MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

EDITION 41: SEPTEMBER 2023

Executive Summary

The September edition of the Midlands Engine Regional Economic Impact Monitor is published at a time of important economic measurements and announcements in the UK. The **Bank of England has ended a run of 14 months of interest rate hikes (maintaining the base rate at 5.25%)**, while **consumer price inflation (CPI) is down to 6.7%** as of August figures. These are **positive signs for the regional and national economy**, particularly related to the cost-of-living, cost-of-doing business and confidence in spending. Furthermore, ONS revisions suggest that the **UK economy made a stronger recovery during Covid-19 at the end of 2021** than previously estimated, driven by service sectors.

Despite this, the **current reality for many Midlands businesses and communities remains problematic**, potentially more of a struggle than earlier in the year. Still driven by high rates of inflation and interest, data and insight unfortunately points to a **summer slowdown in activity and concerns for continued underperformance** in the future:

- The East Midlands Business Activity Index decreased from 50.1 in July 2023 to 47.1 in August 2023, the **fastest fall since December 2022**, while the West Midlands decreased from 51.3 to 50.0 - marking **the end of a six-month period of growth**. Firms reported **weaker demand conditions with lower new order inflows.**
- The UK economy shrank more than it was expected to in July, driven by **strike action and the poor weather**. According to the latest economic forecasts from the National Institute of Economic and Social Research (NIESR), UK GDP is projected to grow barely by 0.4% this year and by 0.3% in 2024, with a **highly uncertain outlook.**
- NIESR also predict that only the **West Midlands and parts of the South East are projected to have lower levels of GVA at the end of 2024 than at the end of 2019**. Although the East Midlands is not as badly affected, underperformance across the Midlands suggests a **disproportionate impact of major shocks in recent years.**
- Albeit the data pre-dating the cost-of-living crisis (2021), **Gross Disposable Household Income per head in the Midlands Engine area overall remains below the UK average** (£18,562 vs £21,679).
- A wide **array of key sectors are affected by the uncertain economic environment**, particularly stark in **hospitality / retail**, **construction** and **manufacturing** at this present time. But the service sector has contracted too.

Financial issues at Birmingham City Council, as well as other work – including related to the lack of replacement for the European Investment Bank – bring the **need and possibility for intervention on these issues into sharp focus.**

Growth is still firmly on the agenda though, and in some regards the Midlands economy is rebounding and optimistic:

- The East Midlands Future Activity Index increased from 68.4 in July 2023 to 69.6 in August 2023; with t**he West Midlands increasing from 76.8 to 78.5 – the highest optimism level of all 12 UK regions.**
- Trade in goods exports from the Midlands have continued their strong 2023 recovery and growth: in the year ending Q2 2023, exports from the Midlands area were worth £60.0bn, **increasing by £11.6bn (+24.1%) since the year ending Q2 2022, above the UK overall increase (+12.2%) and the highest rise of UK regions.** However, a recent report has suggested there are more possibilities to maximise the gains from service exports.
- An **automotive sector rebound** has been a key part of this success for the Midlands: **car production went up 31.6% in July according to the SMMT, marking the sixth consecutive month of growth.** This is likely to explain why, despite UK manufacturing overall reporting a slump and reduced optimism, **MakeUK report stronger output, orders and future expectations in the West Midlands in particular.**

Therefore, with the potential of a more stable monetary environment and a reduced cost burden, the Midlands Engine economy has many **strong foundations and opportunities for success**. A key part of this will be driving activity and growth through **key clusters**, fostering their innovation and agglomeration effects. This is covered in a dedicated section in this month's monitor, reflecting the wider Midlands Engine focus on clusters (evidenced through the publishing of more **cluster snapshot reports**) and drawing on wider expertise; namely **Centre for Cities and KPMG / The University of Nottingham.** A combination of focusing on key clusters – for example recent work on hydrogen, both research and the setup of **East Midlands Hydrogen** – and homing in on the role of different places in will be key.

Central to all considerations will be **outcomes for the people living and working in the Midlands Engine**, made clear in the substantial labour market data update provided this month, and serving as a **reminder on the challenges**:

- The Midlands Engine employment rate is **73.9%, remaining flat and below the UK rate (75.4%).** For the Midlands Engine area to reach national proportions requires **91,961 more working age residents to be employed**.
- **Economic inactivity rose 0.2 percentage points (pp) to 22.8%** in the year to March 2023 (UK = 21.7%), with the increase linked mostly to **looking after the family/home** (+1.1pp) and sick (+1.9pp).
- The number of claimants did reduce in August and unemployment is down in the last year, however **youth claimants rose and the overall unemployment rate is higher in the Midlands** than the UK and decreasing slower.
- There remains a **shortfall (of 373,936 people) related to RQF4+ (degree-level) qualifications**, with 39.3% of Midlands Engine residents holding one, compared to 45.5% nationally.

1. Economic Outlook

Global and National Outlook

Global

Deloitte is confident the Dollar will remain dominant for a long time despite threats from other currencies. The volume of US sovereign debt as a share of GDP is not unprecedented and, as evidenced by historically low bond yields, it is not a concern to the investment community. China has capital controls, meaning that holders of renminbi are not assured the flexibility that comes from holding dollars.

In July, real **(inflation-adjusted) consumer spending in the US grew strongly**. US households cut the share of income that they save, thereby enabling a big increase in expenditure. It appears that underlying consumer demand remains strong.

Eurozone inflation stopped decelerating in August while core inflation declined. Resulting in investors being less certain that the ECB will raise interest rates again. The result was that the euro fell in value against the US dollar after German and French bond yields fell sharply. Inflation remains high.

Erratic climate conditions in India have led to large scale loss of crops. This has led to rapidly increasing food inflation. The average cost of a regular vegetarian meal has jumped by around a third in a month. As a result, the Indian government is taking protectionist measures to protect the economy and to safeguard their domestic supply of food. **The Indian government has decided to ban the exportation of certain agricultural goods to maintain domestic supply and thus reduce prices of agricultural goods.** So far India has banned the export of both wheat and non-basmati rice, with sugar exports likely to be banned within the next few months.

This restriction of supply of these goods on the international market could led to **further food inflation globally. India supplies 40% of the worlds rice exports and is the second largest global producer of both onions and sugar**. Thailand alone has seen the price of rice jump 20% in the month since India banned non-basmati rice exports. Countries most likely to suffer the impact of rising rice prices will be poorer African and Asian countries.

National

ONS report the Consumer Prices Index including owner occupiers' housing costs **(CPIH) rose by 6.3% in the 12 months to August 2023**, down from 6.4% in July. On a monthly basis, CPIH rose by 0.4% in August 2023, compared with a rise of 0.5% in August 2022. The Consumer Prices Index **(CPI) rose by 6.7% in the 12 months to August 2023**, down from 6.8% in July. On a monthly basis, CPI rose by 0.3% in August 2023, compared with a rise of 0.5% in August 2022.

In September, the Bank of England **ended a run of 14 consecutive months of interest rate hikes** after new data showed inflation is now running below expectations. The Bank had been hiking rates consistently since December 2021 in a bid to rein in inflation, **taking its main policy rate from 0.1% to a 15-year high of 5.25% in August.** The British pound dropped 0.7% against the U.S. dollar shortly after the decision. The Monetary Policy Committee voted 5-4 in favour of maintaining this rate at its September meeting, with the four members preferring another 25 basis point hike to 5.5%.

ONS reported on the impact of Blue Book 2023 changes on Gross Domestic Product (GDP), these include:

- Annual **current price GDP growth in 2021 is revised up 0.9 percentage points (pp) to an 8.5%** increase; this follows an unrevised fall of 5.8% in 2020.
- Annual **volume GDP growth in 2021 is revised up 1.1pp to an 8.7% increase**; this follows an upwardly revised 10.4% fall in 2020 (previously an 11% fall).
- **Upward revisions to annual volume GDP** growth in 2020 and 2021 **mean that GDP is now estimated to be 0.6% above pre-coronavirus pandemic levels** in Q4 2021; previously estimated as 1.2% below.

These revisions are mainly due to richer data from annual surveys and administrative data, ONS are now able to measure costs incurred by businesses (intermediate consumption) directly and can adjust for prices (deflation) at a far more detailed level.

However, according to the latest economic forecasts from the National Institute of Economic and Social Research (NIESR), the UK is on course to experience **five years of lost economic growth.** UK GDP is currently (2023 Q1) 0.5 per cent below the level of GDP before the pandemic. **NIESR's forecast does not have it passing this level until the third quarter of 2024.**

Birmingham City Council announced a section 114 notice effectively declaring itself bankrupt. The Council has announced that vital services are safe. Key **contributors to the financial difficulties are the costs of meeting an equal pay claim and a failed IT system.** The Prime Minister has ruled out a bailout. This has raised issues about the funding and stability of local authorities in the future. The IFS pointed out in July 2023 that nationally Local authority 'spending power' (the amount of money authorities have to spend from government grants, council tax and business rates) fell by 17.5% between 2009/10 and 2019/20. In 2021/22 it was still 10.2% below 2009/10 levels.

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• The UK economy shrank more than expected in July, driven by strike action and the poor weather. ONS reported that the economy contracted by 0.5%. • According to the latest economic forecasts from the National Institute of Economic and Social Research (NIESR), UK **GDP is projected to grow barely by 0.4 per cent this year and by 0.3 per cent in 2024**, with the outlook remaining highly uncertain. There are, in fact, even chances that GDP growth will contract by the end of 2023 and a roughly 60 per cent risk of a recession at the end of 2024. • NIESR also predict that only the **West Midlands and the non-metropolitan parts of the South East are projected to have lower levels of GVA at the end of 2024 than at the end of 2019**. Although the East Midlands is not as badly affected, **underperformance across the wider region as a whole suggests a disproportionate impact of major shocks in recent years.** • However, ONS revisions suggest that the **UK economy made a stronger recovery during Covid-19 at the end of 2021 than previously estimated.** The regional implications are not yet known, however the sub sector analysis shows the revised growth been driven by the services sectors **with reduction in the production sector which has implications for the large concentration of manufacturing firms in the region**. • While **growth ambitions remain firmly on the agenda:** in BDO's August Economic Engine survey 28% of Midlands companies are looking to recruit more people with the right skills as a way of meeting strategic aims. This is reflected in reports from **local business support organisations that suggest many businesses are still seeking investment to support growth plans.** • Centre for Cities recently published a report evidencing the **importance of large cities to drive broader performance in places across the UK**; they have also published a specific report related to Birmingham with the Resolution Foundation.
Trading Conditions	• The difficult economic situation has been driven by, and is reflective of, sustained high inflation. This is now falling, but as highlighted by the FSB and British Chambers of Commerce, **businesses are still under pressure from high prices and continuous interest rate hikes.** • Linked to this, according to BDO's latest economic engine survey, **Midlands businesses' biggest concern is shifts in consumer spending – with customers cutting back on expenditures**. This was the largest worry for 59% of companies in the survey, followed by supply chain disruptions (31%) and access to talent, with 46% urging the Government to enhance its support. • **Energy cost concerns remain**, particularly with businesses with high consumption activities such as manufacturing and hospitality. • Continued **EU Exit overhang** also present, as **high freight costs** affecting international sales. **Customs delays**, in part due to **incorrectly handled paperwork**, adding weeks to delivery times. • **Deal activity declined in the Midlands during the first half of 2023** in line with the rest of the UK, according to a report from Experian Market IQ. The volume of transactions in the region has fallen by approximately 26 per cent so far this year. At 404, the H1 2023 figures are **"significantly" below the average first half volume record over the last decade.** • The most **active legal adviser in the Midlands in this time period by volume was Harrison Clark Rickerbys with 23 deals, followed by Higgs (22), Shoosmiths (15) and Eversheds Sutherland (14).** The report found that the most active financial adviser was K3 Capital with 34, followed by RSM (16), Mazars (13), Grant Thornton, Altius Group, and PKF (9).
Labour Market	• **Permanent staff appointments in the Midlands declined** at their sharpest rate since May 2020 during August, according to a report from KPMG and REC. • The KPMG and REC, UK Report on Jobs: Midlands showed that, despite the sharp reduction in permanent staff appointments, **recruiters displayed some confidence in temp billings, which rose for the third consecutive month.** • There were **marked increases in the availability of both permanent and temporary staff**, with the former rising at the steepest rate since December 2020 amid increased redundancies. • This reflects **"unrelenting workforce pressures"** that are hitting businesses and the economy according to the British Chambers of Commerce. This is reflected in ongoing feedback from business support organisations about a lack of available talent holding businesses back.

2. Economic and Labour Market Impacts

Business Activity

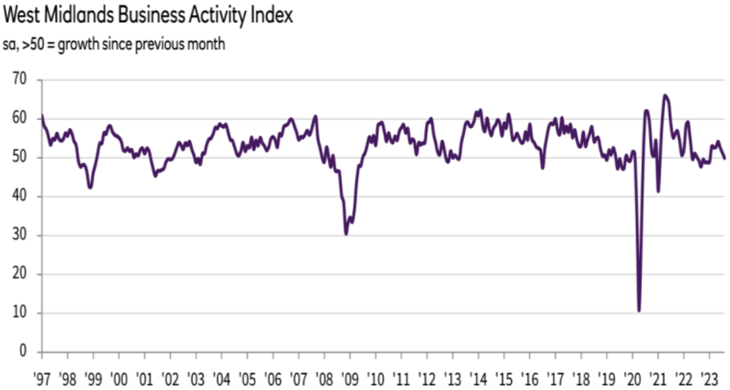
Business Activity Index

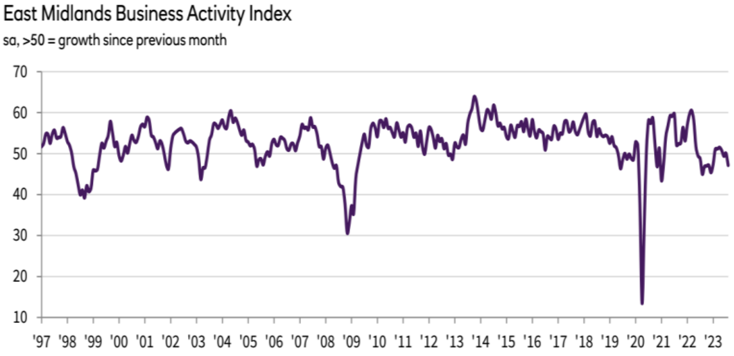
The **West Midlands Business Activity Index decreased from 51.3 in July 2023 to 50.0 in August 2023,** marking the end of a six-month period of growth. There was a mixed picture reported, as some firms stated output growth due to new client wins and the clearing of backlogs while others reported lack of new business and elevated borrowing costs restricted business activity.

The East Midlands Business Activity Index decreased from 50.1 in July 2023 to 47.1 in August 2023, the fastest fall since December 2022. Firms reported weaker demand conditions with lower new order inflows.

The UK Business Activity Index decreased from 50.8 in July 2023 to 48.6 in August 2023.

Business Activity Index trends:





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

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

Demand

The West Midlands New Business Index decreased from 50.6 in July 2023 to 50.3 in August 2023. This is the seventh consecutive month for rises – the only region to see a rise. **The East Midlands New Business Index decreased from 49.1 in July 2023 to 46.8 in August 2023**, the second consecutive month of contraction. Firms reported the contraction in new business was due to weaker demand conditions from higher interest rates which in turn caused hesitancy with clients to place orders.

Exports

The **West Midlands Export Climate Index decreased from 50.4 in July 2023 to 49.5 in August 2023** and the **East Midlands Export Climate Index decreased from 50.3 in July 2023 to 49.6 in August 2023.**

Business Capacity

The **West Midlands Employment Index decreased from 50.0 in July 2023 to 49.4 in August 2023,** the first fall in two-and-a-half years. The **East Midlands Employment Index decreased from 49.1 in July 2023 to 48.6 in August 2023**, the second month for contraction.

The **West Midlands Outstanding Business Index decreased from 45.7 in July 2023 to 43.0 in August 2023**. The **East Midlands Outstanding Business Index decreased from 46.1 in July 2023 to 42.8 in August 2023.** The 9th and 11th consecutive month respectively under the 50-mark threshold.

Prices

The **West Midlands Input Prices Index decreased from 62.1 in July 2023 to 59.6 in August 2023.** The **East Midlands Input Prices Index increased from 65.4 in July 2023 to 65.9 in August 2023**, the fastest increase seen in three months. The service sector had the markable price rises while manufacturing firms reported a fall in operating expenses.

The **West Midlands Prices Charged Index decreased from 56.0 in July 2023 to 54.9 in August 2023**, still indicating a notable increase. The **East Midlands Prices Charged Index decreased from 55.6 in July 2023 to 55.0 in August 2023**, the fourth consecutive month where the pace has slowed.

Outlook

The West Midlands Future Business Activity Index increased from 76.8 in July 2023 to 78.5 in August 2023, the joint highest level since January 2022. Optimism in firms was linked to expectations of new business gains, product diversification and internal efficiency.

The East Midlands Future Activity Index increased from 68.4 in July 2023 to 69.6 in August 2023. Optimism in firms was linked to greater investment, new product development and anticipation of stronger demand conditions. However, firms still raised concerns over customer spending due to inflationary pressures.

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

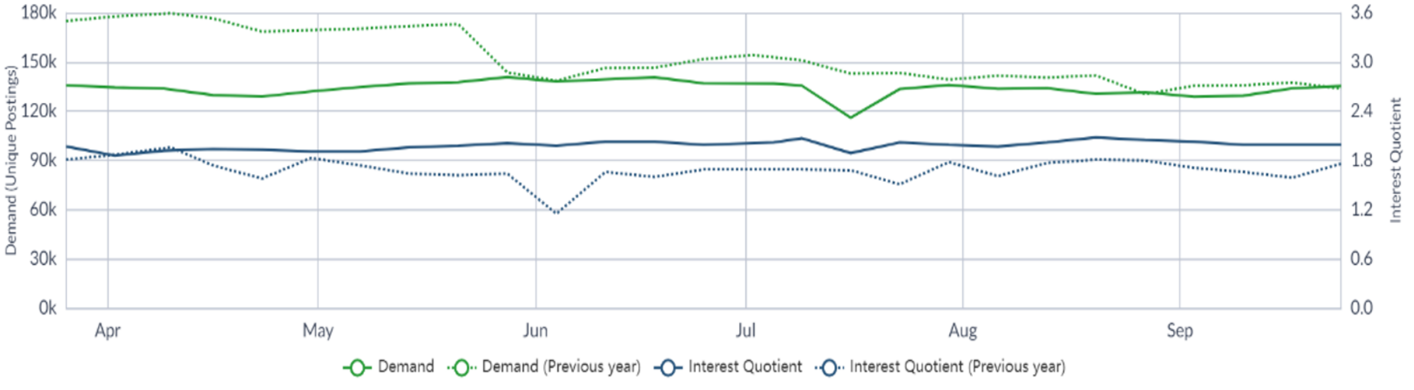
Source: NatWest: UK regional PMI report for August 2023, released September 2023.

Labour Market and Job Postings

The latest economic data points to the **continued cooling of the labour market**. **Economic inactivity increased**, reversing the recent growth in the size of the labour force. Meanwhile, **employment has started to fall, and unemployment continues to increase. Redundancies are also on the rise.** This month also saw yet **another record set for the number of people out of work due to long-term health conditions** (2.6 million), an increase of 51,000 in the last quarter. Reflecting this cooling demand, job vacancies also continue to fall.

The latest job postings data shows that the **number of postings across the Midlands dropped 21.6% over the last six months to just over 1.11 million**. Despite employer demand narrowing, those seeking work - wanting a job, currently remains heightened.

Overall Demand and Interest for the Midlands:



Nevertheless, **advertised median salary across the Midlands has increased by 7.6%** year-on-year to £30,237.

Salary Trends for the Midlands:

Sectors Hiring in the Midlands:

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

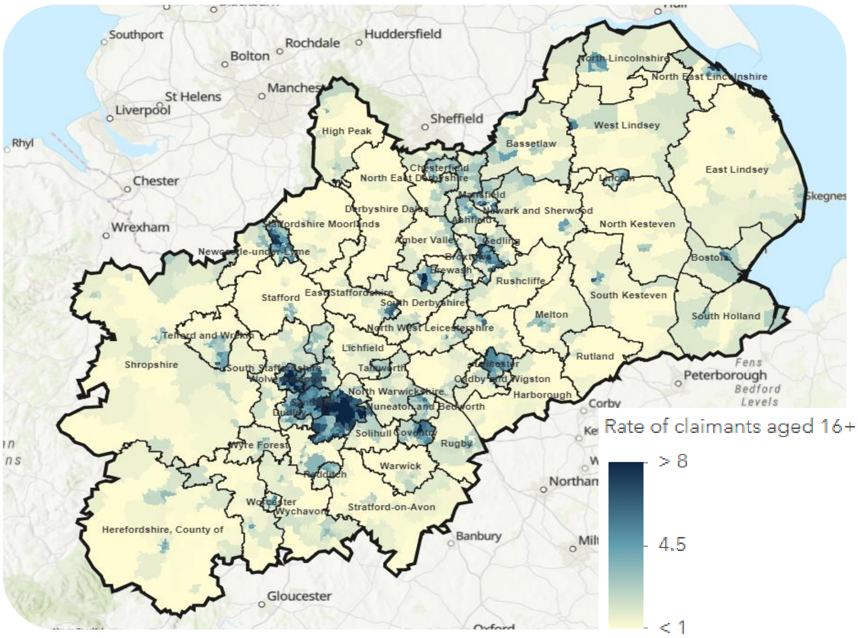
Source: Adzuna Limited Job Posting Intelligence, Accessed Sept 2023. The Interest Quotient uses jobseeker data to quantify the level of interest in particular roles.

Labour Market Impacts: Claimants

There were **272,815 claimants aged 16 years and over** in the Midlands Engine area in August 2023, a decrease of 515 (-0.2%, UK +0.2%) claimants since the previous month. **There are 51,275 (+23.1%, UK +22.0%) more claimants when compared to March 2020**. East Lindsey, North East Lincolnshire, North Lincolnshire and West Lindsey all have lower levels of claimants now than in March 2020 (-1,185, -430, -165 and -60 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 August 2023.

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



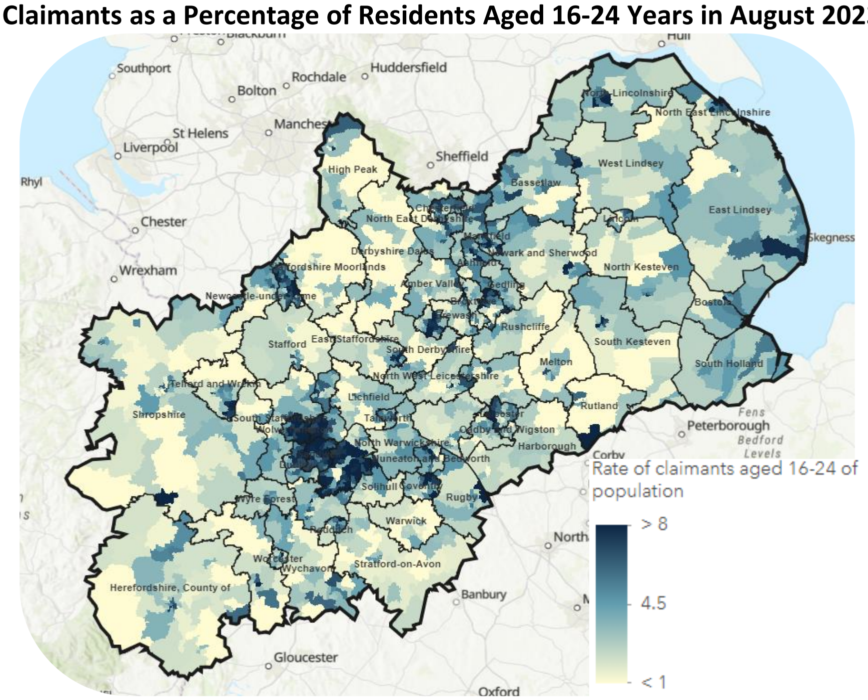
Out of the 1,511 wards within the Midlands Engine, **448 were at or above the UK average of 2.8%** for the number of claimants as a percentage of the population aged 16 years and over in August 2023.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, with Handsworth the highest at 16.2%. This was followed by Lozells at 15.7% and then Birchfield at 15.2%.In contrast, the lowest proportion was in Keele (Newcastle-Under-Lyme) with 0.1%.

There were **52,145 claimants aged 16-24 years old** in the Midlands Engine area in August 2023 – an increase of 910 youth claimants since July 2023. This equated to an increase of 1.8% for the Midlands Engine area (UK +1.9%). Since March 2020, **the number of youth claimants has increased by 7,950** (+18.0%, UK +13.7%). Notably, 12 local authorities are lower and further 1 was the same as 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 August 2023.

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



Out of the 1,511 wards within the Midlands Engine, **616 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 August 2023.

The ward with the highest number of claimants as a percentage of the population was Portland (Mansfield) at 16.8%. This was followed by Handsworth (Birmingham) at 15.9% and Joiner's Square (Stoke-on-Trent) at 14.9%. In contrast, within the Midlands Engine there were 109 wards with no youth claimants in August 2023.

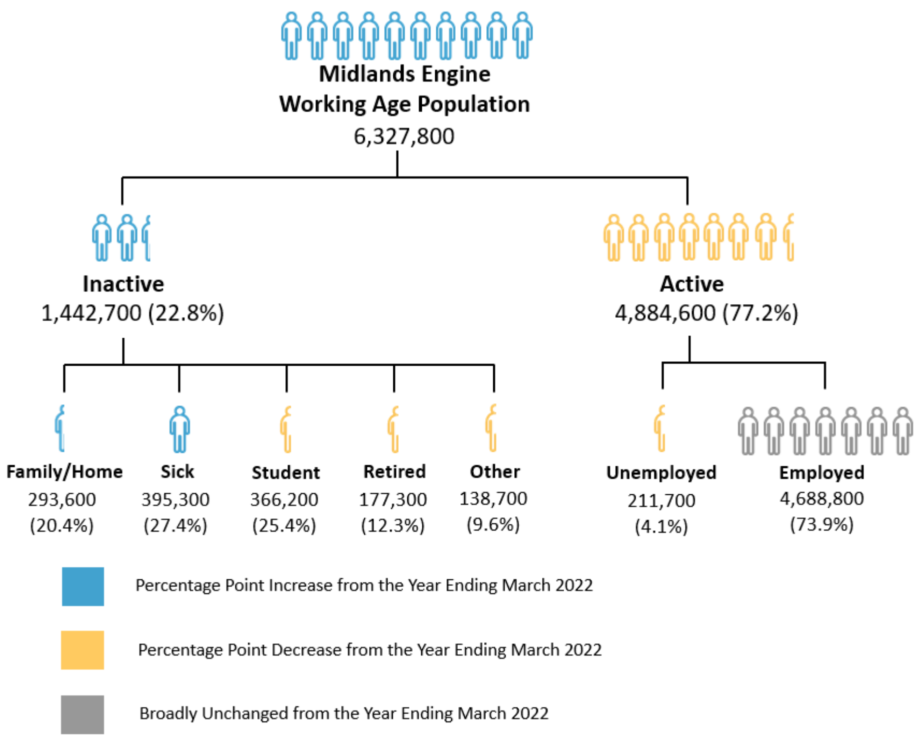
Source: ONS/ Department for Work and Pensions, September 2023.

The Midlands Economic Activity

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

- In the year ending March 2023, the **employment rate in the Midlands Engine area was 73.9%,** compared to 75.4% for the UK overall. When compared to the year ending March 2022, the Midlands Engine area **remained broadly unchanged** while the UK overall increased by 0.3 percentage points (pp). For the Midlands Engine area **to reach national proportions requires 91,961 working age residents to be employed.**
    - Within the Midlands Engine, 42 local authority areas have employment rates that were at or above the UK average. When compared to the year ending March 2022, the employment rate in 36 of the Midlands Engine local authorities increased.
- The **economic activity rate for the Midlands Engine area was 77.2%** compared to 78.3% for the UK in the year ending March 2023. For the Midlands Engine area, **the economic activity rate has decreased by 0.2pp** since the year ending March 2022. The UK decreased by 0.1pp. For the Midlands Engine area **to reach national proportions requires 70,067 working age residents to be economically active.**
    - Within the Midlands Engine, 37 local authority areas have economically active rates that were at or above the UK average. Since the year ending March 2022, the economic activity rate in 31 of the Midlands Engine local authorities increased.
- **For economic inactivity, the Midlands Engine rate was 22.8%** compared to 21.7% for the UK overall in the year ending March 2023. Since the year ending March 2022, for the Midlands Engine area, this **increased by 0.2pp** while the UK increased by 0.1pp.
    - As seen below, the increase in economically inactivity was linked to looking after the family/home (+1.1pp) and sick (+1.9pp).
    - In the year ending March 2023, the Midlands Engine had a **higher percentage of residents that were inactive when compared to the UK for those looking after the family/home (20.4% vs 19.6%).**
- The **modelled unemployment rate for the Midlands Engine was 4.1%** compared to 3.7% for England in the year ending March 2023. For the Midlands Engine, this is a **decrease of 0.2pp** while England decreased by 0.5pp since the year ending March 2022.

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

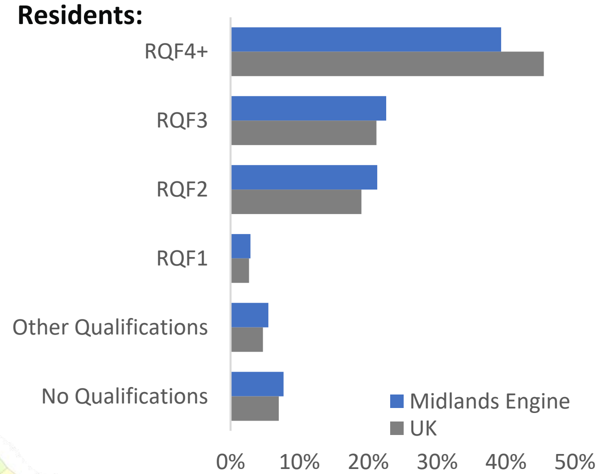


Due to data gaps, modelled unemployment rate has been used. The model-based estimate improves on the APS unemployment estimate by borrowing strength from the claimant count to produce an estimate that is more precise. The claimant count is not itself a measure of unemployment but is strongly correlated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

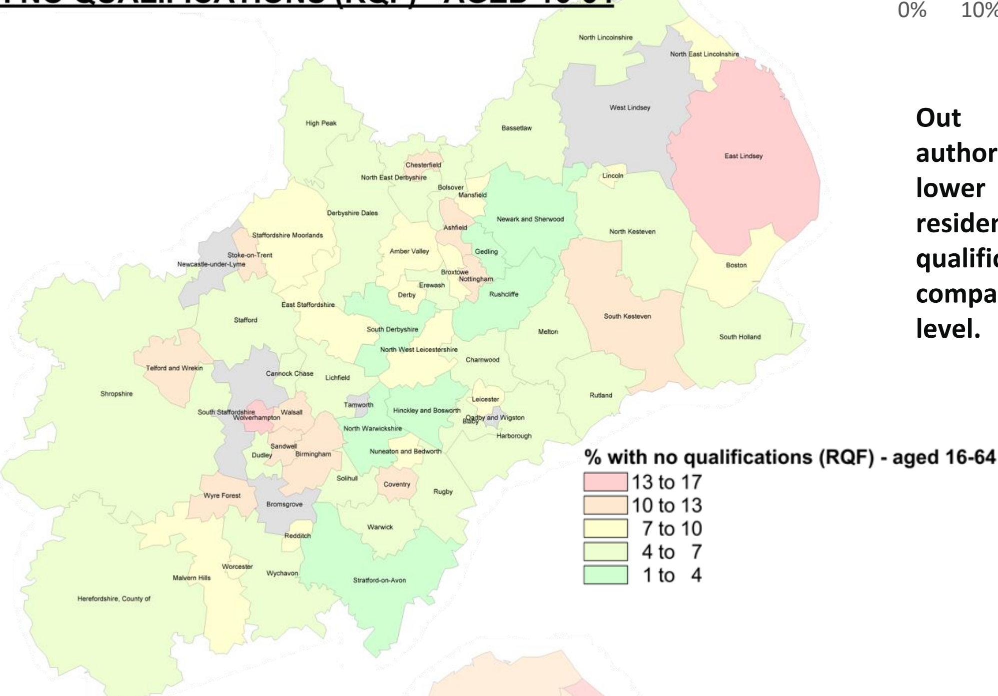
The Midlands 2022 Qualification Profile

- In 2022, for the Midlands Engine area, **39.3% (nearly 2.4m) of the working age population had RQF4+ qualifications.** This was below the UK-wide average of 45.5%, meaning there was a **shortfall in the Midlands Engine area of 373,936 people**.
- **22.6%** (nearly 1.4m) had **RQF3 qualifications** compared to 21.2% nationally. **21.3%** (nearly 1.3m) had **RQF2 qualifications** compared to 19.0% nationally. **2.9% (**173k) had **RQF1 qualifications** compared to 2.7% nationally. **5.5%** (329k) had **other qualifications** compared to 4.7% nationally.
- In 2022, in the Midlands Engine area (based of 59 LA), **7.7% (461k) had no qualifications**, this was above the UK-wide average of 7.0%. To match the UK proportion, approximately 41,931 residents would need to gain a qualification.

2022 Qualification Profile of Working Age Residents:

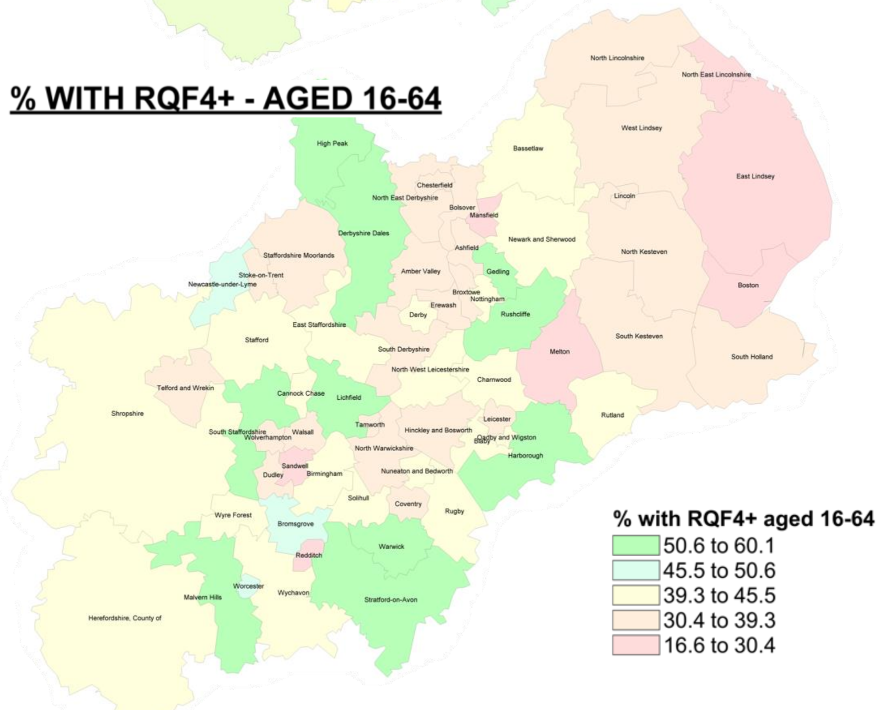


% WITH NO QUALIFICATIONS (RQF) - AGED 16-64



Out of 59 local authorities, 31 had a lower proportion of residents with no formal qualifications when compared to national level.

% WITH RQF4+ - AGED 16-64



14 local authorities in the Midlands Engine have a higher proportion of residents with RQF4+ qualifications when compared to national level.

National Vocational Qualifications (NVQ) estimates have been replaced with estimates on a Regulated Qualifications Framework (RQF) basis. RQF based estimates are available for the Jan - Dec 2022 survey period, while estimates prior to Jan - Dec 2022 remain on an NVQ basis.

Source: ONS, APS, 2023. Approximate figures for RQF1, Other and No Qualifications due to gaps within the Midlands Engine geography

The Midlands Gross Disposable Household Income

Gross disposable household income (GDHI) is the amount of money that all the individuals in the household sector have available for spending or saving after they have paid direct and indirect taxes and received any direct benefits. GDHI is a concept that is seen to reflect the "material welfare" of the household sector. The household sector includes residents of traditional households, as well as those living in communal establishments. GDHI also includes the business income of self-employed people. GDHI is measured and reported on at current basic prices.

Total GDHI

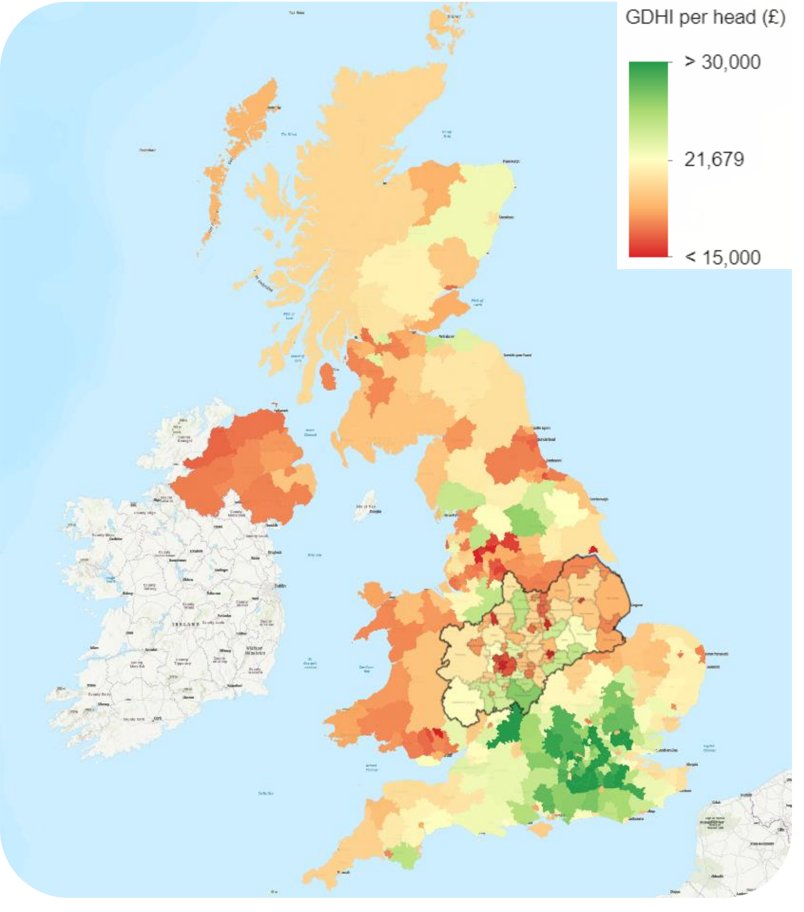
- **The Midlands Engine total GDHI has increased from £186.2bn in 2020 to £192.6bn in 2021.** This equates to a 3.4% (+£6.3bn) annual increase, slightly behind the UK-wide growth of 3.6%.
    - **Within the Midlands Engine 64 local authorities experienced an increase** in total GDHI between 2020 and 2021 (the only decrease was seen in Redditch by 0.4%, down £7m to £1.7bn).
    - **Stratford-on-Avon had the largest percentage GDHI increase,** reporting 5.3% growth (+£184m) to £3.7bn. **In real terms, Birmingham had the largest number increase,** reporting £610m growth (+3.4%) to £18.5bn.

GDHI per Head

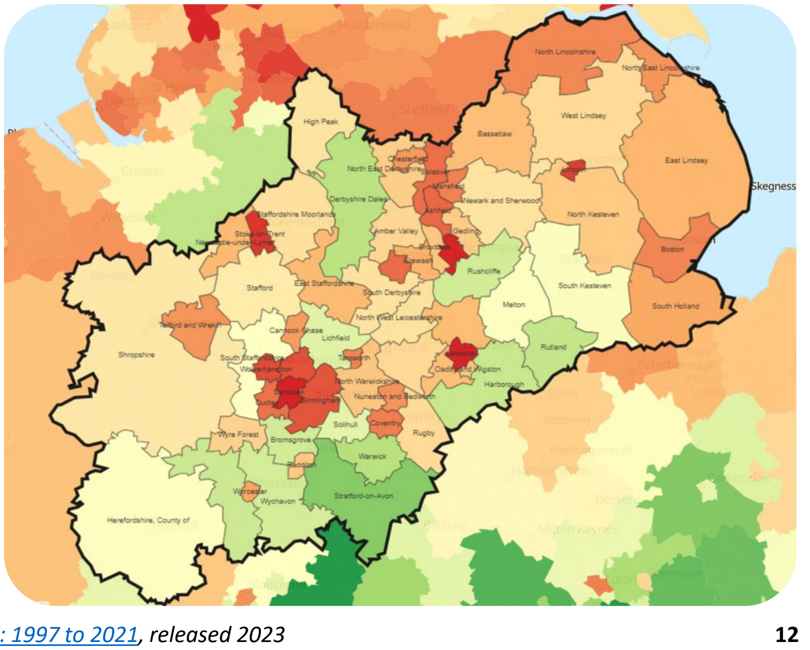
- The **Midlands Engine GDHI per head has increased from £17,904 in 2020 to £18,561 in 2021.** This equates to a 3.7% (+£656) increase, matching the UK-wide growth. There is a **shortfall of £3,118 to the UK figure** (£21,679).
    - There were **14 local authorities within the Midlands Engine area where GDHI per head was higher than the UK-wide figure in 2021**, the highest local authority being Stratford-on-Avon (£26,872).
    - Within the Midlands Engine, **GHDI per head increased among 59 local authorities**. Coventry had the largest increase in GDHI per head, reporting 13.8% growth (+£2.1bn) to £17,175. In contrast, GDHI per head decreased in 6 local authorities: Redditch, Worcester, Rugby, Tamworth, Sandwell and Lincoln.

- **As seen in the following map, the 10 places with the lowest GDHI per head** were all in four ITL1 regions of England, with two in each of the **East Midlands (Leicester lowest at £14,605 and Nottingham 3rd lowest)** North West, and Yorkshire and The Humber, **and four in the West Midlands (Sandwell 2nd lowest, Stoke-on-Trent 6th lowest, Wolverhampton 8th lowest and Walsall 10th lowest).**

GDHI per head Compared to National, 2021:



Midlands Focus - GDHI per head Compared to National, 2021:



3. Business Environment

The Investment Gap

UK in a Changing Europe recently published a report: '[The Investment Gap: The UK's efforts to replace the European Investment Bank](#)', exploring the **impact of the UK losing access to funding from the European Investment Bank (EIB).**

EIB Investment in the UK

Since 1973, the EIB has invested £146 billion in real terms in over 1,000 projects, many in infrastructure and energy. Within the UK, investment was largely focused in London, the North West and Scotland. Regions/nations such as the **East Midlands and Northern Ireland receiving the least.**

When investment is measured per capita, regions/nations such as the North East and Wales saw some of the highest levels of investment per capita, **while the East Midlands was the least-supported region.** The **West Midlands was the 5th least supported region.**

The largest difference between per capita and real terms is among devolved nations

EIB investment by nation and region comparing in £ billion real terms and per capita from 1973 to 2019

Source: European Investment Bank. Real terms during GDP deflator, 2022 base year

The report highlights that in the 2010s, which saw the highest overall levels of EIB investment in the UK, similar regional trends are observed. In this time period, **Yorkshire and the Midlands received only 30% of what Scotland, the North West, and London received in per capita terms.**

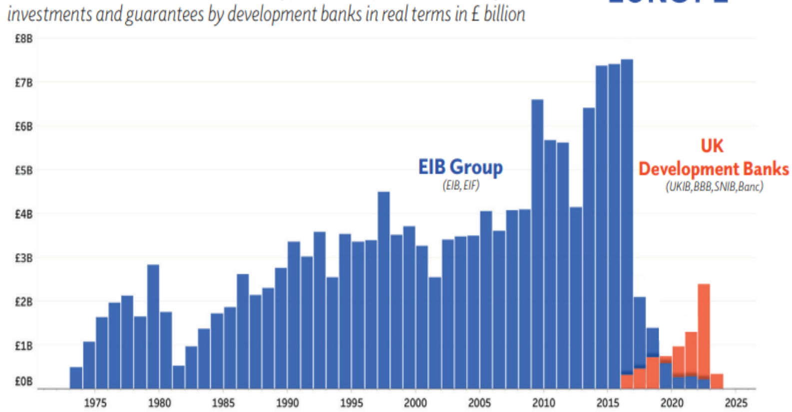
EIB Replacement: Continued Regional Disparity

Following Brexit, the UK lost access to EIB finance. The UK government has sought to replace its offer through an **expanded reach of the British Business Bank (BBB)** and three new development banks: in Wales, Scotland and, most recently the **UK Infrastructure Bank (UKIB).**

UK in a Changing Europe's analysis finds that, **purely in terms of the amount of finance delivered, the UK development banks have not matched EIB:** the £2.4bn invested in 2022 represents **less than half of the EIB annual average from 2009 to 2016 and 32% of the 2016 peak.**

Since leaving the EIB, the UK has only been able to replace a third of public investment

Annual investment into the UK including private and public loans, equity investments and guarantees by development banks in real terms in £ billion

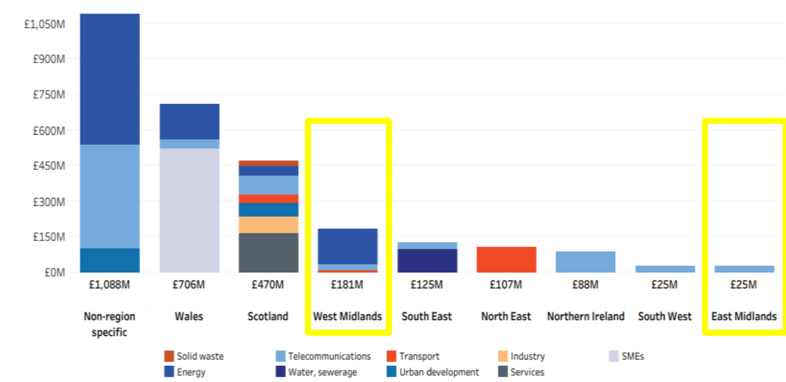


Source: Data from each respective bank's website and annual reports. Amounts are overlaid, not stacked. In real terms using GDP deflator, 2022 base year.

The UK government intended that by 2022 the UKIB would lend and invest £1.5 billion a year. However, it lent only £0.8 billion in 2022. The OBR has warned it is **unlikely to reach its annual lending goal of £1.5 billion until 2024** and even then, it is likely to fall more than 40% short of targets.

Devolved nations benefit from having their own development banks

Loan amounts of the UKIB, SNIB, and BANC for sectors by nation and region from 2017 to 2023 in real terms



Source: UK Infrastructure Bank, Scottish National Investment Bank, Development Bank of Wales. Real terms using GDP deflator, 2022 base year.

Critically, the **range of projects supported by the UKIB is still limited and not yet fulfilling its levelling up mandate**. As of June 2023, it has invested in 15 projects, of which most were either UK-wide or covered multiple regions; **with the East Midlands again the least supported.** The BBB is also found to have regional disparities in its funding, with the **Midlands affected adversely.**

Regional Service Export Disparities

A recent report from the Institute of Export & International Trade examines **regional service export disparities in the UK** and demonstrates the longstanding recognition of the untapped economic potential across the country. The report highlights that technological advances and a growing global middle class mean that **services will account for 28% of global trade flows by 2030, up from 25% pre-pandemic**. **In the UK, services contribute significantly to prosperity, accounting for around 50% of total exports**. UK service exports, as a share of GDP, has grown steadily for the past 30 years - contrasting the level of goods which has remained relatively flat. Reasoning for this includes rapid advancements in ICT allowing companies to regularly utilise digital technologies to make the most