at 14.4%. In contrast, within the Midlands Engine there were 107 wards with no youth claimants in September 2023.

An interactive version can be found here.

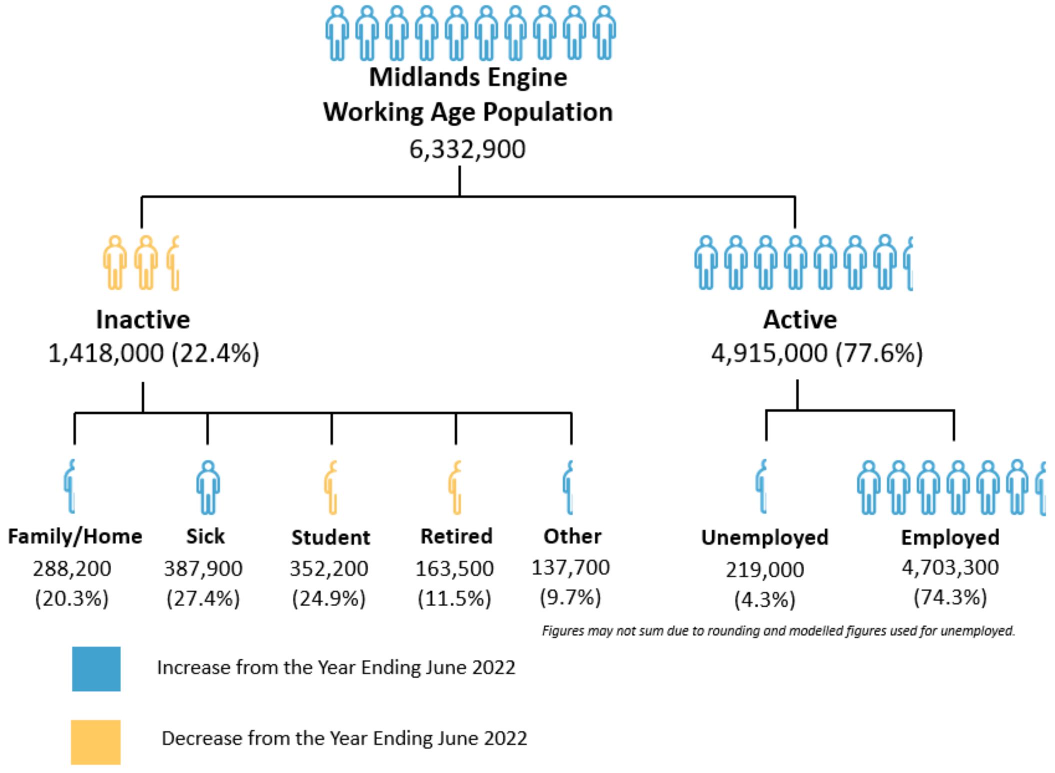
Source: ONS/ Department for Work and Pensions, October 2023.

The Midlands Economic Activity

The latest data (full year to June 2023) from the ONS Annual Population Survey (APS) highlights –

- In the year ending June 2023, the **employment rate in the Midlands Engine area was 74.3%,** compared to 75.5% for the UK overall. When compared to the year ending June 2022, the Midlands Engine area **matched the UK growth rate of 0.1 percentage points** (pp). For the Midlands Engine area **to reach national proportions requires 77,705 working age residents to be employed.**
    - Within the Midlands Engine, 40 local authority areas have employment rates that are at or above the UK average. Since the year ending June 2022, the employment rate for 32 of the Midlands Engine local authorities increased.
- The **economic activity rate for the Midlands Engine area was 77.6%** compared to 78.5% for the UK in the year ending June 2023. For the Midlands Engine area, the **economic activity rate has increased by 0.2pp** since the year ending June 2022. The UK increased by 0.1pp. For the Midlands Engine area **to reach national proportions requires 54,637 working age residents to be economically active.**
    - Within the Midlands Engine, 37 local authority areas have economically active rates that were above the UK average. Since the year ending June 2022, the economic activity rate in 31 of the Midlands Engine local authorities increased.
- For **economic inactivity, the Midlands Engine rate was 22.4%** compared to 21.5% for the UK overall in the year ending June 2023**.** Since the year ending June 2022, for the Midlands Engine area, this has **decreased by 0.2pp** while the UK decreased by 0.1pp.
    - Although, there was a 2.0pp increase in those classed as sick (primarily long-term sick).
    - For the year ending June 2023, the Midlands Engine had a higher percentage of people that were inactive when compared to the UK in **looking after the family/home** (20.3% compared to 19.5%).
- The **unemployment rate for the Midlands Engine was approximately 4.3%** compared to 3.8% for the England in the year ending June 2023. For the Midlands Engine, this is an **increase of approximately 0.2pp** compared to the England decrease of 0.1pp since the year ending June 2022.

Labour Market Activity for the Midlands Engine in the Year Ending June 2023:



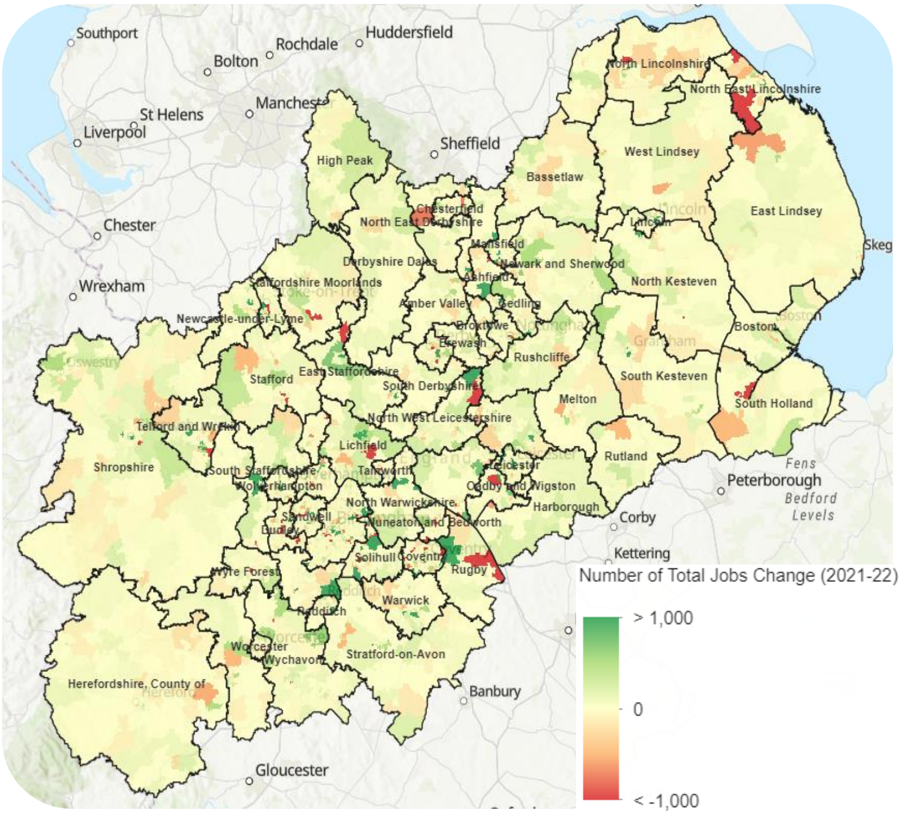
Due to data gaps, modelled unemployment rate has been used. The model-based estimate improves on the APS unemployment estimate by borrowing strength from the claimant count to produce an estimate that is more precise. The claimant count is not itself a measure of unemployment but is strongly correlated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

Midlands Engine Jobs

In the Midlands Engine area there were **4.6m jobs in 2022**. This is an **increase of 2.6% (+117,000 jobs) since 2021**, above the national increase of 2.4%.

Out of the 65 local authorities within the Midlands Engine, **42 experienced an increase in the overall number of jobs** (with an additional 16 local authorities with no change) between 2021 and 2022. **The map to the right shows at Lower Super Output Area (LSOA), job change between 2021 and 2022 across the Midlands Engine.**

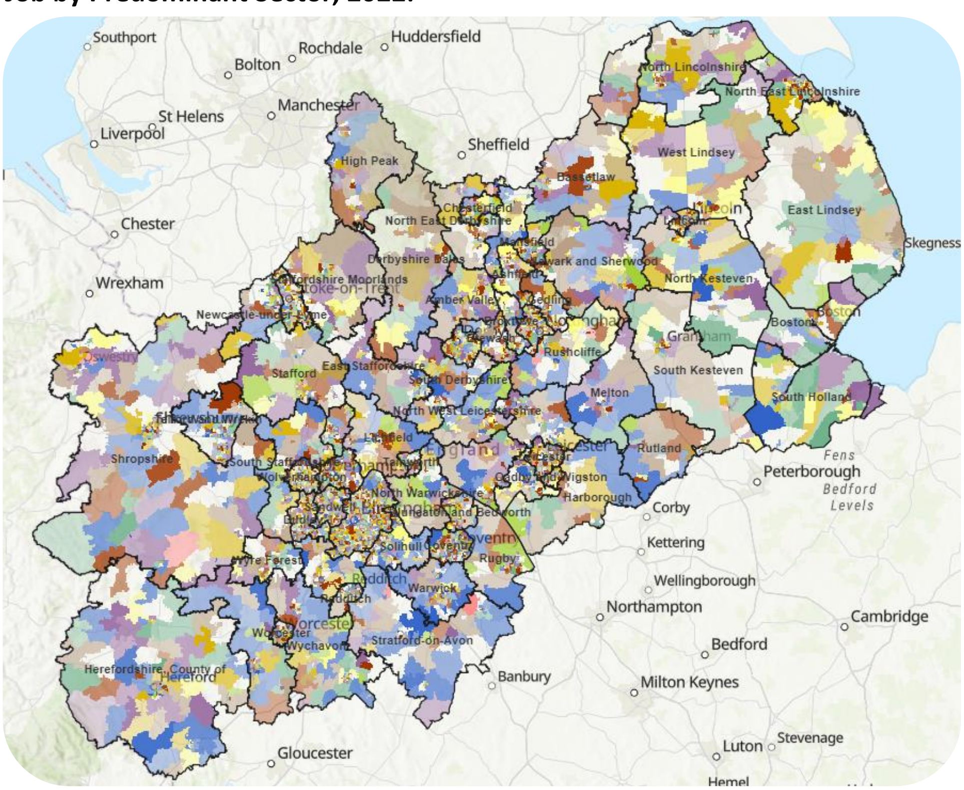
In 2022, there were **3.1m full-time employees and 1.5m part-time employees** in the Midlands Engine area. When compared to 2021, full-time employee jobs increased by 4.1% (England +3.4%, while there was no change in part-time jobs (England +0.01%).



Jobs by Defined Sector

In 2022, the **Midlands Engine area had a higher proportion of jobs than the national proportion in five sectors (out of ten); advanced manufacturing** (11.7% vs 7.5%), **energy & low carbon activities** (2.2% vs 1.7%), **healthcare & life sciences** (14.0% vs 13.2%), **retail** (15.0% vs 14.0%) and **transport technologies & logistics** (6.3% vs 5.1%). Although, the highest proportion of jobs was in business, professional & financial services (19.3% vs 23.5% Eng.) and this sector had the largest increase in real terms (+91,280). Creative & digital had the largest decrease (-19,700) – one of three sectors.

Job by Predominant Sector, 2022:



Interactive version can be found [here](#)
(including options for total jobs and annual change).

Source: ONS, Business Register and Employment Survey, released 2023

Local Skills Improvement Plans in the Midlands

In autumn 2022, **employer representative bodies (ERBs) were designated to lead the development of local skills improvement plans (LSIPs)** for all 38 areas of the country. **Each plan provides an agreed set of actionable priorities that employers, providers and other stakeholders in a local area can get behind to drive change.** LSIPs have been approved by the Secretary of State for Education in line with the approval criteria set out in the Skills and Post-16 Education Act 2022 and in accordance with the LSIP statutory guidance.

The key themes identified for the Midlands in LSIPs included:

- **Green skills (Net Zero):** identified in every LSIP – including retrofit, decarbonisation, hydrogen skills and energy
- **Digital skills:** ranging from basic proficiencies to more advanced skills (and everything in-between)
- **Essential and transferable skills:** "work-readiness" persistently referenced across the region. Also, at the other end of the skills spectrum **leadership and management**
- **Local skills system:** an overriding need to be simplified and flexible so more responsive to employer's needs
- **Collaboration:** increased collaborative employer engagement

Key Sectors and Skills

Each one of the LSIPs identified their key sectors and significant skills gaps. **The following table show some of the Midlands LSIP identified as their key sectors and skills gaps:**

	Derbyshire and Nottinghamshire	Greater Lincolnshire	Leicester and Leicestershire	South-East Midlands
Key Sectors	• Manufacturing (incl. advanced engineering and automotive) • Transportation • Wholesale & Retail • Healthcare • Tourism Technology	• Agri-food • Manufacturing • Visitor Economy • Energy • Health & Care • Ports & Logistics • Defence & Security	• Manufacturing • Logistics • Construction • Sport & Health • Life sciences & Biotech • Creative & Cultural • Care • Digital and Green	• Transport and Logistics • Business and Administration • Retail • Health and Care • Manufacturing • Education • Construction and Built Environment • Catering and Hospitality • Professional services
Key Skills Gaps	• Digital Skills and Literacy • Soft/Employability Skills • Net zero relevant skills and climate literacy	• Engineering and construction roles • Work readiness and essential skills • Digital and IT skills • Managerial and leadership • Understanding of green skills.	• Lack of confidence and understanding around green skills • Retrofit • Behaviours / Attitude / Enthusiasm • Advanced digital skills	• Basic and soft skills • "Organisation specific skills" • Leadership and Management • Digital skills • English and Maths • Net Zero and Environmental

	Stoke-on-Trent and Staffordshire	The Marches	West Midlands and Warwickshire	Worcestershire
Key Sectors	• Engineering and Advanced Manufacturing, incl. ceramics • Advanced Logistics • Health and Social Care • Construction incl. Modern Methods of Construction • Decarbonisation and Energy distribution	• Engineering / Manufacturing incl. food / drink manufacturing • Construction incl. environmental technologies • Health & Social Care • Professional Services	• Engineering and Manufacturing • Construction • ICT and Digital • Logistics and Distribution	• Construction • Health & Social Care • Business & Professional Services • Advanced Manufacturing • Agri-Tech
Key Skills Gaps	• Basic & Digital skills • Net zero, green skills, and Bio-diversity • Leadership and management • Robotics, AI, Data analytics and Analysis • Virtual design and modelling • Electrical engineering design • Retrofitting • Digital construction design (AR/VR) • Procurement, Supply chain and Logistics • Client safety and wellbeing management • Mental health (incl. First aid) • Energy / waste management	• Digital / IT skills • Renewable and retrofit • Soft and work ready skills • Administrative skills • Numeracy / Maths skills • Basic technical / manufacturing skills • Welding / Laser cutting skills • Metals • Plumbing skills • Leadership and management • Nursing and care skills • Communication • Customer service	• Engineering (at all levels) • "Space skills" • Digital/digitisation incl. digital marketing and data analytics • Green, carbon and retrofit • Strategy development • Project management • Change management • Leadership and management • Numerical skills • Communication incl. social media • Essential/Soft skills • Blacksmithing and joinery	• Common transferable skills incl. management, communication, customer service and administrative • "workplace ready" attitudes and behaviours • Numeracy • Manual dexterity • Digital and IT skills • Advanced or specialist IT skills • Level 3 qualified trade skills incl. electricians and plumbers • Technical skills and general knowledge • Net Zero and Carbon Literacy • CAD / CNC skills • AI and sentiment analysis techniques

Roadmap for change

All LSIPs produced forward actions or a proposed roadmap to change to address their key challenges, extracting them across the Midlands pan-region brings out the following priorities and recommendations:

- **Increase collaboration and communication** between skills providers, stakeholders and businesses to solve incompatibilities
- **Promotion, improvement, and increase in Apprenticeships, T-Levels & Vocational Qualifications**
- **Increase in the amount of short and modular training courses** including boot camps and micro-credentials which are regarded as good methods of delivery
- **Establishment and evaluation of key performance indicators, measurement and accountability**
- **Increase funding** into skills at all levels and support employers.

Small Area Income Estimates

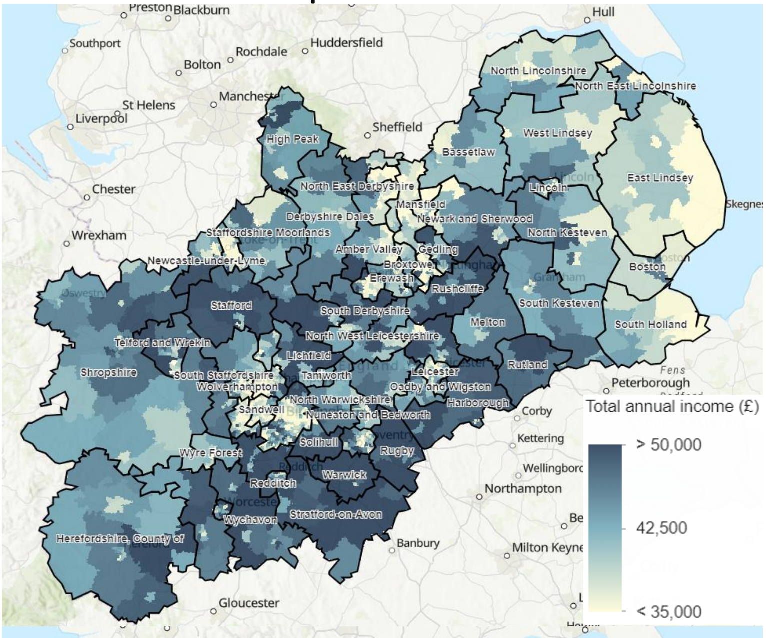
The ONS published small area model-based income estimates covering local areas called Middle layer Super Output Areas (MSOAs) in England and Wales for the financial year ending 2020.

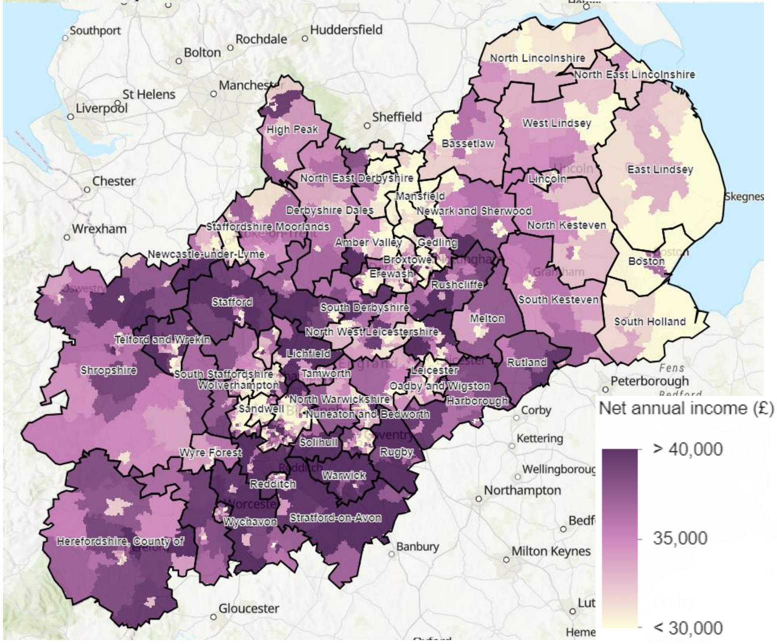
The 50 MSOAs, with the lowest mean household disposable income in the financial year ending 2020, were split across four regions. With 29 of the 50 local areas with the lowest mean household disposable income were in Yorkshire and the Humber**,** including areas within the local authorities of Bradford (11), Leeds (6), Sheffield (5), Calderdale (2), Kirklees (2) and three others with one local area each. **The East Midlands had a further 13 local areas within Leicester (8), Derby (3) and Nottingham (2).** There were small numbers in the North West (6 of 50), and two in the North East (both in Middlesborough).

The East, London, Wales, **the West Midlands,** South East and South West **had none of the 50 local areas with the lowest mean household disposable income.**

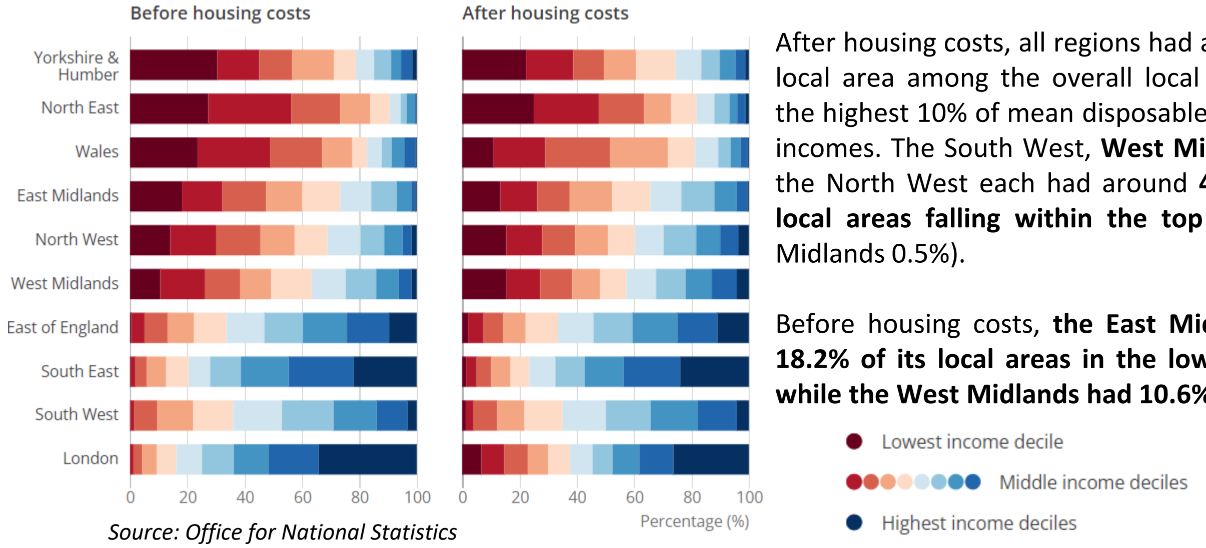
In the financial year ending 2018, the 50 local areas with the lowest mean household disposable income were split across 5 regions. The West Midlands (which contained 9 lowest-income areas) and Wales moved out of this set of regions in the financial year ending 2020. The North East, which did not have any of the 50 local areas with the lowest mean disposable income in 2018, had two in the financial year ending 2020.

Midlands Engine Focus – Top Map shows the Total Annual Income and Bottom Map shows the Net Annual Income:





Income Estimates Before and After Housing Costs



Source: Office for National Statistics

After housing costs, all regions had at least one local area among the overall local areas with the highest 10% of mean disposable household incomes. The South West, **West Midlands** and the North West each had around **4% of their local areas falling within the top 10%** (East Midlands 0.5%).

Before housing costs, **the East Midlands had 18.2% of its local areas in the lowest decile, while the West Midlands had 10.6%.**

3. Business Environment

Midlands Engine Business Activity, Size and Location

The latest snapshot data (March 2023) from the ONS UK business: activity size and location publication shows there were **377,925 enterprises in the Midlands Engine area, a decrease of 1.4%** (-5,195 enterprises) compared to March 2022 snapshot, the UK decreased by 1.5% - this is first fall for the UK since 2010/11 (-0.9%).

Employment by Size Band and Turnover Band
In the Midlands Engine area, **88.7% (335,215) of enterprises employed between 0-9 employees**, below the UK average of 89.1%. Compared to the 2022 snapshot, the Midlands Engine proportion decreased by 0.2pp (-5,510 enterprises) compared to the UK decrease of 0.4pp.

The 2023 snapshot data shows that the **Midlands Engine area had a higher proportion than or the same as the UK in 4 of the 5 turnover bands, the exception was the £0-£199,999 banding** (67.9% vs 68.1% UK). Reflecting UK trends, the £0-£199,999 turnover band was the only one to decrease when compared to the 2022 snapshot. There was a decrease of 5.8% (-15,930) for the Midlands Engine area and the UK decreased by 3.3%.

Employment by Size Band 2023:

	Midlands Engine	Midlands Engine Percent	UK	UK percent
Micro (0 to 9)	335,215	88.7%	2,428,885	89.1%
Small (10 to 49)	35,035	9.3%	244,240	9.0%
Medium-sized (50 to 249)	6,035	1.6%	42,795	1.6%
Large (250+)	1,615	0.4%	10,910	0.4%
Total	377,925	100.0%	2,726,830	100.0%

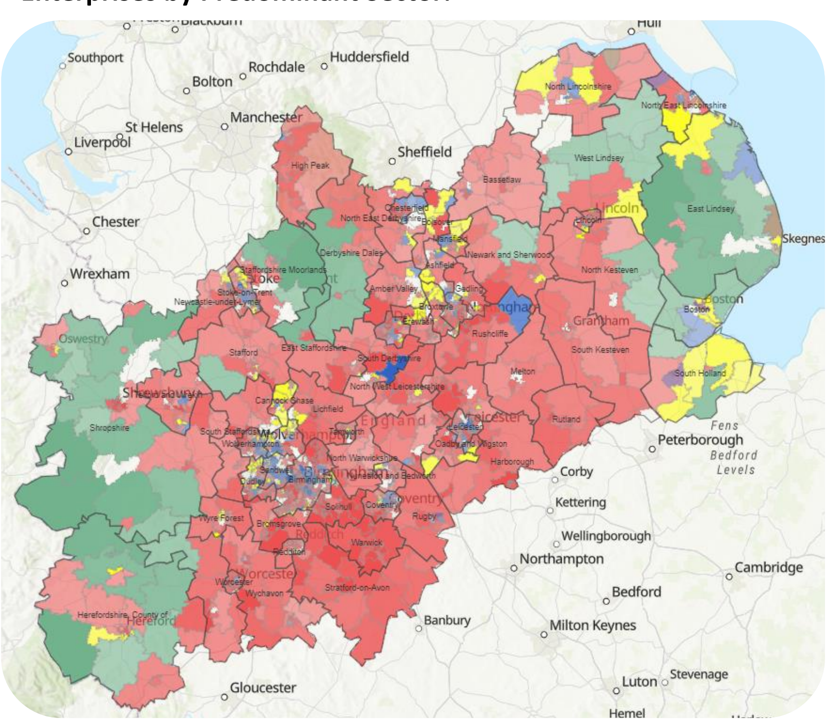
Employment by Turnover Band 2023:

	Midlands Engine	Midlands Engine Percent	UK	UK percent
£0 - £99,999	256,615	67.9%	1,857,245	68.1%
£100,000 - £199,999	81,900	21.7%	589,470	21.6%
£200,000 - £999,999	29,605	7.8%	209,650	7.7%
£1m - £4.99m	8,555	2.3%	61,180	2.2%
£5m+	1,185	0.3%	9,285	0.3%
Total	377,925	100.0%	2,726,830	100.0%

Enterprises by Defined Sector
Out of 10 sectors, the **Midlands Engine has 6 sectors above the UK average**: advanced manufacturing (6.5% vs 5.0%), energy & low carbon activities (6.0% vs 5.8%), healthcare & life sciences (4.2% vs 4.0%), public sector including education (2.1% vs 2.0%), retail (16.6% vs 14.7%) and transport technologies & logistics (6.8% vs 4.7%). **Although for the Midlands Engine area, the sector with the highest proportion of enterprises was business, professional & financial services** which accounted for 29.2% (110,435) of the business base.

When compared to the 2022 snapshot, 3 sectors increased in the Midlands Engine area, these were: **construction** (+1.0% matching UK growth), **healthcare & life sciences** (+2.8% matching UK growth) **and public sector including education** (+0.4%, +1.1% UK). In contrast, in real terms the Midlands Engine area saw the highest falls (by -1,935) in transport technologies & logistics.

Enterprises by Predominant Sector:



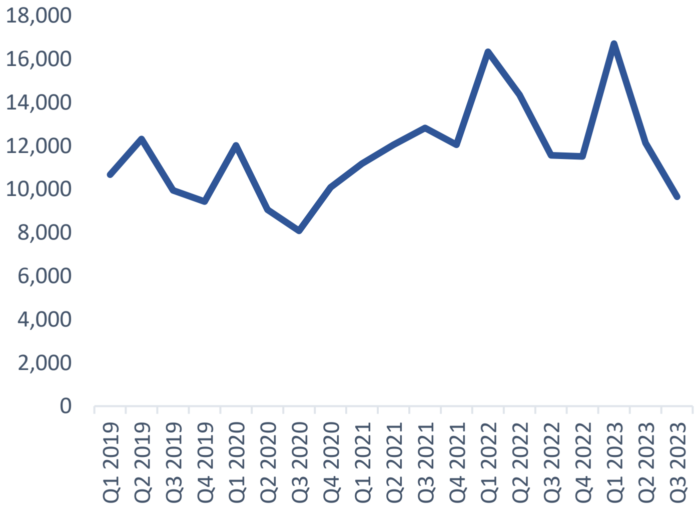
An interactive version can be found here.

Midlands Engine Births and Deaths

The latest [experimental low-level geographic analysis on business births and deaths was released by the ONS](#) in October 2023, highlighting positive news both nationally and locally as **business deaths were down and business births on the rise in the latest quarter** (Q3 2023, which refers to July to September).

In Q3 2023, there were **9,650 business deaths in the Midlands Engine geographic area, a decrease of 20.4% from the previous quarter (Q2 2023),** this was above the national decrease of 17.7%. Also, Q3 2023 deaths figures are also considerably lower (-16.5%) than the same quarter a year ago (Q3 2022), representing a **positive fall in business closures locally.**

Trends in Midlands Engine business deaths:



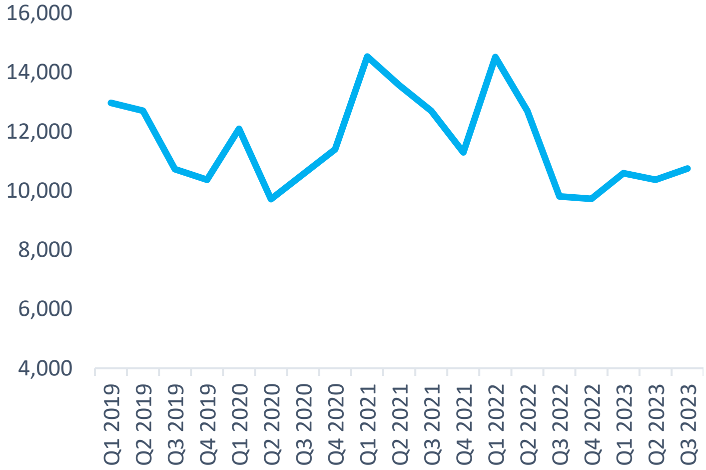
Within the Midlands Engine area, the largest quarter-on-quarter percentage decrease in business deaths were in South Staffordshire (-45.2%), Erewash (-41.9%) and Redditch (-40.9%), while Melton experienced an increase (+10.0%) and North Kesteven and South Holland reporting the same figures.

The Midlands Engine local authority areas with the **highest percentage decreases in business deaths between Q3 2022 and Q3 2023 were Wychavon (-55.1%), Malvern Hills (-54.3%) and Oadby and Wigston (-50.0%),** while some local authority areas experienced a rise in deaths in this time period – including Melton, High Peak and Kesteven– all reporting a 15%+ increase.

Across the UK, the number of business closures (business deaths) in Q3 2023 was 69,445. This is **13.6% lower than in Q3 2022, with 10 out of 16 main industrial groups showing a decrease in closures.** The most **significant decrease in closures came in the transport & storage industry** (down 41%).

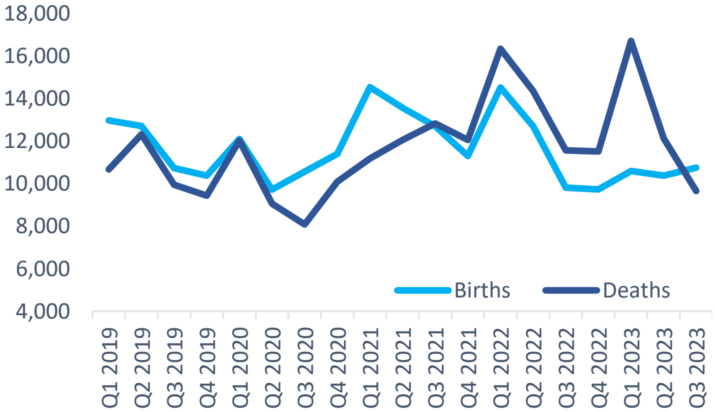
Regarding **business births, there were 10,745 in the Midlands Engine geography in Q3 2023.** This figure is 3.6% higher (UK: 1.9% higher) than the number of business creations in Q3 2022. Quarter on quarter analysis (between Q2 2023 and Q3 2023) shows an increase in business births across the Midlands Engine by 9.6% (UK: 14.9% higher).

Trends in Midlands Engine business births:



Nationally, **the number of business creations increased in 13 out of 16 industry groups during this quarter, compared with Q3 2022.** The most significant increase came in the professional, scientific and technical activities industry (+34%). The Midlands Engine local authority areas with the **highest percentage increases in business births between Q3 2022 and Q3 2023 were Rutland (+100.0%), West Lindsey (+88.9%) and Harborough (+76.5%),** while some local authority areas experienced a fall in births in this time period – including Mansfield, Charnwood, Erewash and Boston– all reporting a 15%+ decrease.

Trends in Midlands Engine business births and deaths:



Both nationally and for the Midlands Engine area, Q3 2023 is the **first quarter since Q2 2021 with more business creations than closures.**

Local Business and Policy Intelligence By Sector

SECTOR	KEY INSIGHTS
Tech	• The **West Midlands is set to receive a boost of more than 1,000 tech jobs as a result of significant investments from five innovation-focused companies**, revealed during Birmingham Tech Week. The investments are by Version 1, Petalite, Novocomms Group, Aubay and Primacy. • Furthermore, it was confirmed that **Solihull will be home to The Government's state-of-the-art £80m UK Telecoms Lab (UKTL),** with plans to create up to 50 skilled tech jobs by March 2025. • More widely, **Tech Nation is relaunching with a £10bn funding pledge**. Now operating as part of Founders Forum Group, Tech Nation – the growth platform for tech companies – has announced goals to facilitate the investment by 2028.
Construction	• A slump in the building of new homes across the UK in September triggered **the biggest fall in construction activity since May 2020**, early in the Covid pandemic, according to a closely watched survey. • The latest **S&P Global/CIPS construction purchasing managers' index showed a score of 45.0 in September, a steep drop from 50.8 in August.** • A separate index for **residential work fell to 38.1, which was "by far the worst-performing area of construction output during September**, followed by civil engineering activity at 45.7", the report said.
Retail, Hospitality and Tourism	• **Retail sales volumes fell sharply in the year to October**, according to the latest quarterly CBI Distributive Trades Survey. Retailers do not anticipate a turnaround in the sector's fortunes next month, with **sales volumes expected to continue falling in the year to November**. • The fall (weighted balance of -36% from -14% in the year to September) was at a faster pace than last month and **marks the sixth month in a row in which annual sales have declined.** Sales volumes are expected to continue falling next month, but at a slower pace (-13%). • Taken together with ONS retail sales volumes, these **figures chime with the suggestion that UK retail may be in recession before a key Christmas season.** • To add to the difficulties, **high street shops could see their business rates bill increase by up to £1.95bn next year because the rate charged is linked to inflation.** Hospitality industry leaders said the expected rate rises would "undoubtedly be the final nail in the coffin" for many businesses, which have already been squeezed by the rising costs of labour, energy and ingredients. • **FSB are calling for the Autumn Statement to address issues related to the high street, including calling for an extension of business rate discounts** for retail, hospitality and leisure beyond its March 2024 expiry.
Manufacturing	• **Sentiment within the UK manufacturing sector deteriorated over the three months to October,** as output volumes fell, according to the CBI's latest quarterly Industrial Trends Survey. Although output is expected to rise in the three months ahead, the share of firms citing weak orders or sales as a constraint on output rose to its highest since January 2021. • **Growth in average costs eased significantly in the quarter to October, to its slowest pace in three years.** The pace of growth in both domestic and export selling price inflation also weakened over the past quarter. Numbers employed fell for the first time since January 2021. **Investment in tangible assets (machinery, equipment, buildings, etc) is expected to fall in the year ahead, though manufacturers expect investment in intangibles** (innovation and training) to **increase slightly.** • Positively for the Midlands region, UK **car manufacturing rose by almost 40 per cent in September, according to the latest figures**, representing the strongest month of growth in 2023. The Society of Motor Manufacturers and Traders (SMMT) said that 88,230 vehicles left British factory lines during the ninth month of the year, an **uplift of 39.8 per cent and the best September since 2020.** • More concerningly, Rolls-Royce recently announced plans to cut up to 2,500 jobs globally. • Linked to the focus on technology in this month's monitor, MakeUK recently published a report on "**Demystifying Digitialisation" in manufacturing.**

Foreign Direct Investment: Inward Network 2021

The ONS explores through experimental statistics [how foreign direct investment into UK companies moves](#) through different regions to reach its final recipient. Inward foreign direct investment (FDI) can either come directly to a business from overseas or via a UK parent company on the way; the links between these businesses form an investment network that can be analysed to show FDI movements.

London was the region that had the largest **proportion of inward FDI that came directly from foreign immediate parents**, at 93.8% in 2021. **The West Midlands was 4th highest at 73.8% and the East Midlands was 5th highest at 62.9%.** By contrast, over 65% of inward investment in Scotland, Wales and Northern Ireland arrived from another part of the UK in 2021. Notably, **the region with the largest proportional change towards direct overseas investment was the West Midlands**: the proportion of its investment coming directly from overseas (increasing from 70.5% in 2020).

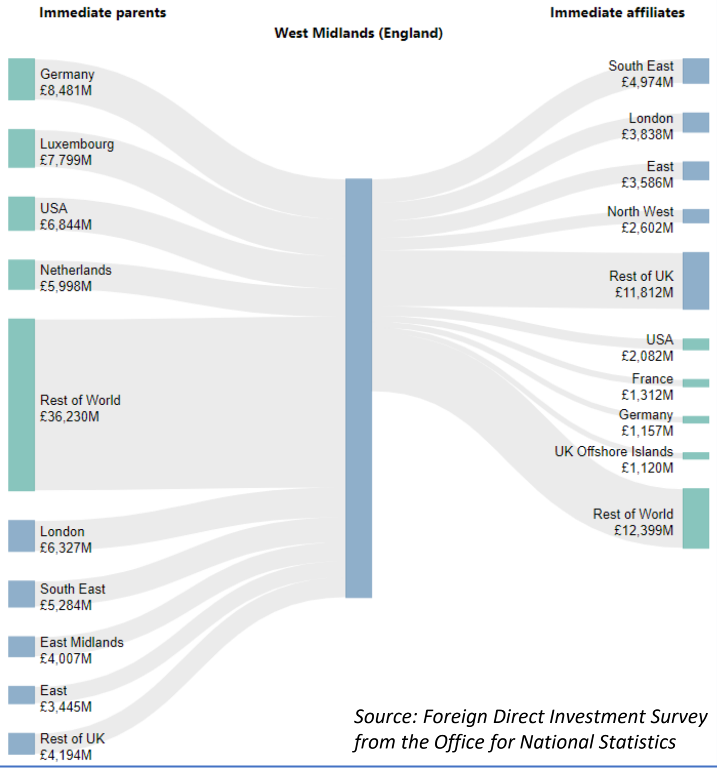
Most UK countries and regions retained more than half of the inward FDI values that had come into those regions. The **higher proportions** were in Wales (86.1%), Northern Ireland (86.0%) and the **East Midlands (76.0%).** This means that for every £100 of inward investment in those regions, less than £25 went onwards to either the rest of the UK or elsewhere in the world.

There were three regions where the stock of FDI remaining in the region was less than 50% of the investment entering in 2021. The North East had 43.4% of the inward value remaining, while the South East had 44.5% and **West Midlands had 49.3% remaining.**

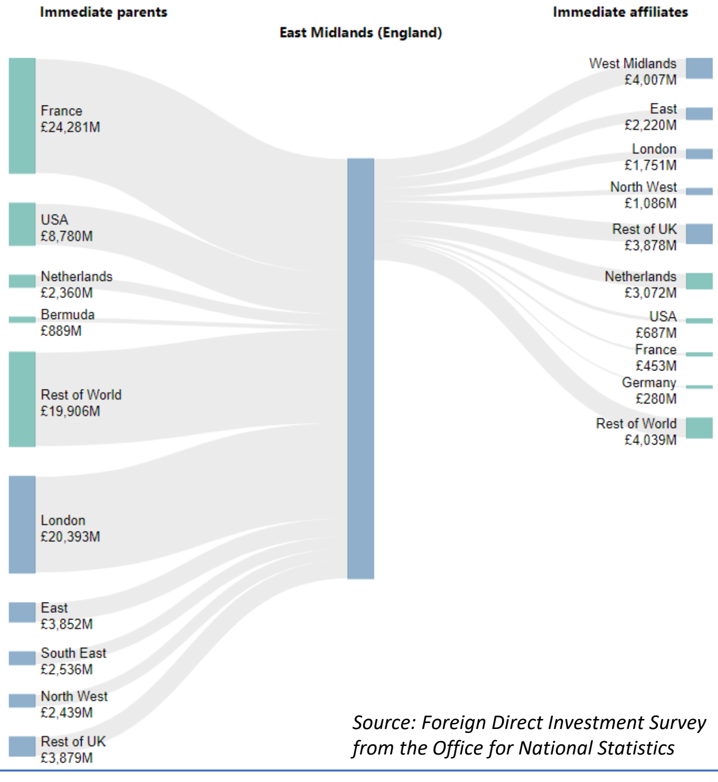
Common Investment Routes

The lefthand side of each Midlands regional chart below shows the inward FDI links by location of the immediate parent company. Coming out of regions to the right are the onward FDI links from that location by location of immediate affiliates. The four highest-value foreign economies and four largest UK regions are shown, both for inward and onward links. Remaining inward and onward values (including suppressed values) are included in the rest of world and rest of UK categories.

FDI positions into and out of the Midlands regions by location of immediate parent companies and immediate affiliate companies 2021:



Source: Foreign Direct Investment Survey from the Office for National Statistics



Source: Foreign Direct Investment Survey from the Office for National Statistics

Please note, The networks presented in the above diagrams are not necessarily continuous. There are cases where the UK company with the inward FDI link is not the same as the one with the onward investment link within each UK country or region. However, if the investment chain goes from foreign parent to London, then West Midlands before going onwards to the rest of the world, the investment links between the foreign investor and London, and then the investment link between London and the West Midlands, would both be captured in the Sankey diagram for London. The onwards link from West Midlands to the rest of the world would be separately captured in the diagram for the West Midlands.

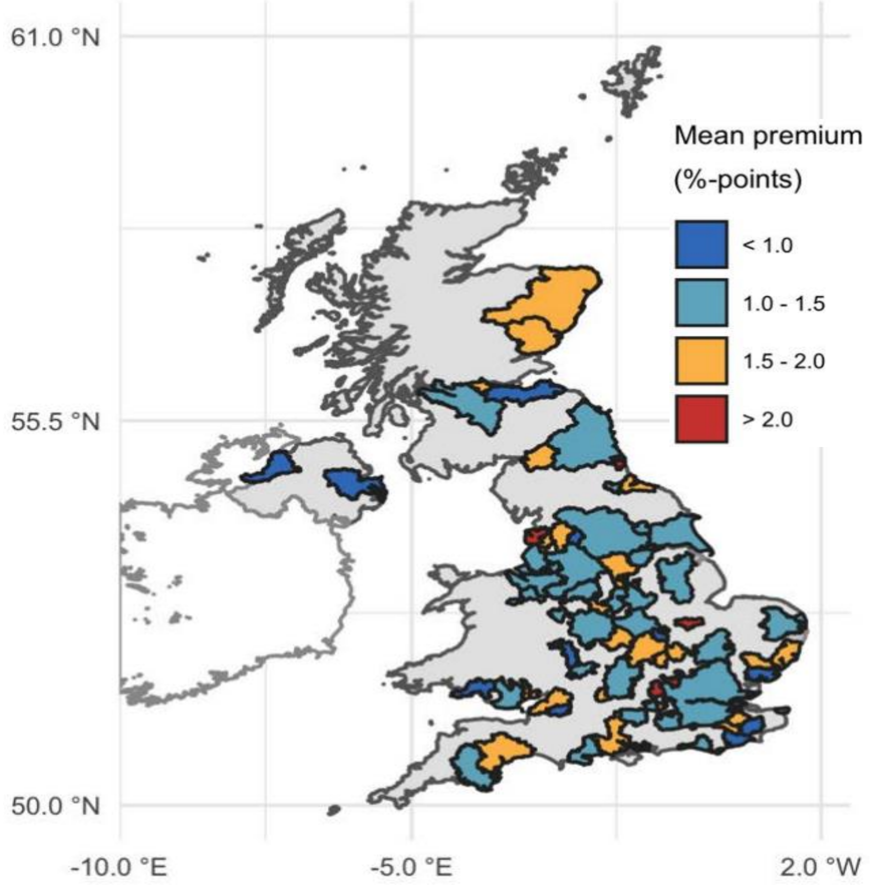
Capital Shocks and UK Regional Divergence

The Productivity Institute's Capital Shocks and UK Regional Divergence report uses large-scale commercial real estate investment data to **examine how financial markets perceived the attractiveness of investing in UK regions** during the last two decades.

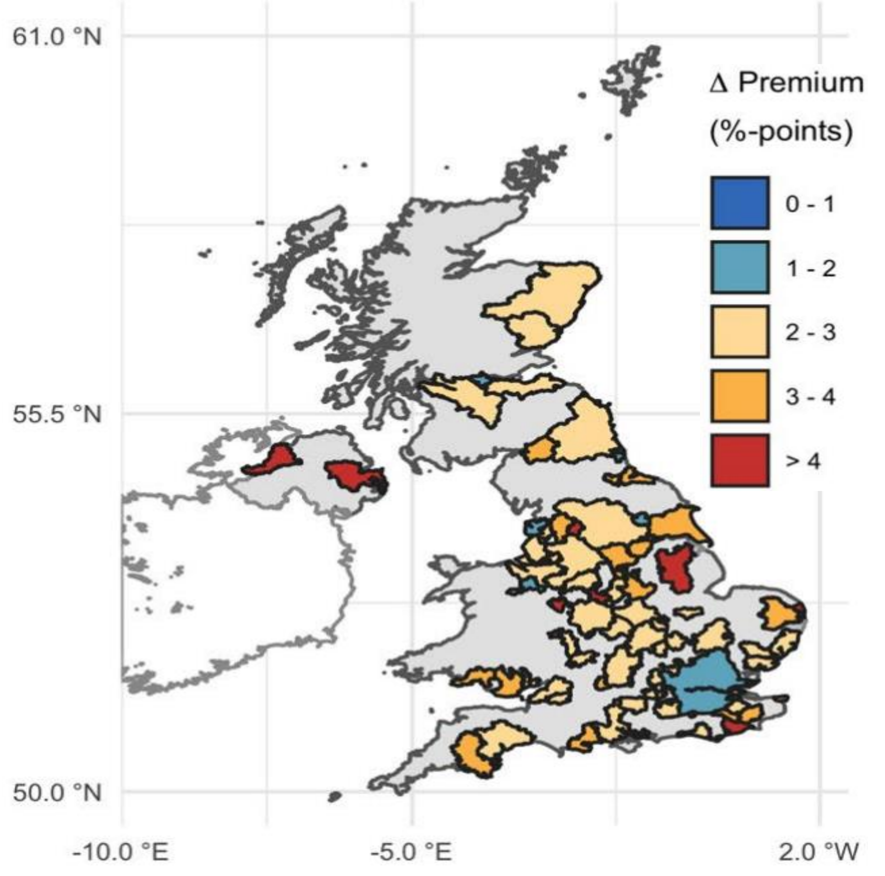
Key Findings:

- Before the 2008 global financial crisis, all UK regions were perceived similarly in terms of risks and expected growth rates. **After the crisis, investors shifted their focus towards London, causing a surge in capital inflow to the city, whilst other regions experienced a decline in investor confidence.**
- The financial crisis caused a shift from quantifiable risk to fundamental uncertainty, impacting investment perceptions including their approximations. Investors engaged in a "flight to safety" phenomenon, **seeking secure and low-risk investment opportunities. This is where CBDs (central business districts) of prosperous cities became more attractive for investors for agglomeration effects.** However, other regions/cities didn't have the same levels of agglomeration as London.
- **Post-crisis, regions with increased risk premiums (like the Midlands) experienced slower productivity and population growth.** Overall, local risk premia affected local investment flows and regional growth where London became much more attractive leading to core-periphery division in the UK's economic landscape. The core-periphery regional divide primarily resulted from significant and asymmetric capital shocks during the post-crisis period i.e., Brexit and Covid-19.

Pre-Crisis Risk Premia Across UK Metropolitan Areas:



Post-Crisis Change in UK Metropolitan Risk Premia:



Business Insights and Impact on the UK Economy

ONS have published the final results from Wave 93 of the [Business Insights and Conditions Survey (BICS)](#).

Financial Performance

27.2% of West Midlands businesses and 25.7% of East Midlands businesses reported that the business turnover in September 2023 when compared to the previous month had increased. While 23.1% of West Midlands businesses and 23.6% of East Midlands businesses reported turnover had decreased.

25.3% of West Midlands businesses and 25.0% of East Midlands businesses expect turnover to increase in November 2023. While 14.2% of West Midlands businesses and 14.7% of East Midlands businesses expect turnover to decrease.

Demand for Goods and Services

12.9% of West Midlands businesses and 13.8% of East Midlands businesses reported the domestic demand for goods or services in September 2023 when compared to the previous month had increased. 16.8% of West Midlands businesses and 17.6% of East Midlands businesses reported a decrease.

5.2% of West Midlands businesses and 4.7% of East Midlands businesses reported the international demand for goods or services in September 2023 when to the previous month had increased. 5.1% of West Midlands businesses and 5.8% of East Midlands businesses reported a decrease.

Capital Expenditure

13.3% of West Midlands businesses and 13.6% of East Midlands businesses expect capital expenditure between October and December 2023 to increase. While 12.7% of West Midlands businesses and 13.2% of East Midlands expect a decrease.

Plant and Machinery

43.9% of West Midlands businesses and 43.5% of East Midlands businesses invested in plant and machinery between July and September 2023.

35.4% of West Midlands businesses and 38.5% of East Midlands businesses used the full expensing capital allowance on qualifying plant and machinery investments between July and September 2023.

Staffing Costs

34.8% of West Midlands businesses and 31.9% of East Midlands businesses reported staffing costs had increased over the last three months. For both Midlands regions, 4.6% of businesses reported staffing costs decreased over the last three months.

29.2% of West Midlands businesses and 28.8% of East Midlands businesses expect staffing costs to increase over the next three months.. 3.7% of West Midlands businesses and 4.3% of East Midlands businesses expect staffing costs to decrease.

Number of Employees

21.6% of West Midlands businesses and 19.5% of East Midlands businesses reported the number of employees had increased in September 2023 when compared to the previous month. 13.4% of West Midlands businesses and 15.0% of East Midlands businesses reported the number of employees had decreased.

16.5% of West Midlands businesses and 16.7% of East Midlands businesses expect the number of employees in November 2023 to increase. 7.4% of West Midlands businesses and 7.5% of East Midlands businesses expect the number of employees to decrease.

Recruitment Difficulties

26.4% of West Midlands businesses and 24.3% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in September 2023.

Debts and Insolvency

For both Midlands regions, 26.9% of businesses reported repayments were up to 20% of turnover. 7.8% of West Midlands businesses and 8.1% of East Midlands businesses reported repayments were between 20% and 100% of turnover. 1.1% of West Midlands businesses reported repayments were more than 100% of turnover.

47.6% of West Midlands businesses and 45.5% of East Midlands businesses had high confidence to meeting current debt obligations. 15.3% of West Midlands businesses and 15.4% of East Midlands businesses reported moderate or low confidence.

5.1% of West Midlands businesses and 5.6% of East Midlands businesses reported moderate risk of insolvency**.**

Overall Performance

28.7% of West Midlands businesses and 27.0% of East Midlands businesses reported that the overall performance in September 2023 when compared to the same month in the previous year had increased. While 20.1% of West Midlands businesses and 20.3% of East Midlands businesses reported performance had decreased.

39.7% of West Midlands businesses and 39.2% of East Midlands businesses expect overall performance to increase over the next 12 months. While 8.6% of West Midlands businesses and 8.3% of East Midlands businesses expect performance to decrease.

Please note – the survey reference period: 1st to 30th September 2023. Survey live period: 2nd to 15th October 2023. The response rates are low and the data is unweighted and should be treated with caution.

4. Digital and Technology

Local Digital Capital Index

The 2023 Local Digital Index builds on the foundation of the 2022 and 2021 indices and provides the insights required to empower local and national policy makers to boost digital capital.

Local Digital Index ranking table – Regions

Overall Rank	Nation/Region	Skills Rank	Adoption Rank	Infrastructure Rank	R&D Rank	F&I Rank	Trade Rank	Ecosystems Rank
1	Greater London	1	1	1	1	1	1	1
2	South East	3	2	7	3	2	5	2
3	East of England	5	3	8	2	8	3	6
4	West Midlands	7	6	2	5	12	7	4
5	Scotland	6	4	9	4	9	2	10
6	North West	11	7	4	6	10	6	7
7	South West	4	5	10	7	4	10	8
8	East Midlands	9	8	6	8	7	9	9
9	North East	8	10	5	9	3	8	5
10	Yorkshire and the Humber	10	9	3	11	11	11	3
11	Wales	2	11	12	10	5	4	11
12	Northern Ireland	12	12	11	12	6	12	12

Source: Tech UK, 2023

Local Digital Index ranking table – Cities and Counties

Overall Rank	Region	Skills Rank	Adoption Rank	Infrastructure Rank	F&I Rank	R&D Rank	Trade Rank
1	Inner London - West	29	6	4	1	4	1
6	Derbyshire and Nottinghamshire	25	17	16	5	6	37
7	Herefordshire, Worcestershire and Warwickshire	15	13	26	23	3	33
9	West Midlands	19	22	6	27	7	23
22	Leicestershire, Rutland and Northamptonshire	18	24	15	31	18	30
34	Shropshire and Staffordshire	37	21	27	39	31	32
35	East Yorkshire and Northern Lincolnshire	39	38	14	34	36	39
36	Lincolnshire	41	40	35	26	35	41

Source: Tech UK, 2023

Highlights from Local Digital Index 2023

- **Gross Value Added (GVA)** – Adding GVA data brought a new significance to the Index and shows that digital capital is **key to unlocking local economic growth**. Our results show that the digital sector GVA per person in London is £9,083, **compared to £2,055 in the West Midlands**, £1,979 in Scotland, and £1,348 in Wales. **If the six regions with the lowest digital GVA reached the UK median this would add £4.8 billion to the UK economy**, and specifically to regional economies, unlocking new economic growth.
- **Digital Infrastructure – the West Midlands is 2nd through good 5G connectivity to over 80% of homes and gigabit broadband to over 73% of premises.** Of note must be Northern Ireland's score on gigabit broadband with over 85% of properties having access to the fastest broadband.
- **Digital Skills** – the percentage of people finding/downloading information for work/business/school/college /university/homework is **75% in the South East and West Midlands**. But this doesn't marry with the percentage of the population accessing public services online which is 61% in London and the East of England, and 57% in the South East (in Northern Ireland its 30%). The high proportion of students doing studying computing and engineering and technology in the North East is to be welcomed but their lower overall student number holds them back. **And 96% of businesses in the East Midlands 'strongly agree' or 'tend to agree' that their business has sufficient data skills to meet its needs.**

Highlights from Local Digital Index 2023 continued

- **Digital Adoption** – this component is driven by digital occupation employment share and investment in ICT. The high scoring regions align with the overall high scorers. **Of note is the investment in ICT equipment in the North West, West Midlands and Scotland.** However, Scotland's digital employment share has dropped slightly impacting its overall position on this component. The UK Business Count has dropped since last year in every area of the UK, except Yorkshire and The Humber.
- **Finance and Investment** – The data used for this component needed to be amended (as the previous data source was unavailable). The nationwide fall in high growth companies since last year should be a concern, especially as this continues a trend going back to 2018. However, despite some difficult global and domestic economic forecasts, **inward investment in ICT is higher in the West Midlands, East Midlands, Wales, the South East, Scotland, the North West, North East and London.** London outstrips the rest of the country still.
- **Research and Innovation** – **spending has risen in every area of the UK.** But, on areas such as R&D tax credits some regions e.g., the North East, have seen a drop. The South East leads the way on R&D spend and the rise has gone up (£6,060m) since last year, almost as much as the entire North West of England's figure (£6,533m). And there's no comparison between total spend in London, the South East and East of England (£34,554m) compared to the North of England (£11,165m). Scotland is much more comparable in terms of R&D measures with regions in the North of England, though it should be noted that Scotland's InnovateUK grants are more akin to regions in the South of England.
- **Trade** – **the data on goods and services exports is up across every region.** This is welcome news, but the regional disparities remain, and gaps aren't closing between regions since 2022's Index. For example, the gap in service exports between London and the North West of England has increased since 2022 (by £1,608m).
- **Data Ecosystems** – while London is the top scoring area, the gap between first and fifth is smaller than in other components with Yorkshire and The Humber in third, **the West Midlands in fourth** and North East in fifth. Data acquisition shows strong scores for many regions; however, data roles are much more prevalent in London and the South East of England.

Report Recommendations

- **Improve data leads to improve policy making**: collecting good data is key to understanding if policies, interventions and programmes are working.
- **Modernise the National Curriculum**: ensuring digital literacy, digital skills, and digital ethics education are cross-curricular and integrated throughout primary and secondary education.
- **Update and renew the path for Apprenticeships and Skills**: the UK should help raise British workers' pay by £5.69 billion by making the Apprenticeship Levy more flexible, delivering an Employment Bill, and building an online Digital Skills Toolkit to help individuals and employers identify accredited courses to boost digital skills.
- **Provide clear support to businesses starting and growing in the UK**: the UK should help provide more certainty to the on-support schemes by making the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) schemes permanent as well as reforming the Seed Enterprise Investment Scheme (SEIS) by raising the cap for both investors and start-ups.
- **Incentivise businesses to stay in the UK**: having a pro-growth approach to regulation, digital IDs in financial services, Smart and Open Data schemes, leading on AI governance, with a long term strategy for R&D incentives and reducing the cost of R&D facilities to incentivise businesses to stay in the UK as they expand oversee.
- **Meet regional digital strategies with a new National Digital Inclusion Strategy**: a new National Digital Inclusion Strategy could create specific funding to support digital inclusion projects across the regions allied to data shared and a specified need for tech and business engagement in digital inclusion strategies.
- **Create a Small Business Digital Growth Allowance**: a new Digital Growth fund is required to keep digitising the UK economy and support SME to adopt digital technologies.
- **Provide digital support to Rural & Coastal areas**: DSIT and DEFRA should coordinate flexible support to help farmers adopt equipment and products, update practices and embrace digital technology.
- **Provide Digital Infrastructure – from coverage to uptake**: Government should work with telecommunication companies, devolved governments, and elected Mayors to measure the uptake of better digital infrastructure.
- **Ensure Investment Zones' regulation reform and planning is expedited**: increasing pace to ensure all Investment Zones are agreed and operating by January 2025. In addition, the absence of an Investment Zone in the South West of England should be remedied.

Local Digital Capital Index

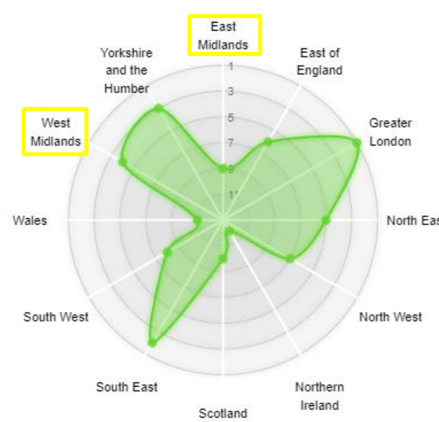
East Midlands

The East Midlands shows **strong fundamentals** without finishing top in many of the metrics. Digital Infrastructure needs to improve across the region, with **Lincolnshire one of the lowest performing parts of the UK** but with only a narrow gap to the areas immediately above them. This naturally impacts digital skills metrics such as internet usage and public service usage. **R&D spending in Derbyshire and Nottinghamshire is strong and needs to be used to attract additional investment and high growth firms.**

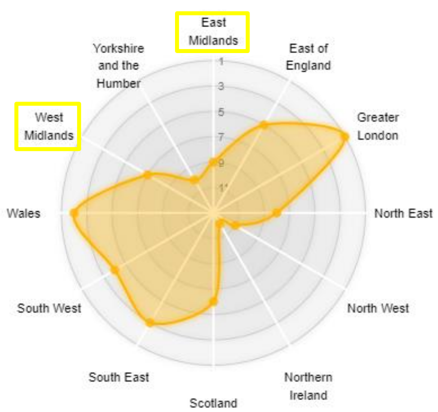
West Midlands

The region scores well overall, **featuring 4th in the Index**. Each area within the region has its own strength and drawback. The West Midlands CA area has strong digital infrastructure scores with gigabit broadband at over 88% coverage and **5G coverage over 95%**. Both are well above the other regional partners scores in the West Midlands. But the **West Midlands CA area should look to improve finance and investment coming into the region**, especially VC funding and harnessing digital skills in the area to take on the roles of the future. **Shropshire and Staffordshire present digital skills challenges** in terms of volumes of HE level trained students, featuring in the bottom five nationally for this metric. **Herefordshire, Worcestershire and Warwickshire's R&D score is particularly strong (3rd nationally) driven by spending**. The regions digital infrastructure is lower than it should be given the strong scores on other components and finance availability remains an anchor on future growth. Using the data explorer platform from The Data City to aid the Index we see that it suggests the West Midlands has secured £9.35 billion investment funding, compared to £20 billion in Yorkshire and the Humber and £41 billion in the North West, holding back future growth.

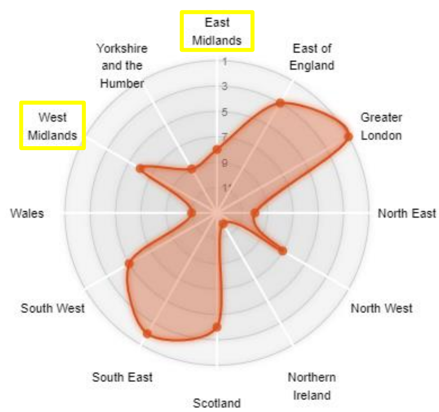
Digital Ecosystems



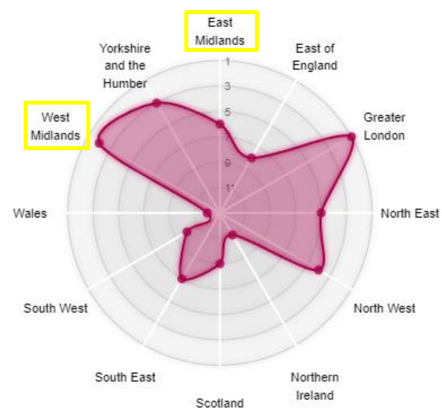
Skills



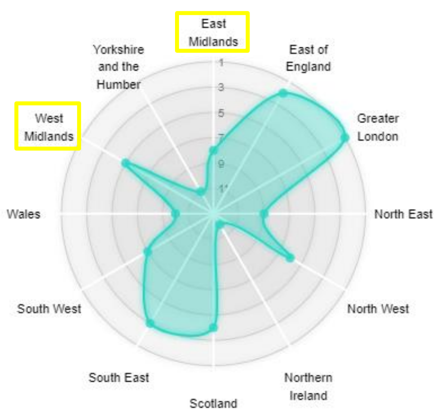
Digital Adoption



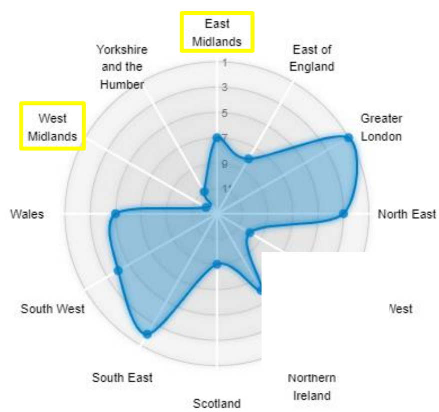
Digital Infrastructure



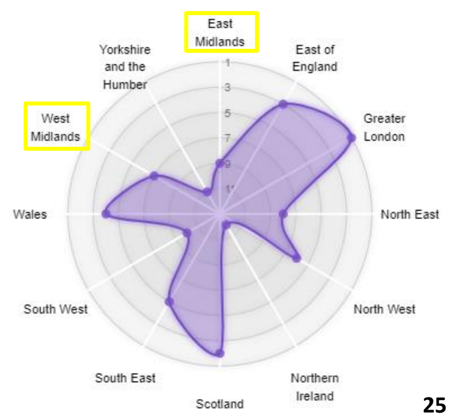
Research & Development



Finance & Investment



Trade



New Economy Cluster Snapshots

Background

Midlands Engine Observatory recently published two 'New Economy' Cluster snapshots, following a similar process to the Midlands Engine Exploring the Investment Potential of Midlands Clusters report and its individual cluster snapshots. **These reflect two of the five "critical technologies" identified within the Government's UK Science and Technology Framework and the International Technology Strategy: Artificial Intelligence (AI) and Quantum Technologies.** Three further snapshots will be published in due course to cover the remaining critical technologies.

The snapshots have been supported by the expertise of The Data City, especially its Real-Time Industrial Classifications (RTIC) methodology and utilising The Data City's own AI-driven tool to identify companies operating in new economy clusters. There is currently limited data available for accurately quantifying AI and quantum activity in the UK and its regions. However, these documents attempts to pull together available information about AI in the Midlands, produced by Midlands Engine Observatory. Due to the rudimentary nature of data in this sector, the findings should however be taken with some caution.

Artificial Intelligence

- The AI snapshot finds that **the Midlands has an emerging potential in AI, underpinned by a growing set of AI-specific firms and other firms adopting AI technologies.**
- A thriving innovation and talent ecosystem provides the basis for the Midlands to capitalise on this AI opportunity, driven by a skilled, technical workforce and technology-led organisations like universities with AI-specific expertise.
- Companies working in AI and operating in the Midlands include Cyferd (Leicester), Magentus (Mansfield), FirstSource (Birmingham and Derby), and Calligo (Coventry and Leicester).
- **Driving up AI investment from across the public, private and academic sectors will be critical to maximising the Midlands' AI potential, both its adoption across key industries** (e.g. manufacturing, services, construction) and growing the region's technology service offer in itself.

Midlands AI cluster in context

300+ businesses. 11% of the UK total. 122% growth since 2013.

11,000+ jobs - 8% of the UK total.

31 high growth companies (7% of the UK).

57 companies with £100m+ turnover.

6% of Midlands university graduates (8,385 in total) in 2021 studied subjects relevant to artificial intelligence, including from 4 of the top 25 UK universities for Computer Science.

10% The Midlands has received a relatively low level of funding in AI despite making up around 10% of the UK industry. For example, it has received less than 5% of relevant Innovate UK awards and less than 1% of total equity by high-growth companies in the sector.

Quantum Technology

- The quantum technology snapshot highlights the **potential of quantum to transform the way we live our lives and to drive innovation in key industries including cyber security, logistics and manufacturing amongst many others in the Midlands.**
- **The Midlands has already benefited from existing investment** through university involvement and leadership in the UK Quantum Technologies Programme (NQTP), and there are ample opportunities for the region to grow its academic strength in this space.
- But also the **opportunity to develop a dynamic quantum industry in the private sector** – from technology driven software and service firms, to the advanced manufacturing supply chains.
- Companies working in Quantum Technology and operating in the Midlands include Taylor Hobson (Leicester), Litron Lasers (Rugby), ELUXI (Loughborough), Delta g (Birmingham) and Cerca Magnetics (Nottingham).

Midlands Quantum cluster in context

65 businesses - 10% of the UK total. 44% growth since 2013.

1,866 jobs (estimated) - 9% of the UK total.

5 high growth companies (6% of the UK).

£100m 2 companies with £100m turnover.

6% of Midlands university graduates (over 8,000 total) in 2021 studied subjects relevant to quantum technology, including from 4 of the top 25 UK universities for Computer Science.

By some measures, the Midlands has received a relatively low level of funding in Quantum despite making up around 10% of the UK industry; for example, it has received 3% of relevant Innovate UK awards and less than 1% of total equity by high-growth companies in relevant sectors.

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MIDLANDS ENGINE OBSERVATORY

In Partnership: