MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 44: JANUARY 2024

Executive Summary

As we enter a new year, this first Midlands Engine Regional Economic Impact Monitor of 2024 looks into the **future outlooks and forecasts for the year ahead,** with a mixed outlook for Midlands businesses and the wider economy**.** 2023 ended with the publication of the **Midlands Engine State of the Region report,** which can be viewed here.
As trouble in the Red Sea threatens **fresh risks to inflation,** food industry bodies in Europe and the UK are warning of **impending supply chain disruption as Britain introduces new border bureaucracy** on EU food and drink and imports for the first time since Brexit.

Positively, the Midlands Engine's regional economy appears to finally be recovering from last year's slump – returning to growth and providing optimism for the future:

- The **West Midlands Business Activity Index increased from 50.6 in November 2023 to 51.5 in December 2023,** while **the East Midlands Business Activity Index increased from 47.1 in November 2023 to 50.7 in December 2023.**
- Optimism is seen within Midlands firms as the **West Midlands Future Business Activity Index increased from 75.7 in November 2023 to 77.2 in December 2023, the highest of all UK regions,** while the **East Midlands Future Activity Index increased from 62.1 in November 2023 to 63.9 in December 2023.**
- **Despite all the turbulence of recent times, nationally,** the majority of Britain's manufacturers (52.7%) are now viewing the **UK as a more competitive place to locate their activities**, compared to just 31% one year ago **manufactures** Make UK and PwC's Executive Survey 2024 reveals.

Predictions for the health of the UK and Midlands economies for the year ahead and beyond are however relatively modest, with continued recovery and stability the main objective; hopefully paving the way for stronger growth in the medium and longer term. The **Oxford Economic Model predicts modest UK GVA growth of 0.4% in 2024, with the Midlands Engine economy slightly below this at +0.3%.** The regional and national economy are then expected to strengthen again in the years after, but with the **region continuing to lag behind the national average.** While other forecasters, such as EY and PWC, highlight **encouraging signs for UK growth and improving economic conditions,** there are wider warnings - such as from the Resolution Foundation, suggesting the **impact of the cost-of-living crisis is far from over** as issues filter through; culminating in a "messy year" ahead.

The latest labour market statistics reveal a continued cooling down, with vacancies decreasing. **Vacancies are now falling across all industries**, with trends over the last year consistent across sectors. Despite this, **there was a slight improvement in the estimated employment rate due to a decline in economic inactivity.**

- Worryingly, there has been a continued increase in claimants in the Midlands, with **271,385 claimants aged 16 years and over** and **52,735 claimants aged 16-24 years old** in the Midlands Engine area in December 2023.

This month's monitor covers a series of work on regional differences in the UK, highlighting the stark challenges ahead and why 2024 will not be an easy year for the Midlands:

- The Economy 2030 Enquiry's final report identifies key issues such as low wage growth, high income inequality, and reduced uptake in education contributing to **persistent stagnation**. Outside of London, Britain's largest cities, including those in the Midlands, lack the capacity to grow or attract highly productive firms.
- A new report from the Joseph Rountree Foundation has found that more than one in five people in the UK (22%) were in poverty in 2021/22. **The West Midlands had the highest rate of poverty at 27%**, the **East Midlands** came in at **23%**. **Birmingham ranked 2nd highest** in terms of child poverty rates, with **seven** Midlands Engine local authorities ranked in the **highest 20** areas for child poverty.
- Centre for Cities report that unequal growth in cities since 2010 has left Midlands households with less income.
- While a report from the Social Market Foundation discusses the **significant barriers preventing small firms from expanding**, emphasising how cities such as Birmingham have fewer firms operating in innovative 'new economy' sectors than expected for their size.

A key part of the solution to these challenges is the Midlands capitalising on the opportunity of new technologies and clusters, underpinned by **digitisation and the strive to net zero**. These are covered through recent publications:

- The PWC's Green Jobs Barometer, reporting that the **West Midlands and East Midlands are struggling** on their progress in developing green jobs over time.
- ONS statistics that find around **one in five workers living in either the East Midlands and West Midlands were employed in the UK's highest-emitting industries in 2021**, reinforcing the need for the Midlands economy to ensure a fair and equal transition to Net Zero.
- **Three New Economy Cluster Snapshots: Semiconductors, Future Telecommunications and Engineering Biology** – three critical subsectors that represent a growth opportunity within the Midlands.

1. Economic Outlook and Labour Market Impacts

Global and National Outlook

Global

World Bank Global Economic Prospects

The World Bank is forecasting that **global growth will slow to 2.4% in 2024.** This reflects the lagging and ongoing effects of tight monetary policies implemented to rein in inflation, restrictive credit conditions and poor international trade and investment. Emerging Market and Developing Economies (EMDEs) are set to see a noticeable lower level of output than pre-pandemic levels, alongside slow growth per capita. The recent conflict in the Middle East has heightened geopolitical risks, with potential escalations weighing on growth. Other shocks and policy changes including the invasion of the Ukraine, the Covid-19 pandemic, inflationary pressures and tight monetary conditions, are expected to be a continued drag on global growth. Five key points indicating expectations over the short-, medium- and long term:

- **Near-term growth prospects are diverging:** growth in advanced economies as a whole and in China is projected to slow in 2024 to well below its 2010-19 average pace. In contrast, aggregate growth is set to improve slightly in EMDEs with stronger credit ratings, remaining close to pre-pandemic average rates.
- **Global growth is set for the weakest half-decade performance in 30 years:** the global recovery from the 2020 pandemic-induced recession remains subdued, with 2020-24 expected to mark the weakest start to a decade for global growth since the early 1990s—another period characterized by geopolitical strains and a global recession.
- **The recovery in global trade is feeble:** global trade growth was virtually stagnant in 2023. Services trade continued to recover, but at a slower pace than previously expected. Overall, the recovery in global trade in 2021-24 is projected to be the weakest following a global recession in the past half-century. Geopolitical uncertainty, the possibility of a more protracted slowdown in China, and the prospect of further measures to restrict international trade pose downside risks to the trade outlook.
- **Progress in closing the gap in EMDE per capita income with advanced economies is expected to be limited:** many vulnerable EMDEs are falling further behind: per capita income is forecast to remain below its 2019 level this year in one-third of low-income countries and more than 50 percent of economies face fragile and conflict affected situations.
- **Growth would be even weaker if a number of downside risks materialised:** there are several downside risks - including the prospects of higher oil prices, financial stress in EMDEs that leads to surging sovereign spreads, and weaker growth in China resulting in adverse global spillovers.

In each case, global growth in 2024 would be reduced by 0.2 percentage point below the baseline. In contrast, an upside scenario with higher-than-expected US growth could boost global growth by 0.2 percentage point this year.

National

Brexit and Food inflation

The annual Consumer price inflation (CPI) rate in December 2023 for food and non-alcoholic beverages increased by 8.0%. The London School of Economics (LSE) found that between December 2019 and March 2023 **food prices rose by around 25%, with the LSE finding that in the absence of Brexit this figure would have been 8 percentage points (30%) lower.** Whilst there were many macro economics shocks in this period (e.g. Covid and the invasion of the Ukraine), the LSE found that **food products which were more exposed to Brexit saw prices increase at a faster rate than those which were less exposed.** Those more exposed were generally products which prior to the implementation of the trade and co-operation (TCA) agreement had low tariff barriers, such as meat and cheese. However, when the TCA came into place these products saw large jumps in prices (10% points), as tariffs were now applied when previously they had not been.

Brexit Border Rules

Food industry bodies in Europe and the UK are warning of **impending supply chain disruption as Britain introduces new border bureaucracy** on EU food and drink and imports for the first time since Brexit. The introduction of complex paperwork to certify all EU products of plant and animal origin entering the UK from January 31 risks fouling up the supply of a number of products, including pork and sugared liquid eggs used in cake and sauces. **A shortage of vets to sign export health certificates on the continent, the failure to fully introduce a trusted trader scheme and continued lack of clarity about the application of some rules and regulations were heightening the risk of disruptions.**

Hinckley Point C

Costs have soared for Britain's first new nuclear power plant in two decades. French ministers are trying to get the British state to stump up some support for the soaring Hinkley bill, which could reach a total of **£46bn at today's prices for the two reactors, up from £18bn estimated in 2016.** Hinkley was delayed last week because of the estimated time it will take to install new wiring and piping systems. But it was also held back as safety requirements from British regulators evolved, executives said. They cited 7,000 changes that had to be made to designs, **requiring 35% more steel and 25% more concrete**.

State of the Region 2023

On the 13th December 2023, the Midlands Engine Quarterly Economic Briefing (QEB) was held in Birmingham to showcase the fourth edition of the annual State of the Region report. The annual Midlands Engine Partnership State of the Region reports have become **much-anticipated and vital sources of reliable information for all those involved in supporting economic growth in the Midlands.** Produced by the Midlands Engine Observatory, the 2023 report drills down into data across all aspects of the economy, **providing a clear, evidence-based picture of how the Midlands is performing.** Key messages include:

Increasing Productivity

- **£252.6bn GVA** in 2021, an increase of 7.4% since 2020. Despite this, forecasts predict low economic growth, with the **Midlands not reverting to pre-pandemic levels of GVA until 2025**
- The Midlands has a **productivity gap of £86.3bn in 2021**, an increase of nearly £4bn (+4.8%) since 2020
- Experimental data shows that locally for the first time since Q2 2021 there are **more enterprise creations than closures** (in Q3 2023)
- **22.4%** of the working age population are **economically inactive**
- **39.3% of the working age population had RQF4+ qualifications** in 2022. This was below the UK average of 45.5%, meaning there was a **shortfall of 373,936 people**. **7.7% had no qualifications,** this was above the UK average of 7.0%. To match the UK proportion, approximately **41,931 residents would need to gain a qualification**.

Innovation Across Sectors

- Out of **ten defined sectors**, the Midlands Engine has **higher than the national proportion in seven sectors for GVA, six sectors for enterprises and five sectors for jobs**
- **6 'super-clusters'**, at **least 10 'established clusters**' and at **least 14 'new economy clusters'**
- **Spatial inequalities relating to innovation and R&D exist**, both regarding the level of R&D funding awarded and the innovation of businesses in different places.

Increasing Global Investment

- **22% of England's exports** – above London and the South East
- **265 FDI projects created 11,091 new jobs** in 2022/23.

Infrastructure for Growth

- **75.4% of premises in the Midlands have access to gigabit broadband**, above the UK-wide proportion of 73.6%
- The **shortfall in transport expenditure** amounts to more than **£6.5bn in the last five years alone** for the Midlands**.**

Green Growth

- **60,602 Kt carbon dioxide (CO_2) emissions** were produced in 2021, annual increase of 4,994 Kt CO2e (+9.0%)
- Clusters of green growth strength include net zero transport, offshore wind, modern and low carbon utilities and nuclear.

Advanced Manufacturing

- **Second largest sector in terms of GVA at 16.1%** (UK: 9.8%) and over **25% of all manufacturing jobs** in England
- Clusters include aerospace, automotive, food & drink, ceramics metals and materials, rail and textiles.

Food & Agri-Tech

- Highest concentrations of agricultural production, food processing and the UK's largest logistics and distribution centre for food and drink supply chains.

Med-Tech & Life Sciences

- Estimated **£6bn in GVA**
- **Employing over 32,000 people** in total, the Midlands life sciences sector leads the way nationally.

New Market Opportunities

- **The Midlands Engine continues to work with partners to map the modern, emerging and innovative economy. Areas of focus identified include hydrogen, smart energy, nuclear, artificial intelligence and quantum technologies.**

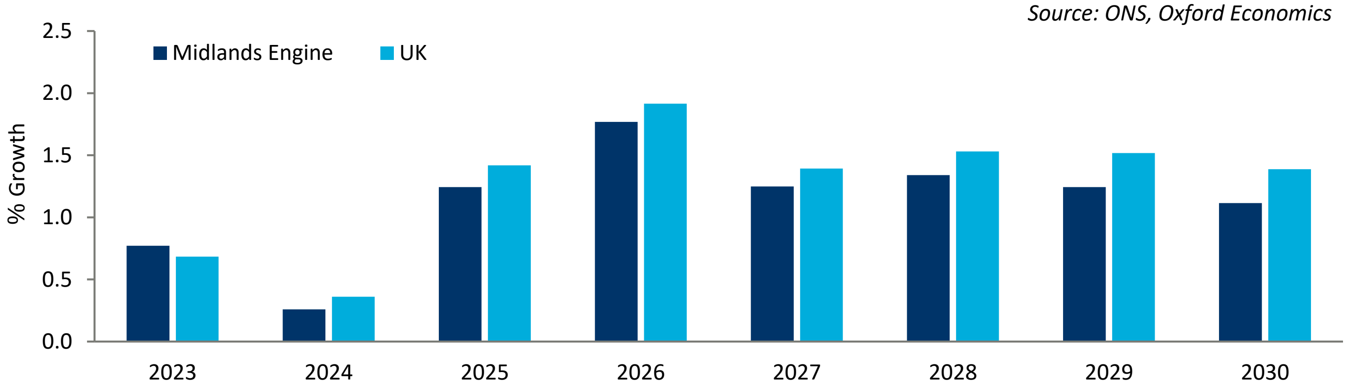
The insights and statistics in this year's report **attest to the resilience and resourcefulness the region** has shown in recent years. However, the data once again illustrates the issue Midlands Engine partners have been focused on for years. **The region needs concerted public and private sector investment in areas including skills for the future, digital and physical infrastructure, green innovation and advanced technologies, and greater access to finance for businesses to expand and export. This is how the gaps in productivity, skills, employment and GVA will be closed. This is how inclusive, sustainable economic growth for the region will be achieved, unlocking transformational opportunities for today's and tomorrow's generations.** The State of the Region is available in the following forms: factsheet, executive summary and full interactive report.

Midlands Economic Forecasts

The latest iteration of the Oxford Economic Model from Oxford Economics was recently updated, providing Midlands Engine and partners with a baseline economic forecast of the Midlands and geographies within the region. Taking into account the gradual fading of inflation and the peaking of interest rates, but also falling household incomes and tighter fiscal policy, **the model predicts modest UK GVA growth of 0.4% in 2024, with the Midlands Engine economy slightly below this at +0.3%.** The regional and national economy are then expected to strengthen again in the years after, but with the **region continuing to lag behind the national average.**

Oxford Economics Baseline Model - GVA annual growth:

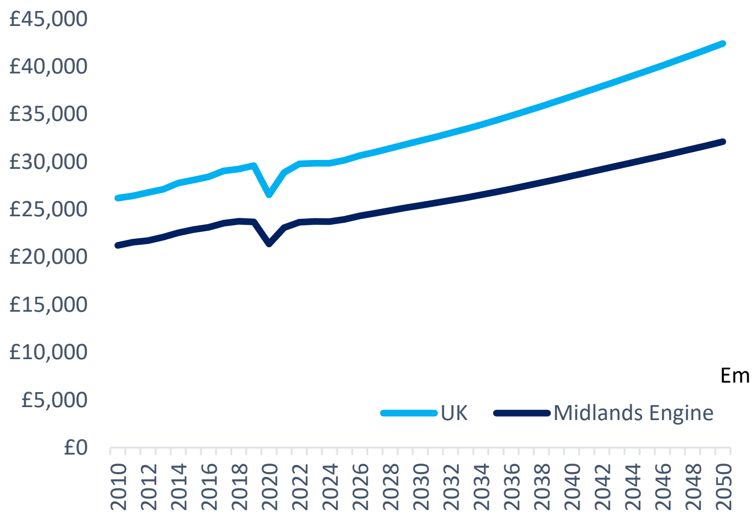
Source: ONS, Oxford Economics



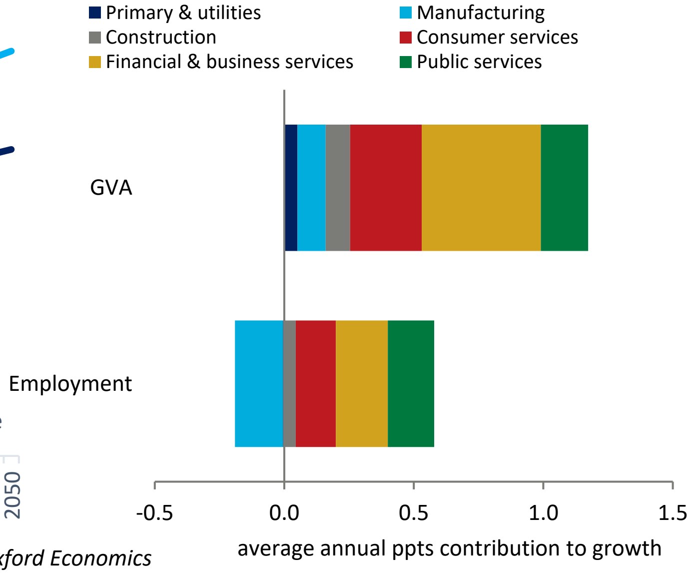
Looking longer-term, the model forecasts the following between 2023 and 2050 in the Midlands Engine:

- An **increase in GVA of +38.3% from £250bn to £345bn (+95bn), below the UK average** of +47% respectively.
- A **slight increase of jobs-based employment of 2.3% from 4.85 million to 4.97 million**, +120k jobs.
- **GVA per head is forecast to grow by 35% in the Midlands Engine between 2023 and 2050**, rising from £23,732 to £32,104. However, a higher increase nationally (+42%) suggests the region's **output gap will continue to grow.**
- GVA and jobs growth in the Midlands is expected to be **driven largely by service-based sectors**, both people facing (such as health) and business-to-business such as financial services and IT / digital; with other industrial sectors contributing too. **Further job losses are expected in manufacturing** – a forecast of nearly halving this sector's jobs (-275,000 in total) - as the adoption of new technologies and production methods, and a shift towards high-value activities, allow the sector to produce more output with fewer workers.

GVA per head:



Sectoral contributions to growth:



Source: ONS, Oxford Economics

While providing an important long-term trajectory for the future of the Midlands economy, the model baseline also gives key context in the short-term at the start of 2024 – another critical year for the region. Reflected in the model and wider forecasts, **predictions for the health of the UK and Midlands economies for the year ahead are relatively modest,** with continued recovery and stability the main objective; hopefully paving the way for stronger growth in the medium and longer term. While some forecasters, such as EY and PWC, highlight **encouraging signs for UK growth and improving economic conditions,** there are wider warnings - such as from the Resolution Foundation, suggesting the **impact of the cost-of-living crisis is far from over** as issues filter through; culminating in a "messy year" ahead.

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• The EY ITEM Club's new Winter Forecast **expects the UK economy to grow 0.9% in 2024**, up from the 0.7% growth projected in October's Autumn Forecast. GDP growth expectations for 2025 have also been upgraded from 1.7% to 1.8%, although 2023 growth predictions have been downgraded from 0.6% to 0.3%. • **Business confidence improved in Q4**, with **56% of UK businesses expecting an increase in turnover in the next twelve months**, according to the **British Chambers of Commerce** Quarterly Economic Survey. Despite this boost, most firms continue to report no improvement to sales, cash flow or investment; while other surveys – such as from the FSB – suggest a fall in business confidence in Q4 2024. Further challenges remain with **recruitment**. • The latest NatWest Purchasing Managers Index (PMI) reports **West Midlands business activity and sales expanded at their quickest rates in six months** during December. The headline **Business Activity Index rose from 50.6 in November to a six-month high of 51.5 in December.** The **East Midlands Business Activity Index increased from 47.1 in November 2023 to 50.7 in December 2023**, a renewed increase in output after 4 months of consecutive declines. • New research from Lloyds Bank has found that **27% of West Midlands firms** are making new year's resolutions to **improve their productivity**, as businesses signal confidence in "more positive macroeconomic conditions" ahead. The data revealed the top three areas where firms are focusing their attention as they head into the new year, with **34% focusing on staff training**, **29% exploring new technology** and **28% concentrating on developing their business. 40% of East Midlands businesses are making New Year's resolutions to improve their productivity.** The top three areas where firms are focusing their attention as they head into the new year, with 39% concentrating on developing their business, 32% focusing on staff training, and 32% looking to hire more staff. • Browne Jacobson suggests there is a **"huge appetite"** from its large and SME corporate clients, with the firm **expecting the Midlands region's M&A market to pick up momentum after the first quarter.** Accountancy and business advisory group BDO continues to experience "robust and resilient deal volume" in the Midlands, saying that "there are so many reasons to be optimistic for 2024"
Trading Conditions	• While inflation has been **diminishing as a concern for businesses**, it remains top of the list, particularly for sectors more exposed to economic shocks like hospitality and retail. Coupled with trade barriers with the EU and ongoing worker shortages, **trading conditions remain tough**. Disruption in the Red Sea is leading to a **spike in indicators** such as shipping container and insurance costs. • According to new research, **buyout activity across the Midlands private equity industry dropped significantly during 2023**, with the pendulum swinging back from the record activity levels experienced in the aftermath of the post-Covid period. • The levels of **'critical' financial distress in UK companies jumped dramatically in Q4 2023**, up 25.9% on the prior quarter (Q3 2023: 37,772), **leaving more than 47,000 businesses near collapse** in the UK at the start of 2024, according to the latest figures from Begbies Traynor's Red Flag Alert. In Q4 2023, critical financial distress grew rapidly in the **Construction** (+32.6%), **Health & Education** (+41.3%), **Real Estate & Property Services** (+24.7%) and **Support Services** (+23.6%) sectors. • Further proof of this distress comes from the latest EY-Parthenon Profit Warnings report, as **listed companies in the Midlands issued 31 profit warnings in 2023**, but positively this was a decrease of 21% on the previous year. Companies within the Midlands operating in Industrial and Consumer Discretionary FTSE sectors continued to issue the highest number of profit warnings (eight) in Q4 2023. • **A fall in consumer numbers and spending remains a top concern for Midlands businesses, according to new research from BDO.** BDO LLP's latest bi-monthly Economic Engine survey of 500 mid-market businesses revealed that 44 per cent of regional businesses rank dwindling customer numbers and a reduction in spending as one of the biggest challenges facing their business over the next 6 months.
Labour Market	• **Hiring activity declined in the Midlands during December 2023 following "ongoing economic uncertainty"**, according to a report from KPMG and REC. The KPMG and REC, UK Report on Jobs: Midlands showed recruiters registered a first reduction in permanent staff appointments in three months and one of the sharpest since the Covid-19 pandemic. • This weakness was also registered with regards to temporary staff, with **temp billings falling for the first time in seven months**. There were 'marked' increases in the availability of both permanent and temporary staff, with the former rising at the steepest rate since November 2020 amid increased redundancies and a lack of suitably skilled staff. • Nationally, the British Chambers of Commerce warn that **labour market conditions are continuing to cool**, with wage growth and the number of vacancies falling once again. However, labour costs remain a huge pressure on businesses dealing with a **challenging economic environment** in their latest Quarterly Recruitment Outlook.

Cities Outlook 2024

[Centre for Cities](#) recently published their Cities Outlook 2024 report **outlining the challenges and opportunities faced by the UK's cities and towns.**

Key messages

- The UK's economy is driven by the success of its large cities and towns, which can help create opportunities and prosperity across the country.
- There are clear regional imbalances across the UK economy and it remains important to focus on the performance of large cities outside of London.
- Cities are a key part of the UK economy, The 63 largest cities and towns account for 9% of land but 63% of output and 72% of high-skilled jobs. The performance of cities will be an important factor in how well the UK economy fares in the future.

The clash of politics and economics in a general election year

The last election was one where domestic economic policy, and particularly levelling up, was central to the debate. But for all the heat that surrounded it, the actual policy action, while not absent, has **fallen short** of what was promised. In order to make the most of opportunities, the report outlines how the next government should: stick with the levelling up agenda and its focus on improving the performance of the largest cities outside London, continue with devolution and reform the planning system.

Most cities have experienced a jobs boom since 2010

There were 4.6 million extra jobs in the UK than there were in 2010. While there is a general spread of the top performers, the proportion of national jobs in the Greater South East rose from 38.8% to 40.8%.

Productivity has been weak across the country

Nationally, productivity increased by an annual average of 0.6% in real terms between 2010 and 2021, much more sluggish than the average annual growth of 1.5% between 1998 and 2010. Just five cities had productivity growth rates that were higher than the national average between 1998 and 2010, all of which were in the Greater South East. This combination suggests that many of the roles created were in lower productivity activities.

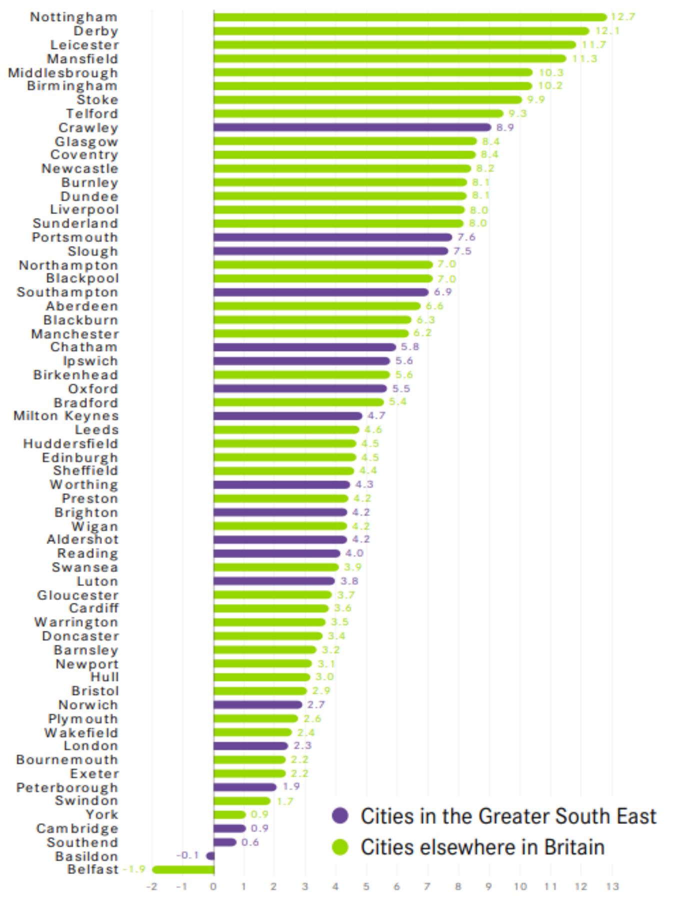
Poor productivity improvements have squeezed disposable income growth

The result of poor productivity growth has meant **increases in employment have not translated into strong income growth**. At the national level, gross disposable household income grew in real terms by 0.7% on an annual average basis across this period - this compared with a yearly average growth rate of 1.4% between 1998 and 2010.

These combined trends have impacted on the level and nature of poverty in the UK

Those at the bottom end of the income distribution have been most affected by this poor disposable income growth. Using children in poverty as a proxy shows that relative poverty has become a bigger problem since 2014. While this hasn't been the case in most cities, those in the Midlands (led by **Nottingham, Derby and Leicester**) saw the largest increases. In contrast, the proportion of children in relative poverty (measured as having less than 60% of median income in the same year) has risen in every UK city except Belfast. In 2021, there were six cities where over a third of children were in households in relative poverty - including **Birmingham, Derby and Leicester**. In contrast, there were none in 2014. Alongside this, there has been a change in the nature of poverty – in-work poverty has been increasing in almost all areas of the UK.

Proportion of children living in relative poverty, percentage point change, 2014 – 2021:



Source: ONS, CiLiF (DWP Stat Xplore)

Cities Outlook 2024

Population

- **Telford and Coventry** were amongst the fastest growing cities by population between 2012-2022. Population grew by 12.4% in Telford and 11.8% in Coventry across this period.

Productivity

- There is a clear split in productivity across the county. All **of the 15 cities with higher productivity than the national average are in the South**, with the exception of Edinburgh.
- GVA per hour in the Greater South East was £42.50 in 2021, GVA per hour in the rest of Great Britain was £32.10.
- The Greater South East's strong performance is led by its cities, where the average GVA per hour was 29% higher than non-urban areas in the region. However, cities in the rest of Britain were only 0.1% more productive than non-urban areas in the rest of the country.
- **All large towns and cities in the Midlands lag behind the UK average in terms of GVA per hour (£36.30),** with Coventry being the most productive in the region (£35.80).

Business dynamics

- **Business starts and closures – Coventry** ranks amongst the top 10 cities with the highest start-up rate with 57.1 business start ups per 10,000 population. However **Telford** is amongst the top 10 cities with the lowest start up rate with 36.6 businesses per 10,000 population.
- **Public and private sector jobs – Telford** ranks in the top 10 cities with the highest proportion of private sector jobs, with 74,500 private sector jobs and 21,500 publicly funded jobs (2022).

Innovation

- The 'new economy' encompasses emerging knowledge-intensive sectors like FinTech and advanced manufacturing that are at the forefront of new technologies and innovations. The new economy tends to cluster in cities, and city centres in particular. However, **the distribution of new economy firms is uneven - 51% of these firms were located in cities in the Greater South East.**
- **Mansfield** ranks in the top 10 cities with the lowest new economy firms.

Wages

- The average weekly workplace wage in cities was £709 in 2023 - higher than the UK average of £666.
- While **Coventry** ranks 8th in terms of highest average weekly workplace earnings, **Leicester and Mansfield** are amongst the 10 cities with the lowest average weekly workplace earnings.

Employment

- **Mansfield (70.6%), Birmingham (69.5%), Leicester (69.3%) and Nottingham (68.8%)** rank in the top 10 cities with the lowest employment rate, with **Coventry and Birmingham** being in the 10 cities with the highest claimant count.

Skills

- **Coventry (11.5%) and Telford (10.8%)** rank 6th and 7th respectively in terms of cities with the highest percentage of people with no formal qualifications.
- **Mansfield (26.7%) and Telford (31.4%)** are amongst the 10 cities with the lowest percentage of people with high-level qualifications.

Housing

- **Telford** is the city with the highest housing stock growth between 2021-2022, with housing stock growing by 2.1%.
- **Coventry** ranks 6th with housing stock growing by 1.3% in the same period.

Digital connectivity

- In terms of share of subscribers achieving ultrafast broadband spend (>30 Mbps), **Nottingham (90.7%) and Mansfield (90.3%) rank 8th and 9th respectively.**

Environment

- Cities are on average greener than the rest of the country. They accounted for 54% of the total population but only 40% of the UK's greenhouse gas emissions in 2021.
- Emissions increased in almost every city between 2020 and 2021, likely reflecting the reopening of economy. Despite this, they were still lower than 2019 levels in every city bar **Derby**, Ipswich, **Mansfield** and Plymouth.
- **Birmingham, Nottingham and Mansfield** were ranked in the 10 cities with the worst air quality (measured by number of days with poor air quality).

Business Activity

Business Activity Index

The **West Midlands Business Activity Index increased from 50.6 in November 2023 to 51.5 in December 2023.** The increase in activity was linked to new contract wins and better demand conditions.

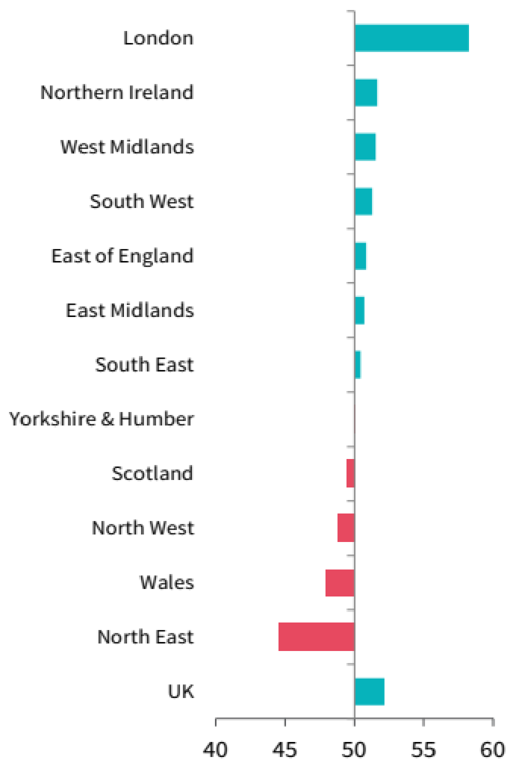
The East Midlands Business Activity Index increased from 47.1 in November 2023 to 50.7 in December 2023, a renewed increase in output after 4 months of consecutive declines. This was also the fastest rise seen since May 2023.

The UK Business Activity Index increased from 50.7 in November 2023 to 52.1 in December 2023.

Out of the twelve UK regions, the West Midlands was the third highest and East Midlands was sixth highest for business activity in December 2023.

Business Activity Index:

sa, >50 = growth since previous month, Dec '23



Source: NatWest UK PMI, Jan 2024

Demand

The West Midlands New Business Index increased from 50.4 in November 2023 to 51.5 in December 2023. The East Midlands New Business Index increased from 45.0 in November 2023 to 48.5 in December 2023.

Business Capacity

The West Midlands Employment Index decreased from 52.4 in November 2023 to 49.8 in December 2023. The East Midlands Employment Index increased from 46.0 in November 2023 to 49.8 in December 2023.

The West Midlands Outstanding Business Index increased from 45.7 in November 2023 to 47.2 in December 2023. The East Midlands Outstanding Business Index increased from 46.0 in November 2023 to 47.2 in December 2023.

Prices

The West Midlands Input Prices Index increased from 57.1 in November 2023 to 58.1 in December 2023. The East Midlands Input Prices Index increased from 61.5 in November 2023 to 63.1 in December 2023.

The West Midlands Prices Charged Index increased from 55.9 in November 2023 to 56.2 in December 2023. The East Midlands Prices Charged Index increased from 56.6 in November 2023 to 57.1 in December 2023.

Outlook

The West Midlands Future Business Activity Index increased from 75.7 in November 2023 to 77.2 in December 2023. Optimism was linked to expected increases in new business, demand strength, marketing, investment and innovative sustainable approaches.

The East Midlands Future Activity Index increased from 62.1 in November 2023 to 63.9 in December 2023.

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

Future Business Activity Index:

>50 = growth expected over next 12 months, Dec '23

Source: NatWest UK PMI, Jan 2024

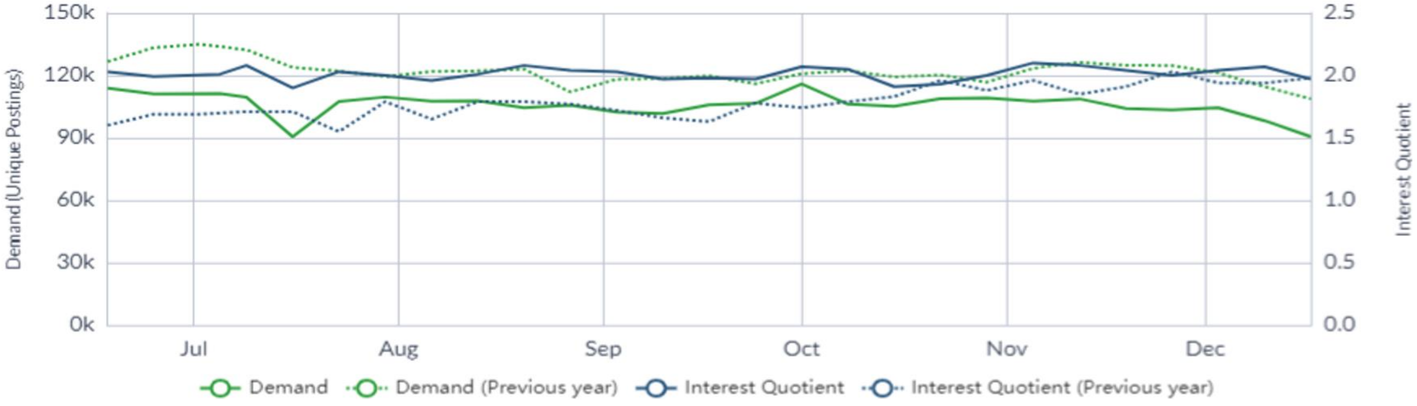
Source: NatWest: UK PMI report for December 2023, released January 2024.

Labour Market and Job Postings

The latest labour market statistics reveal a **continued cooling down, with vacancies decreasing**. Vacancies are now falling across all industries, with trends over the last year consistent across sectors. Despite this, there was a slight improvement in the estimated employment rate due to a decline in economic inactivity. However, the employment rate remains below pre-pandemic levels, and earnings have only marginally recovered from 15 years ago. Higher living costs are expected to dampen demand and weaken growth in the coming year.

The latest job postings data shows that the **number of postings across the Midlands dropped 18.4% over the last six months to 947,056**. Despite employer demand narrowing, those seeking work - wanting a job, currently remains heightened (2.0 Interest Quotient).

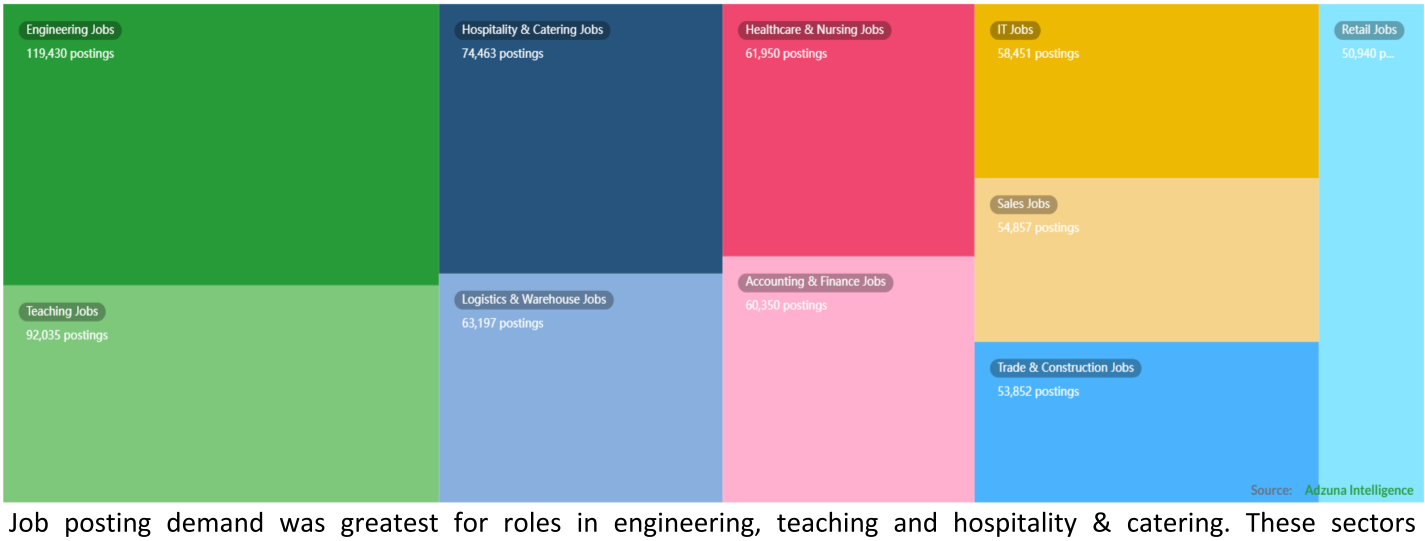
Overall Demand and Interest for the Midlands:



The **advertised median salary across the Midlands has increased by 7.8%** year-on-year to £30,505 per year.

Salary Trends for the Midlands:

Sectors Hiring in the Midlands:



Job posting demand was greatest for roles in engineering, teaching and hospitality & catering. These sectors accounted for 30.2% of all job postings in the last six months.

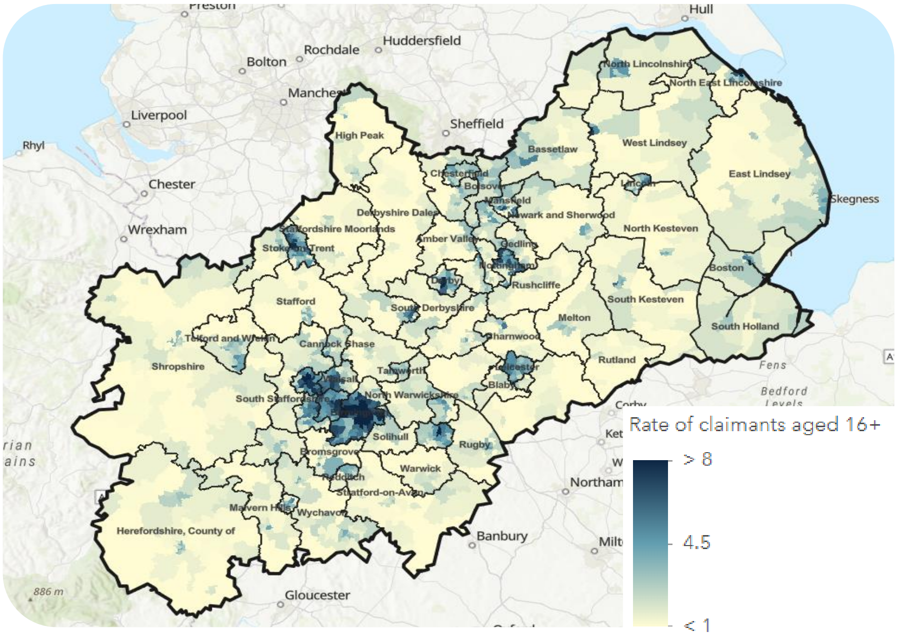
Source: Adzuna Limited Job Posting Intelligence, Accessed Jan 2024. The Interest Quotient uses jobseeker data to quantify the level of interest in particular roles.

Labour Market Impacts: Claimants

There were **271,385 claimants aged 16 years and over** in the Midlands Engine area in December 2023, an increase of 2,985 claimants (+1.1%, UK +1.4%) since the previous month. **There are 49,845 more claimants (+22.5%, UK +22.7%) 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 (-675, -325, -110 and -30 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 December 2023.

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



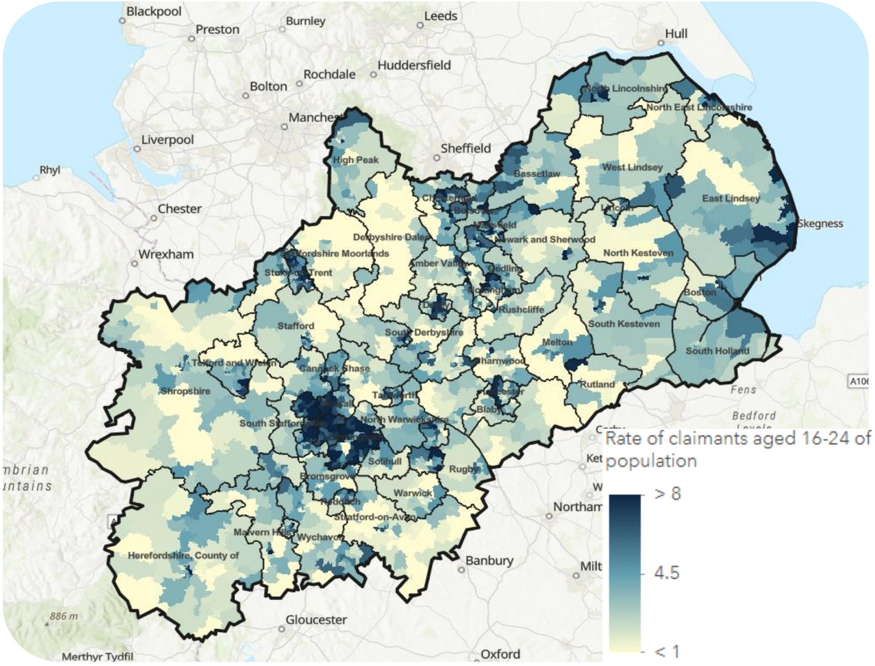
Out of the 1,511 wards within the Midlands Engine, 455 were at or above the UK average of 2.8% for the number of claimants as a percentage of the population aged 16 years and over in December 2023.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, with Lozells the highest at 16.2%. This was followed by Handsworth at 16.1% and then Birchfield at 15.2%. In contrast, the lowest proportions were in Keele (Newcastle-Under-Lyme) and Ashby Castle (North West Leicestershire) both at 0.2%.

There were **52,735 claimants aged 16-24 years old** in the Midlands Engine area in December 2023 – an increase of 35 youth claimants since November 2023. This equated to an increase of 0.1% - matching the UK growth rate. Since March 2020, **the number of youth claimants has increased by 8,540** (+19.3%, UK +15.4%). Notably, 12 local authorities were 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 December2023.

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



Out of the 1,511 wards within the Midlands Engine, 638 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 December 2023.

The ward with the highest number of claimants as a percentage of the population was Handsworth (Birmingham) at 17.0%. This was followed by Portland (Mansfield) and Joiner's Square (Stoke-on-Trent) both at 14.9%. In contrast, within the Midlands Engine there were 102 wards with no youth claimants in December 2023.

An interactive version can be found here.

Source: ONS/ Department for Work and Pensions, January 2024.

2. Business Environment

Scale-ups

The scale of the opportunity: How growing firms can contribute to the UK economy. The Social Market Foundation (SMF) released a report in November 2023 to outline the barriers preventing 'scale-up' companies from growth and becoming more productive. The report draws on ONS data to look into the characteristics of 'scale-ups', their contribution to the British economy and provides recommendations to encourage scale-up growth.

Key Points

- There are significant barriers hindering the growth of scale-up companies and removing them would boost productivity and economic growth.
- Scale-ups make an outsized contribution to the UK economy; they make up just 1% of SME firms, but account for 8% of SME employment and 22% of SME turnover.
- Scale-ups are not evenly distributed across sectors or regions: **Scale-ups are concentrated in London – nearly a quarter are based in the capital.**
- Small firms with turnover under £1 million make up the vast majority (91%) of firms, but account for less than a third (30%) of the private sector workforce, whereas companies with turnover between £1m and £100m account for just 8% of firms but employ 37% of the UK's business employment.

There are significant barriers preventing small firms from expanding

While the UK is effective at encouraging businesses to start-up, the UK is less successful at scaling up small firms to become highly productive and sizable companies. While addressing skill shortages is key, it is also important to improve access to capital, regulations, planning restrictions on development and creating a more entrepreneurial culture.

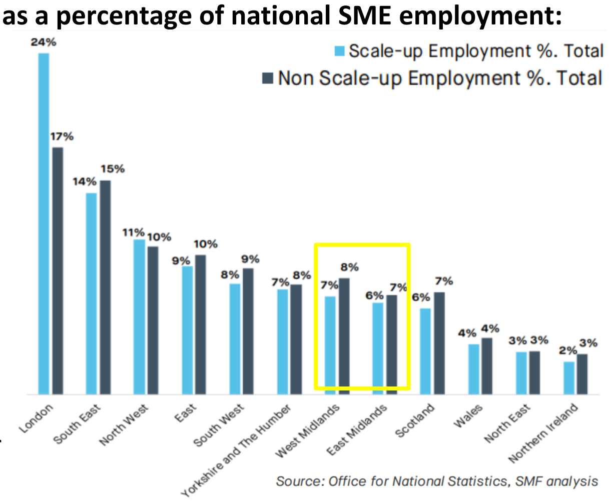
Larger firms deliver a greater contribution for the UK economy

For businesses that have an annual turnover of between £1 million and £100 million, average turnover per worker is nearly two and a half times greater than it is in small businesses with less than £1 million turnover (£136,149 versus £58,146). For companies with a turnover of more than £100 million a year, that figure rises to £505,355 per worker, nearly 9 times that from small firms. These figures indicate that **as firms get bigger, workers become more productive** and the contributions of these firms grows accordingly.

Regional overview of scale-up and non-scale-up employment

There is a notable regional imbalance in scale-up employment, where more people are employed in London and Greater South East based scale-up companies than the rest of England combined. Furthermore, cities such as Birmingham have fewer firms operating in innovative 'new economy' sectors than expected for their size, indicating that these urban areas are **failing to generate the benefits of agglomeration** that attract innovative scale-up companies to locate where they do.

Scale up and non-scale-up regional employment, as a percentage of national SME employment:



Source: Office for National Statistics, SMF analysis

Scale-ups by Sector

Health and social work have the largest share of scale-ups, with professional services, retail, administration, and ICT also having a large share of scale-up businesses. Health and IT also show a higher probability of firms becoming big, leading to high concentrations of scale-ups. The proportion of scale-ups in the retail sector is a reflection of the size of the sector, where there are a lot of firms and some of them grow quickly - **retailers in construction and hospitality are seen to be less likely to be scale ups than the wider economy**. Firms that export goods and services outside their local area and overseas will have a greater potential to grow their order books and **scale into large firms**, whereas others that sell within their local area (e.g. pubs, hairdressers) will be constrained in their ability to expand.

Policy measures

- Policy should be focused on industries where the UK has comparative advantage and where firms have the greatest potential for growth
- Increase funding for schemes like Be the Business to enhance their capacity to provide training and mentoring for leaders of growing companies
- Remove barriers to university spin outs
- Create a more supportive environment and business culture for scale-ups
- Help promote increased ambition in the UK

Source: Social Market Foundation

Local Business and Policy Intelligence By Sector

SECTOR	KEY INSIGHTS
Tech / Digital	• **TechUK have released their 2024 Outlook**, exploring global trends in the Technology sector that will shape outlook for UK tech companies in 2024. These include 1) Maximising the potential of AI, 2) Tech advances are driving investment, 3) Tech M&A receiving increased merger control scrutiny, 4) The UK's Online Safety Bill **is** finally law, 5) The ever-changing landscape of cyber regulation. • The UK has **strengthened its strategic approach to cyber** with the signing of a Memorandum of Cooperation to **deepen public–private partnerships in cyber** between the UK and Japan. • **The West Midlands tech industry will get a boost as BT Group plan to recruit more than 30 apprentices and graduates in Birmingham for its September 2024 intake.**
Construction	• Monthly **construction output in the UK is estimated to have decreased 0.2% in volume** terms in November 2023. This follows an upwardly revised decrease of 0.4% in October 2023, with the monthly value in level terms in November 2023 at £15,571 million. This came from **a decrease in new work (2.0% fall), as repair and maintenance increased by (2.1%).** • Anecdotal evidence suggested effects of adverse weather, including heavy rainfall and strong winds in November 2023, **led to delays in planned work**.
Retail, Hospitality and Tourism	• Retail sales volumes are estimated to have **fallen by 3.2% in December 2023**, from a rise of 1.4% in November 2023 (revised up from an increase of 1.3%); December's decrease was the **largest monthly fall since January 2021** when coronavirus (COVID-19) restrictions affected sales. On an annual basis, **sales volumes fell by 2.8%** in 2023 and were their lowest level since 2018. Retailers reported that part of the fall over the month to December was because of **consumers purchasing gifts earlier than usual**, in November to take advantage of Black Friday. • While according to the latest monthly CBI Distributive Trades Survey, **retail sales fell in the year to January at the sharpest pace in three years.** This month's decline extends a downturn in sales that stretches back to April 2023. Looking ahead, the slump in retail sales is expected to continue at the same rapid pace next month. • Local business intelligence suggests that businesses with customers **struggling with cashflow management** are being asked for **increased payment terms**, often from 30 days to 90 days to help them **manage cashflow and protect their own businesses**. On the flipside, suppliers to food giants such as Tesco and Asda have reported that they are being made to wait up to 180 days for payment, **risking putting some out of business**.
Manufacturing	• Make UK and PwC's Executive Survey 2024 reveal the majority of Britain's manufacturers (52.7%) are now viewing the **UK as a more competitive place to locate their activities**, compared to just 31% one year ago. While less than one-fifth (16.6%) believe the UK is not a competitive place in which to manufacture. More than four-fifths (44.4%) believe that **conditions in the sector will improve**, with only one in five believing the contrary. While an increasing number also believe the UK is becoming more **competitive than its European rivals**. • However, the CBI Industrial Trends survey brought uncertain news that manufacturers **cut back investment as output and orders weakened in the 3 months to January.** Further compounding pressures on manufacturers is the news that a growth in average costs accelerated in the quarter to January, putting pressure on margins. • A new report from EY details how **Generative AI is spurring a manufacturing renaissance**, enabling new capabilities and elevating previous uses of AI. 49% of advanced manufacturing and mobility companies have **fully integrated AI-driven product** or service changes into their capital allocation process and are actively investing in AI-driven innovation. In the next 12 months, 41% will follow, leaving only 10% that do not plan to do so.
Environmental Technologies	• As of February 2024, it will be mandatory that any land development **must put back at least 10% more habitat than it removes**. There are options for the purchase of offsite land for biodiversity banking and other ways to mitigate the impact. This is called **Biodiversity Net Gain**. This will have impacts for all developments undertaken in the Midlands. • **Centrica** proposals to establish a **'Centre of Excellence'** at one of Europe's largest distribution sites in Leicestershire have taken a step forward. The proposed Centre of Excellence will comprise a combination of training, research and supporting office functions, as well as **upskill and train 3,500 apprentices in green jobs.**

Business Insights and Impact on the UK Economy

ONS have published the final results from Wave 100 of the [Business Insights and Conditions Survey (BICS)](#).

Financial Performance

18.4% of West Midlands businesses and 20.3% of East Midlands businesses reported that the business turnover in December 2023 when compared to the previous month had increased. While 38.1% of West Midlands businesses and 39.2% of East Midlands businesses reported turnover had decreased.

28.4% of West Midlands businesses and 30.1% of East Midlands businesses expect turnover to increase in February 2024. While 14.3% of West Midlands businesses and 14.6% of East Midlands businesses expect turnover to decrease.

Demand for Goods and Services

10.4% of West Midlands businesses and 9.8% of East Midlands businesses reported the domestic demand for goods or services in December 2023 when compared to the previous month had increased. 23.0% of West Midlands businesses and 24.8% of East Midlands businesses reported a decrease.

3.1% of West Midlands businesses and 3.5% of East Midlands businesses reported the international demand for goods or services in December 2023 when to the previous month had increased. 9.2% of West Midlands businesses and 8.6% of East Midlands businesses reported a decrease.

Capital Expenditure

14.6% of West Midlands businesses and 13.8% of East Midlands businesses expect capital expenditure to increase between January and March 2024. While 9.7% of West Midlands businesses and 11.4% of East Midlands businesses expect a decrease.

Plant and Machinery

41.3% of West Midlands businesses and 42.9% of East Midlands businesses invested in plant and machinery between October and December 2023. **Over this period,** 40.7% of West Midlands businesses and 43.9% of East Midlands businesses used the full expensing capital allowance on qualifying plant and machinery investments.

Main Concern for Business

20.2% of West Midlands businesses and 18.7% of East Midlands businesses reported **falling demand of goods and services was the main concern for business** in February 2024.

Recruitment Difficulties

22.6% of West Midlands businesses and 21.2% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in December 2023.

Number of Employees

15.2% of West Midlands businesses and 15.8% of East Midlands businesses reported the number of employees had increased in December 2023 when compared to the previous month. 14.6% of West Midlands businesses and 14.0% of East Midlands businesses reported the number of employees had decreased.

16.6% of West Midlands businesses and 17.7% of East Midlands businesses expect the number of employees in February 2024 to increase. 7.6% of West Midlands businesses and 7.4% of East Midlands businesses expect the number of employees to decrease.

Staffing Costs

42.2% of West Midlands businesses and 43.1% of East Midlands businesses expect staffing costs to increase over the next three months. 4.4% of West Midlands businesses and 4.0% of East Midlands businesses expect staffing costs to decrease over the upcoming period.

Debts and Insolvency

25.4% of West Midlands businesses and 27.8% of East Midlands businesses reported repayments were up to 20% of turnover. 8.0% of West Midlands businesses and 6.8% of East Midlands businesses reported repayments were between 20% and 100% of turnover. For the West Midlands businesses, 1.0% reported repayments were more than 100% of turnover.

45.9% of West Midlands businesses and 46.0% of East Midlands businesses had high confidence to meeting current debt obligations. 14.7% of West Midlands businesses and 14.0% of East Midlands businesses reported moderate confidence.

5.0% of West Midlands businesses and 5.1% of East Midlands businesses reported moderate risk of insolvency**.**

Overall Performance

28.1% of West Midlands businesses and 28.4% of East Midlands businesses reported that the overall performance in December 2023 when compared to the same month in the previous year had increased. While 21.4% of West Midlands businesses and 20.9% of East Midlands businesses reported performance had decreased.

45.0% of West Midlands businesses and 43.8% of East Midlands businesses expect overall performance to increase over the next 12 months. While 7.1% of West Midlands businesses and 7.4% of East Midlands businesses expect performance to decrease.

Please note – the survey reference period: 1st to 31st December 2023. Survey live period: 8th to 21st January 2024. The response rates are low and the data is unweighted and should be treated with caution.

3. Regional Inequalities and Levelling Up

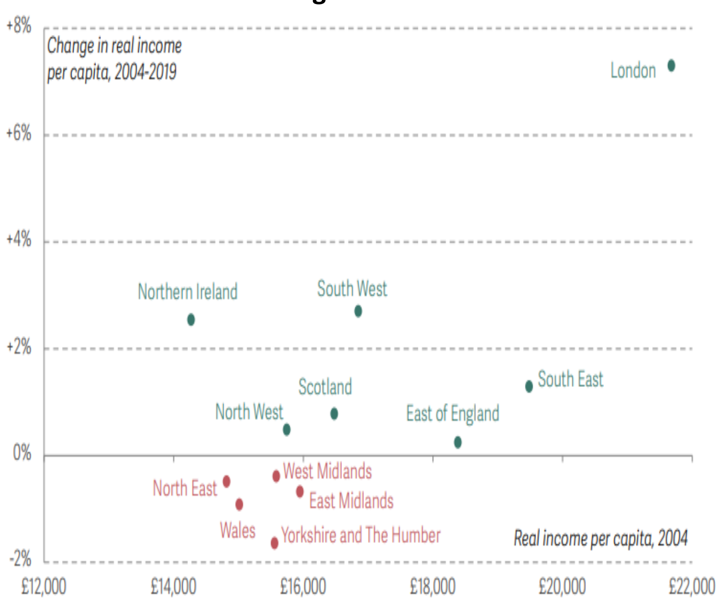
Ending Stagnation: A New Economic Strategy for Britain

[The Economy 2030 Enquiry](#)'s final report, a collaboration between the Resolution Foundation and LSE's Centre for Economic Performance, funded by the Nuffield Foundation, **outlines a comprehensive strategy to address the UK's economic challenges**.

It identifies key issues such as low wage growth, high income inequality, and reduced uptake in education contributing to persistent stagnation. The report proposes a comprehensive set of measures aimed at **achieving 7% growth over 15 years and reducing inequality in the UK**. Key recommendations include **leveraging the UK's position as the world's second-largest services exporter, promoting widespread quality employment, and focusing on growth in the West Midlands and Manchester.** The suggested measures involve an unprecedented level of investment, aiming for a **15-20% increase in capital stock** in the mentioned regions, and **empowering local leaders through income tax retention** for Mayoral Combined Authorities and **a radical council tax reform**. **The report summarises levels of stagnation in 10 key facts:**

- **Low growth:** Real wages grew by 33% a decade from 1970 to 2007, but have flatlined since, costing the average worker **£10,700 per year in lost wage growth**. As the below figure shows, in the 15 years to 2019, whilst the average incomes in London rose by 7%, average incomes in Yorkshire and Humber fell by 2%. Both the East and West Midlands saw falls in their own income per capita.

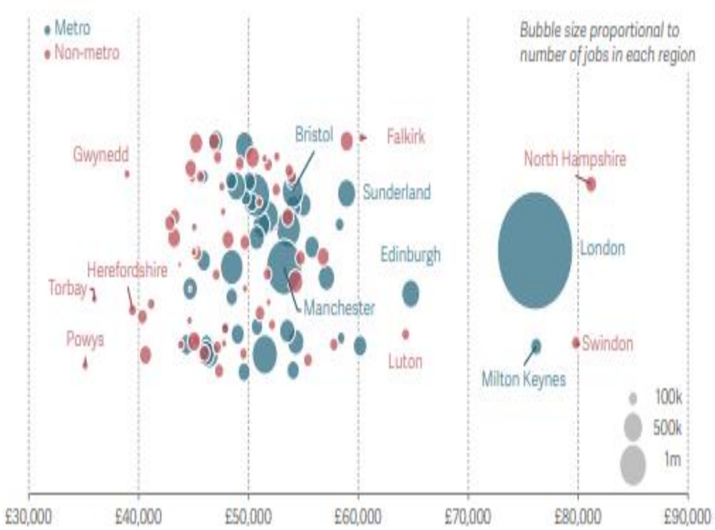
Change in real income per capita (GDHI cash measure) between 2004-2019, and level of income per capita in 2004: UK nations and regions:



Source: ONS, Gross Disposable Household Income

- **High inequality:** Income inequality in the UK is higher than any other large European country.
- **The toxic combination:** Low growth and high inequality means typical households in Britain are **9%** poorer than their French counterparts, **while our low-income families are 27% poorer**. The living standards of the **lowest-income households in the UK are £4,300 lower than their French equivalent**, leaving them struggling to cope when the cost-of-living crisis struck.
- **Stalled progress: 9 million young workers have never worked in an economy** with sustained average wage rises, and millennials are half as likely to own a home at 30, and twice as likely to rent privately, as their parents' generation.
- **Talent wasted:** Almost **a third of young people in the UK are not undertaking any education by age 18** – compared to just one in five in France and Germany, and only one in ten workers are qualified at sub degree level (Level 4 and 5), half the share it should be given the make-up of the UK economy.
- **Gaping gaps:** Income per person in the richest local authority – Kensington and Chelsea **(£52,500)** – **was over four times that of the poorest** – Nottingham **(£11,700**) – in 2019. All of England's biggest cities outside the capital have productivity levels lower than the UK average.

GVA per job, by area: UK, 2019:



Source: ONS, Subregional Productivity, July 2021

- **Bad work: Half of shift workers in Britain receive less than a week's notice of their working schedules.** Workers should have new rights to a contract enshrining minimum hours reflecting their usual work pattern, and two weeks' advance notice of shifts. Illness is bad for the financial, as well as physical, health for too many lower earners. **Statutory Sick Pay leaves many to live on just £44 if they are sick for a week** and should be reformed to pay 65% of normal earnings.

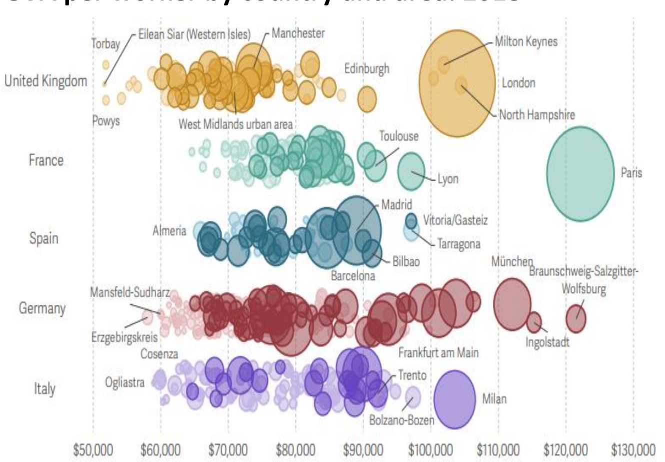
Ending Stagnation: A New Economic Strategy for Britain

- **Flaky firms: UK companies have invested 20% less than those in the US, France and Germany** since 2005, placing Britain in **the bottom 10% of OECD countries**, and costing the economy **4% of GDP**.
- **Taxes up:** Having **averaged 33% of GDP** in the first two decades of this century, the tax take is now on course to rise over **4 percentage points** by 2027-28: equivalent to **£4,200** per household.
- **The wrong track: Six in ten Britons think the country is heading in the wrong direction**, with far fewer – just one in six – thinking it is on the right track.

The Report then offers a solution in the form of 10 key steps to ending stagnation:

- **A services superpower:** Britain must build on its strengths as the second biggest services exporter in the world, behind only the US, while protecting the place of its high value manufacturing in European supply chains.
- **The second cities are too big to fail:** The cities should be centres for Britain's thriving high-value service industries. But instead, all England's biggest cities outside London have productivity levels below the national average, and they are further behind the capital than in other European countries such as France and Germany.

GVA per worker by country and area: 2018



Source: OECD

The current situation in Birmingham and Manchester reveals a decline in the graduate wage premium despite their higher productivity in city centres. **Cities lack the capacity to grow or attract highly productive firms**, emphasising the need for strategic action. Although city centres are hubs of productivity, they are too small to ensure overall prosperity, requiring significant expansion of office space and improved public transport. **With 69% of the UK population living in cities and their hinterlands, millions would benefit.**

- **Investing in our future, not living off our past:** Public investment in the average OECD country is nearly 50% higher than in the UK **(in 40 years to 2019 investment in the UK averaged 19% of GDP, the lowest in the G7)**. Tackling this legacy, alongside the net zero transition, requires public investment to rise to 3% of GDP.
- **Pressure from above and below:** British managers too rarely invest for the long-term. Pressure for change should come from more engaged owners – a smaller number of far larger pensions funds – and from workers on boards.
- **Good work in every town:** Despite the success of the minimum wage, a good work agenda cannot be a one-trick pony. Statutory Sick Pay can leave the ill on just £44 a week, while **900,000 workers miss out on paid holiday**.
- **Steering change:** Hospitality represents a higher share of consumption in the UK than anywhere else in Europe, because it is relatively cheap. Better pay for low earners in hospitality, paid for by higher prices that most affect better off households, will create a more equal UK.
- **Recoupling everyone to rising prosperity:** Benefit levels have not kept pace with prices: cuts since 2010 have reduced the incomes of the poor by **almost £3,000 a year**. Shared prosperity means benefits rising with wages.
- **Better, not just higher, taxes**: A rising tax burden should not just fall on earnings. Wealth has risen from three to over seven times national income since the 1980s.
- **Resilient public and private finances:** Higher growth and higher taxes are needed to raise investment, rescue public services, and repair public finances. Higher investment should be funded by higher savings at home, not borrowing from abroad.
- **Exploiting catch-up potential:** If the UK matched the average income and inequality of Australia, Canada, France, Germany and the Netherlands, the typical household would be **£8,300 better off**.

Headline findings in the report show that if the key steps are followed, then:

- **GDP per capita would be around 7%** higher, representing 0.4 percentage points faster annual growth than currently expected;
- **Average wages would be boosted by about 5%**, with that boost skewed towards the lower paid;
- **Typical incomes before housing costs for the working-age population would rise by 11%** (almost £4,000) more than they otherwise would;
- **Income inequality** – rather than rising (the non-pensioner after housing costs Gini coefficient is expected to increase by 1.2 percentage points) would fall by 2.5 percentage points (an overall difference of 3.7 points) and;
- **Relative poverty would be cut by 1.3 million people**, rather than rising by 1.1 million.

UK Poverty

The [Joseph Rountree Foundation recently published an extensive report on UK poverty].

Key findings include:

More than one in five people in the UK (22%) were in poverty in 2021/22. **The West Midlands had the highest rate of poverty at 27%**, the **East Midlands** came in at **23%**.

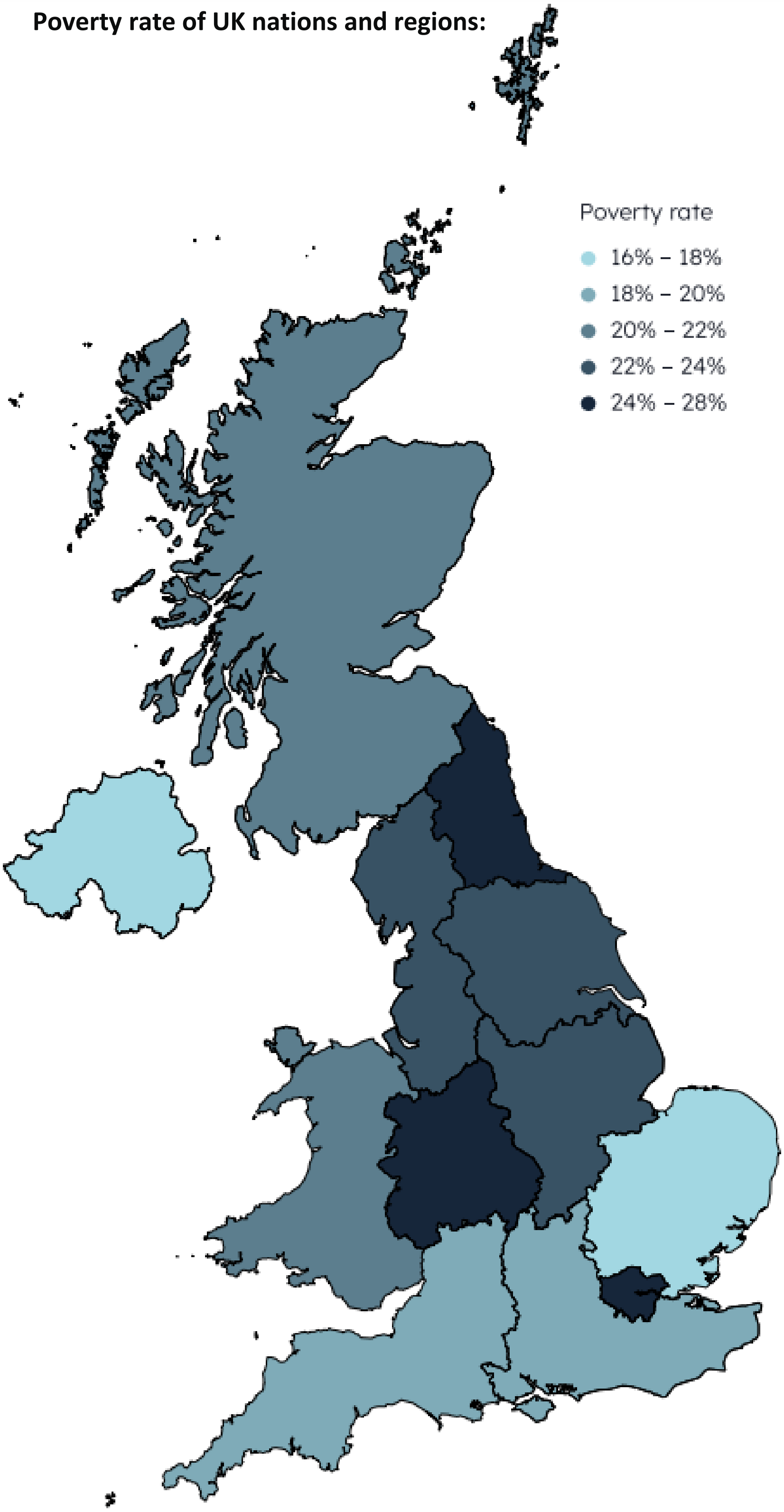
These variations are **driven by differences** in labour markets, housing markets and rates of benefit receipt, alongside wider demographic factors of the population in each nation or region.

The greater reliance on renting and the higher costs of housing are a substantial driver in larger cities in particular (including London), while **lower rates of employment, fewer employment opportunities and a greater concentration of employment in lower-paid roles, are bigger drivers in many post-industrial and coastal areas (including the West Midlands** and the North East of England).

Key messages:

- **Two-thirds of working-age adults in poverty actually lived in a household where someone was in work.**
- **Children have higher risks of poverty overall** (29% versus 22% for the whole population).
- **Larger families with three or more children have consistently faced a higher rate of poverty** (43% of children in large families were in poverty in 2021/22).
- 44% of children in **lone-parent families** were in poverty.
- **Poverty rates are very high for some minority ethnic groups**. In particular, 51% of Pakistani, 53% of Bangladeshi and 42% of Black African households lived in poverty.
- Disabled people face a higher risk of poverty and have done so for at least the past 20 years. **The poverty rate for disabled people was 31%, 12 percentage points higher than the rate for people who were not disabled.**
- Informal carers are much more likely than those with no caring responsibilities to be living in poverty **(28% compared with 20%).**
- The level of benefits available is frequently **not sufficient** to enable recipients to escape poverty.

Poverty rate of UK nations and regions:



Source: ONS, Households Below Average Income, 2019/20 and 2021/22, DWP

Poverty is measured using the relative low income measure of poverty, a widely accepted measure used internationally. This considers a person to be in poverty in their household income (controlling for household size) is below 60% of the median income in the country.

UK Poverty

Child Poverty Rates by Midlands Local Authorities and Rank (out of 372 local areas):

Local Authority	Rank	Child Poverty Rate
Birmingham	2	46.4%
Sandwell	4	44.6%
Stoke-on-Trent	7	43.5%
Walsall	9	43.3%
Wolverhampton	10	43.3%
Nottingham	16	41.0%
Leicester	18	40.6%
Coventry	22	39.6%
Dudley	23	39.4%
Derby	28	38.3%
Boston	32	37.3%
Lincoln	34	37.0%
East Staffordshire	35	37.0%
East Lindsey	37	36.7%
Telford and Wrekin	38	36.4%
Ashfield	44	35.7%
Bolsover	51	35.4%
Mansfield	52	35.3%
Wyre Forest	54	35.2%
Cannock Chase	59	35.0%
Bassetlaw	61	34.8%
Worcester	63	34.3%
Chesterfield	67	34.1%
Redditch	73	33.7%
South Holland	74	33.5%
Tamworth	75	33.4%
Newcastle-under-Lyme	79	33.1%
Nuneaton and Bedworth	84	32.5%
Newark and Sherwood	88	32.2%
West Lindsey	93	32.0%
North East Lincolnshire	95	31.8%
Herefordshire, County of	114	30.7%
North Warwickshire	116	30.6%

Local Authority	Rank	Child Poverty Rate
Shropshire	120	30.4%
Amber Valley	124	30.3%
North East Derbyshire	126	30.2%
North Lincolnshire	130	30.0%
Erewash	131	29.8%
Gedling	137	29.4%
Broxtowe	141	29.2%
Oadby and Wigston	146	29.0%
Staffordshire Moorlands	149	28.9%
South Kesteven	155	28.6%
Charnwood	163	28.1%
South Derbyshire	171	27.8%
Stafford	172	27.8%
South Staffordshire	174	27.8%
Hinckley and Bosworth	182	27.6%
North West Leicestershire	185	27.3%
High Peak	190	27.0%
Wychavon	192	26.9%
Melton	197	26.6%
Malvern Hills	202	26.5%
Solihull	209	26.1%
Lichfield	210	26.1%
Derbyshire Dales	222	25.4%
North Kesteven	226	25.2%
Blaby	237	24.7%
Rugby	260	23.1%
Bromsgrove	272	22.5%
Stratford-on-Avon	292	21.3%
Harborough	311	19.9%
Warwick	319	19.5%
Rutland	328	19.1%
Rushcliffe	341	17.9%

Source: After housing costs child poverty rates estimates from Loughborough University, 2021/22

Birmingham ranked 2nd highest in terms of child poverty rates, behind Tower Hamlets at 47.5%. **Seven** Midlands Engine local authorities ranked in the **highest 20** areas for child poverty.

Joseph Rowntree Foundation make the following recommendations to reduce the level of poverty:

- offering help and space for those looking for work to **find a secure job that sticks**, while **making work possible** and desirable for those outside the labour market if this is feasible
- raising the **basic level of workplace rights and protections**, including expanding rights to flexible working, alongside **improving financial protection** if people lose their job or cannot work for a period
- **protecting time for families and for caring around working life**, while building up and strengthening the infrastructure of care services that families can rely on
- **ensuring social security provides sufficient income to afford the essentials**, alongside forging a 'social safety net' of crisis support, practical help and social connection where people live
- **putting future pension provision on a more secure footing by raising minimum contribution rates** and establishing good options for people to use their savings pot to provide a secure standard of living in retirement
- **helping people accrue modest savings, access affordable credit, gain relief from problem debt and hold assets** (especially those without access to family wealth)
- **expanding access to secure homes**, whether rented or owned, via interventions to build more new homes and shift the distribution of existing homes.

Source: Joseph Rowntree Foundation

State of the State

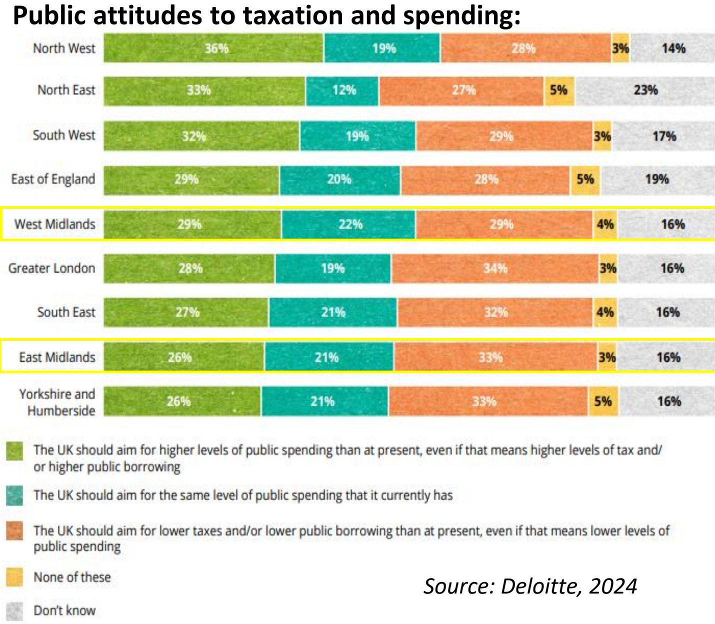
Deloitte's latest State of the State report provides an exclusive survey of the UK public alongside interviews with 100 government leaders. This blend of research provides a view of the public sector from the people who use it and the people who run it.

The public's view of the public sector

Overall, **the public is split on whether they want higher government spending or lower taxes** (one in three said the UK should aim for lower taxes and lower spending, while virtually the same proportion would favour higher taxes to fund public spending) – although younger people were more likely to want lower taxes due to their lower reliance on public services and instead felt the impact of suppressed wages and high rents.

There are also significant differences by each nation in the UK, where **Scotland stood out as one nation which would prefer to see higher levels of spending**, even though it is already more highly taxed than the rest of the UK. In contrast, **Northern Ireland was more inclined towards lower taxes**.

Public attitudes to taxation and spending:



Source: Deloitte, 2024

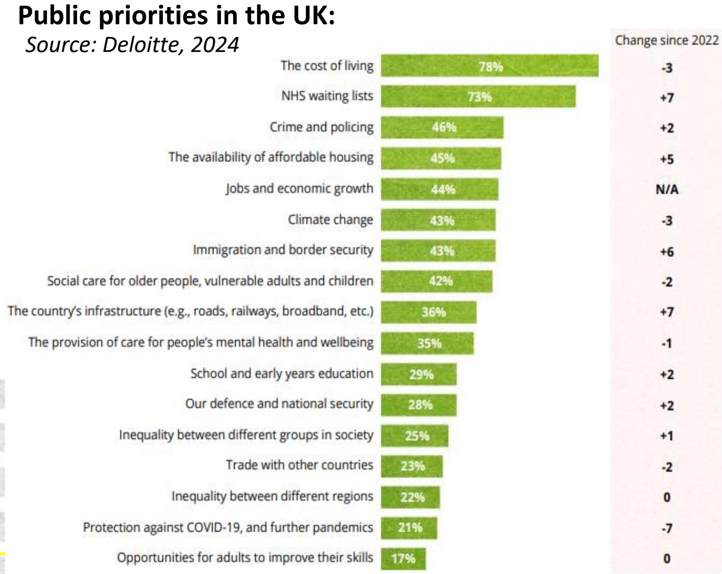
Regionally, people in the North West were most likely to prefer higher tax and spending. Within this, **general sentiment in the East and West Midlands was to prefer lower taxes and lower levels of public spending** at 33% and 29% respectively.

Whatever the public's preference for tax and spending, **people expect big government to continue with spending remaining at current levels or going up in the years ahead. 59% believe that public spending is set to remain at the same level or go up, while just 17% believe that tax and spending is going to go down.** That's a shift since last year – the percentage of the public believing we are about to enter an era of lower taxes has dropped by **nine** percentage points.

Furthermore, **public concerns have grown around NHS waiting lists, immigration and the country's infrastructure – although the cost of living remains the top issue which was mentioned by 78%**. Economic concerns remain significant – not only as the top concern but over **jobs and the economy more broadly is the fifth highest priority mentioned by 44 percent**. The next biggest issue for the public is the NHS, where **worries about waiting lists have grown from 66% in 2022 to 73% now**. **Immigration rose from 37% to 43% and infrastructure which rose from 29% to 36%.**

Public priorities in the UK:

Source: Deloitte, 2024

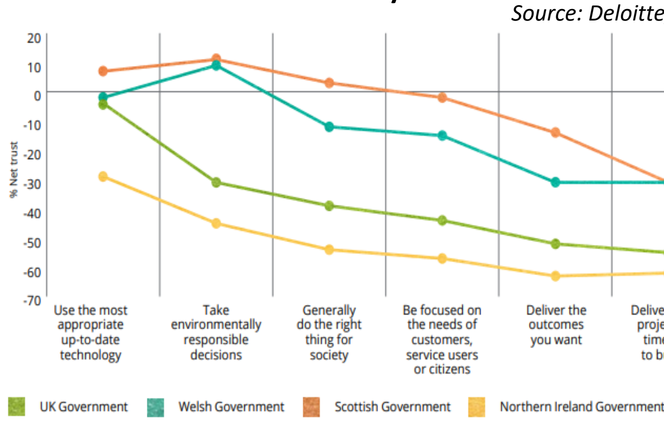


The two top priorities remain consistent across the four UK nations but include differences underneath them where **the most notable of all is concerns around crime and immigration** which are significantly higher in England.

Attitude wise, some **59% expect NHS waiting lists to get worse in the years ahead, 49% expect climate change to get worse and 47% think immigration will get worse.** However, there is some optimism ahead with the percentage of the public believing that **the cost of living will get worse dropped from 74% last year to 55% this year**. There is also a modest reduction in pessimism this year for the future of adult skills, housing, social care and mental health provision.

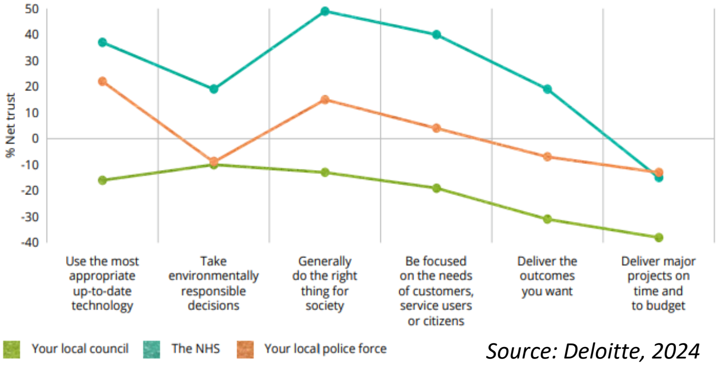
Public trust in Government by UK nation:

Source: Deloitte, 2024



Additionally, the survey finds that **overall trust in government is continuing to decline** with the lowest levels of trust being in the government's ability to get things done, both in terms of delivering outcomes for the public and delivering major projects.

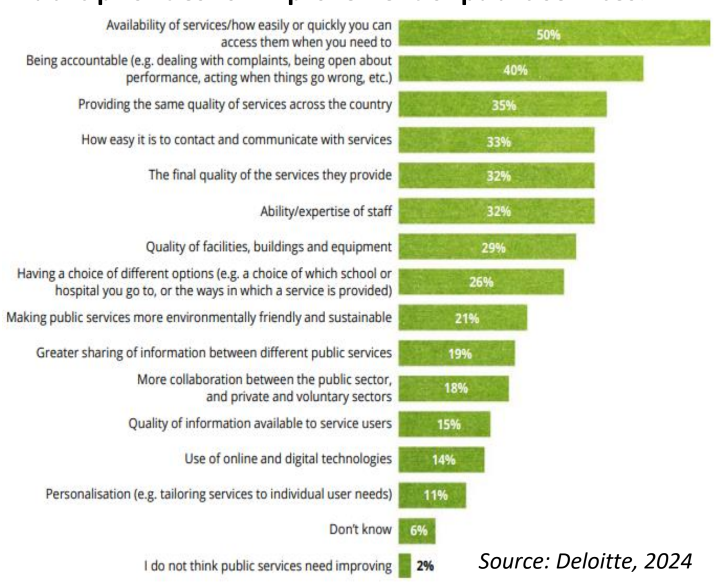
Public trust in public services



Source: Deloitte, 2024

Moving onto public trust in public services, **trust in police forces is mixed and has reduced by an average of six percentage points for each factor** – however is in line with the decline for other public services. **The public overall had the highest trust in the NHS and the lowest trust in their local council.**

Public priorities for improvement of public services:



Source: Deloitte, 2024

When looking at the public's experience of public services and asked what they would like to see most improved the availability of services followed by accountability, and third was the same level of quality of services across the country. Fourth was an easy of communications, and fifth was jointly the quality of services and expertise of staff. There is a notable simplicity in these priorities: the public want decent quality services they can access when they need, contact easily and complain about when things go wrong.

Areas of improvement for the top priorities included not having to repeat details every time a service is used, and improved contact services.

Insight from 100 public sector leaders – key messages:

- Cumulative challenges have left the public sector in a perfect storm with **NHS leaders saying that the health service is in the worst condition they have ever experienced.**
- **Government's aspirations have become larger than its resources.**
- **Government's ability to deliver projects and major programmes continues to improve**, but its fundamental design makes delivery an institutional issue.
- **Leaders say that their people challenges are to improve public sector morale**, to help the workforce become more comfortable with change and to adjust to the expectations of new generations.
- **The public sector's progress on digital transformation has introduced a new set of barriers to further change**.
- **Officials point to successes in Brexit implementation** that had limited visibility and that specialisation and partnerships will be increasingly important in the UK's defence.
- **Public service leaders hope to see a sector-wide, long-term strategy for the public sector**.
- Officials say that **economic growth requires clarity and consistency for business and continued investment in adult skills**.
- **The new Procurement Act is a huge opportunity for the public sector to drive up value for taxpayers' money**, become more entrepreneurial in its work with suppliers and generate greater social value.

The State of Net Zero

Overall, **the public is not confident that the UK will meet its 2050 net zero targets**, with **seven out of ten people** saying they are not confident. Younger people are however significantly more likely to believe than older age groups that the target will be met. Despite this, the public know that reducing emissions relies on shifting energy away from fossil fuels and are less inclined to think their own behaviours needs to change. **While 45% say the UK's energy mix needs to adapt for net zero, just 24% think that people need to make their homes more energy efficient**. People believe that recycling is the most important measure a household can take to live sustainably, and more people expect to increase their recycling than take any other action.

Five lessons On Net Zero for the state: (1) Engage the public for the long haul; **(2)** Position net zero as a sector-wide priority and central to business-critical decisions; **(3)** Lay out a roadmap with long-term funding and financing plans; **(4)** Drive net zero through the supply chain; **(5)** Support green skills through market intervention.

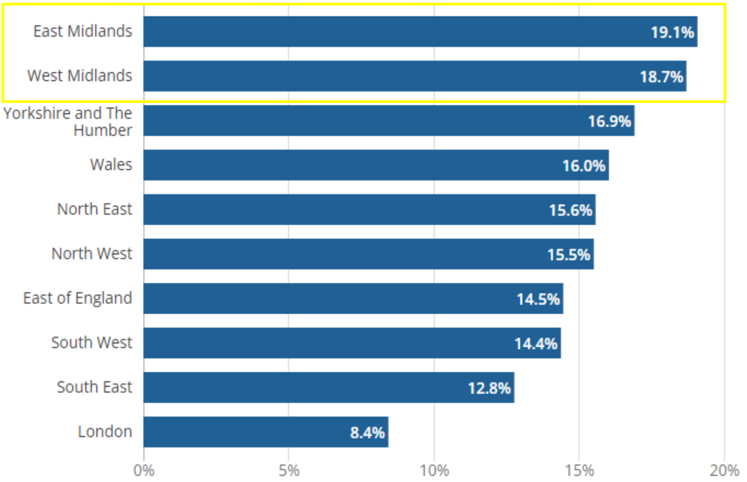
4. Green Economy

High Emission Industries

A publication from the ONS reported that around **one in five workers living in either the East Midlands and West Midlands were employed in the UK's highest-emitting industries in 2021** - that means these two regions had a higher proportion of workers employed in those industries than the rest of England and Wales.

Across all (331) local authorities, **South Holland had the second highest percentage of people employed in high-emissions industries**, at 27.6% (just behind Copeland in Cumbria at 31.3%). Compared with most other areas, South Holland had a relatively high percentage of its workforce employed in both the manufacturing, and the agriculture, forestry & fishing industries.

Percentage of workers in high-emissions industries by region or nation, England and Wales, 2021:

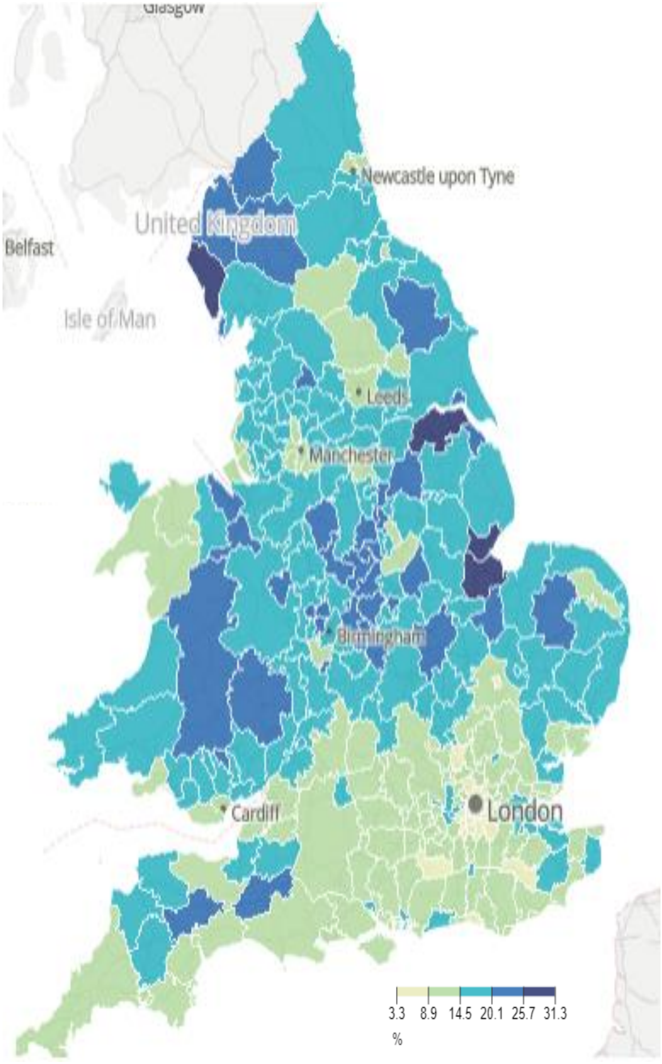


This was followed by Boston (27.5%) and North Lincolnshire (27.4%) which were third and fourth respectively. A further ten Midlands Engine local authorities were in the top 25 areas.

Percentage of total greenhouse gas emissions (residence basis) excluding household emissions, and total employees by industry, Midlands Engine (65 LA) and UK, 2021 (with shading indicating if the sector is above or the same as the national proportion):

Industry	Group	% of total greenhouse gas emissions	UK % of total employees	Midlands Engine % of total employees
Electricity and gas	High Emission	23%	1%	1%
Manufacturing	High Emission	22%	9%	11%
Transportation and storage	High Emission	15%	5%	6%
Agriculture forestry and fishing	High Emission	14%	1%	1%
Water and waste management	High Emission	7%	1%	1%
Mining and quarrying	Other	5%	0%	0%
Wholesale and retail trade	Other	4%	14%	16%
Construction	Other	3%	5%	5%
Human health and social work activities	Other	2%	13%	14%
Public administration	Other	1%	5%	4%
Accommodation and food service	Other	1%	6%	7%
Administrative and support service	Other	1%	9%	9%
Education	Other	1%	8%	9%
Professional scientific and technical	Other	1%	9%	7%
Arts entertainment and recreation	Other	0%	2%	2%
Other service activities	Other	0%	2%	2%
Real estate activities	Other	0%	2%	2%
Information and communication	Other	0%	5%	3%
Financial and insurance activities	Other	0%	4%	2%

Percentage of workers in high-emissions industries by local authority, England and Wales, 2021:



Please note, high-emissions industries are defined as the five broad industry groups that account for the highest shares of the UK's total greenhouse gas emissions (residence-based) excluding emissions from households. Net zero means that the greenhouse gas emissions the UK creates would be equal to or less than the amount it removes from the environment.

Green Jobs Barometer

The PWC Green Jobs Barometer measures the relative performance of UK's regions, nations and industry sectors on their progress developing green jobs over time. Now in its third year, the Barometer aims to support a fair transition to net zero emissions by building an evidence base of the impact on jobs and communities across the country.

The Barometer measures performance through five key pillars:

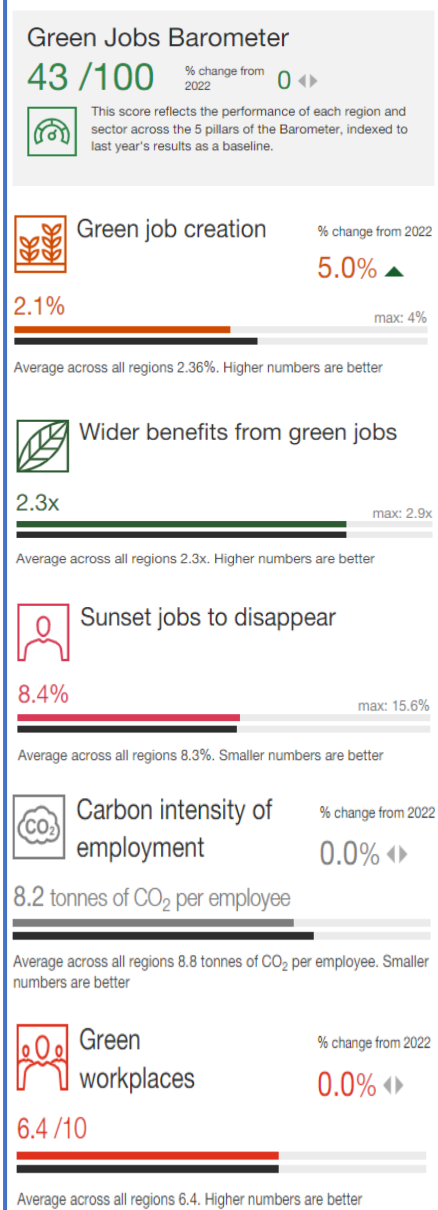
1. **Green Job Creation**: the relative density of green job advertisement as a total of job advertisements
2. **Wider Benefits from Green Jobs:** the multiplier effect of direct new green jobs in creating additional employment, whether indirectly or induced via employment effects
3. **Sunset Jobs to Disappear:** the number of jobs lost by 2030 as a results to a transition to environment sustainability, in the absence of worker reallocation or upskilling
4. **Carbon Intensity of Jobs:** carbon dioxide emissions per employer
5. **Green Workplaces:** worker sentiment about what the green transition means for their own role and workplace.

As seen in the following table, **overall the West Midlands and East Midlands ranked in the lower regions (8th and 11th respectively).**

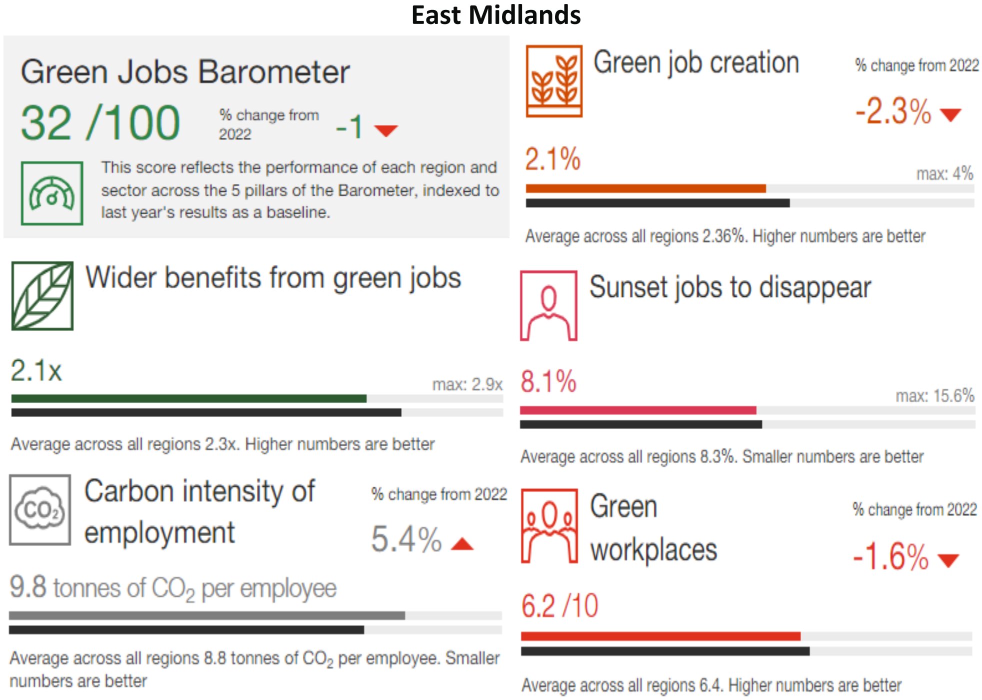
2023 Green Jobs Barometer, regional ranking:

	Overall ranking	Pillar 1: Green job creation	Pillar 2: Additional jobs impact	Pillar 3: Sunset jobs to disappear	Pillar 4: Carbon intensity of jobs	Pillar 5: Green workplaces
Scotland	**1**	1	2	8	8	3
London	**2**	5	1	12	1	1
South West	**3**	2	9	6	3	9
South East	**4**	6	3	11	2	2
Northern Ireland	**5**	4	5	1	12	11
Wales	**6**	8	8	2	11	5
East of England	**7**	12	4	5	6	6
West Midlands	**8**	9	6	7	5	7
Yorkshire and The Humber	**9**	10	7	3	7	8
North West	**10**	3	12	9	4	10
East Midlands	**11**	7	10	4	9	12
North East	**12**	11	11	10	10	4

West Midlands



East Midlands



PWC define green jobs as roles that seek to either produce or provide environmentally friendly products and services, or adapt work processes to become more environmentally friendly or use fewer natural resources. This definition acknowledges roles that support the green economy indirectly, such as environmental advisers or experts in environmental education.

5. New Economy Clusters

New Economy Cluster: Semiconductors

As part of the ongoing work on clusters, the Midlands Engine Observatory has recently published '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. Semiconductors are one of the five critical technologies identified within the UK Science and Technology Framework (2023) and the International Technology Strategy. These define Semiconductors as: *"A class of electronic materials with unique properties that sit at the heart of the devices and technology we use every day".*

The Semiconductors Snapshot finds that semiconductors represent a growth opportunity for the Midlands given the region's industrial excellence and technical expertise. This is supplemented by an academic base working within semiconductor research and linked technologies.

Business Ecosystem

- **217 total businesses active in the Midlands.** 16% of the UK semiconductor business population with 51% growth between 2013 and 2022; 4 strategic (£100m+ turnover) companies; 27% of the strategic semiconductors companies in the UK have a Midlands location.
- **19 high growth companies.** 18% of the high growth semiconductor companies in the UK have a Midlands location.
- **56 incorporations between 2017 and 2022.** 18% of UK semiconductor incorporations between 2017 and 2022 have a Midlands location; 24 semiconductor companies in the Midlands are identified as "scale-ups" and a further 10 as "large scale-ups".

Talent Ecosystem

- **4,287 employees across identified semiconductor companies (estimated)** - 9.5% of all UK semiconductor employees.
- **9,035 graduates in relevant subjects** - 7% of Midlands graduates studied relevant subject to semiconductors.

Innovation Ecosystem

- **Midlands universities have received £4.6m** (3.3% of the UK total) UKRI funding for semiconductor projects since 2017, according to Gateway to Research. Universities to receive funding from these active awards were:
  - **University of Nottingham: £3.3m+**
  - **Warwick University: £1.2m+**
- Since 2018/2019, **the Midlands has received over £13.2m (6.2% of UK) innovation funding with an average award of £390k.**

Cluster in context

200+ businesses - 16% of the UK total. 51% growth since 2013

4,000+ jobs - 9% of the UK total

19 high growth companies (18% of the UK)

4 companies with £100m+ turnover

7% of Midlands university graduates (over 9,000 total) in 2021 studied subjects relevant to semiconductors[3], including from 4 of the top 25 UK universities for Engineering and Technology

Investment Ecosystem

The Midlands has received a relatively low level of public innovation funding compared to its proportion of UK industry**, receiving only 6% of Innovate UK funding**. However, **£4.6m worth of investment funding has been identified within semiconductor companies registered or active in the Midlands since 2009** (via DataCity). Companies that received investment include:

- P.W. Circuits Limited (Leicestershire)
- Dynex Semiconductor Limited (Leicester)
- Express Circuits Limited (Warwickshire)

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 semiconductor activity in the UK and its regions. However, these documents attempt to pull together available information about semiconductors in the Midlands. Given the rudimentary data in this sector, approach the findings with caution.

New Economy Cluster: Future Telecommunications

"Future Telecommunications" is another cluster snapshot published, as one of the five critical technologies identified within the UK Science and Technology Framework (2023) and the International Technology Strategy. These define future telecommunications as: *"Evolutions of the infrastructure for digitised data and communications"*

The Future Telecommunications Snapshot finds that parts of the Midlands are at the forefront of the development, testing and delivering of future telecoms. For example, the **West Midlands Combined Authority area and Shropshire were recently selected as 5G Innovation Regions.** This strength, supported by Midlands-wide university assets and a strong business base, provides a strong foundation for the Midlands telecoms cluster and its ability to support UK-wide growth, and the application of future technologies.

Business Ecosystem

- **1,247 total businesses active in the Midlands**. 17.5% of the UK telecoms business population; with 64% growth between 2013 and 2022; 36 strategic (£100m+ turnover) companies; 28.6% of the strategic telecoms companies in the UK have a Midlands location.
- **106 high growth companies**. 15.4% of the high growth telecoms companies in the UK have a Midlands location.
- **342 incorporations between 2017 and 2022.** 16.4% of UK telecoms incorporations between 2017 and 2022 have a Midlands location; 124 telecoms companies in the Midlands are identified as "scale-ups" and a further 53 as "large scale-ups".

Cluster in context

1,200+ businesses - 17.5% of the UK total. 64% growth since 2013

43,000 jobs - 8.4% of the UK total

106 high growth companies (15.4% of the UK)

36 companies with £100m+ turnover

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

Talent Ecosystem

- **43,168 estimated employees across identified telecoms companies** - 68.4% of all UK telecoms employees.
- **8,385 graduates in relevant subjects** - 6% of Midlands graduates studied relevant subject to telecoms, although it is unclear if there are any specific telecoms courses at Midlands universities.

Innovation Ecosystem

- Midlands universities have received £4.5m (4.5% of UK) UKRI funding for "future telecommunications" project since 2017, according to Gateway to Research. Universities to receive funding from these active awards were the University of Warwick (£1.6m+); Aston University (£798k+); Loughborough University (£637k+); University of Birmingham (£581k+); Nottingham Trent University (£179k+).
- Since 2018/19**, the Midlands Engine has received over £12.6m (9.6% of UK) innovation funding with an average award of £225.1k.**

Investment Ecosystem

The Midlands has received a relatively low level of funding in telecoms despite it representing a high portion of the UK's industry, receiving just **2% of total equity by high-growth companies**, and **5% of all grant money** received by companies in relevant sectors (2017-2021). However, **£261.1m worth of investment funding identified within telecoms companies registered or active in the Midlands since 2009** (via DataCity). Companies who received investment include: Airband Community Internet Limited (Worcestershire); Lightspeed Broadband (Lincolnshire); Journeo PLC (Leicestershire); Wavenet Limited (Solihull).

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 semiconductor activity in the UK and its regions. However, these documents attempt to pull together available information about semiconductors in the Midlands. Given the rudimentary data in this sector, approach the findings with caution.

New Economy Cluster: Engineering Biology

In addition, an Engineering Biology cluster snapshot has also been published. It is one of the five critical technologies identified within the UK Science and Technology Framework (2023) and the International Technology Strategy. Engineering biology is one of the five critical technologies identified within the UK Science and Technology Framework (2023). Which defines engineering biology as: *"The application of rigorous engineering principles to the design of biological systems".*

Engineering Biology

The Engineering Biology Snapshot finds that the Midlands' strong biosciences base, encompassing both health and non-health related bioscience and biotechnology, and profound engineering excellence, means it is well-placed to make a considerable contribution to UK engineering biology. Underpinning the emerging Midlands' engineering biology cluster is the research excellence and expertise within the region's universities.

Business Ecosystem

- **180 businesses identified as utilising engineering biology in their products and services are active in the Midlands.** 10.3% of the UK engineering biology population with 96% growth between 2013 and 2022; 7 strategic (£100m+ turnover) companies; 18.9% of these strategic engineering biology companies in the UK have a Midlands location.
- **21 high growth companies**. 6.9% of the high growth engineering biology companies in the UK have a Midlands location.
- **61 incorporations between 2017 and 2022.** 9.2% of UK engineering biology incorporations between 2017 and 2022 have a Midlands location; 19 engineering biology companies in the Midlands are identified as "scale-ups" and a further 13 "large scale-ups".

Cluster in context

200 businesses – 10.3% of the UK total. 96% growth since 2013

5,200 jobs – 2.8% of the UK total

21 high growth companies (6.9% of the UK)

7 companies with £100m+ turnover

8% of Midlands university graduates (over 11,000 total) in 2021 studied subjects relevant to engineering biology, including from 11 of the top 25 UK universities for relevant subjects.

Talent Ecosystem

- **5,166 estimated employees across these Engineering Biology companies**, 2.8% of all UK Engineering Biology employees.
- **11,200 graduates in relevant subjects** – 8% of Midlands graduates studied relevant subject to Engineering Biology.

Innovation Ecosystem

- Due to the nascent nature of the cluster, there are no innovation funding records, however **the region contains 11 relevant universities with high-performing research** including the universities of Loughborough; Nottingham Trent; Aston; Birmingham; Coventry; De Montfort; Keele; Leicester; Lincoln; Nottingham; and Warwick.
- Furthermore, **the region has several relevant innovation assets including**: BioCity Nottingham (Nottingham); Birmingham Health Innovation Campus (University of Birmingham); Precision Health Technologies Accelerator (Birmingham); NIHR Leicester Biomedical Research Centre (Leicester); Institute for Digital Healthcare (University of Warwick); School of Life Sciences (University of Warwick).

Investment Ecosystem

- **Over £450m worth of investment funding identified within engineering biology companies registered or active in the Midlands since 2009** (via DataCity). Companies who received investment include Deep Branch Biotechnology Ltd (Nottingham); Phenotypeca Limited (Nottingham); NanoSyrinx (Coventry); MirZyme (Birmingham); PBD Biotech (Birmingham).

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In Partnership: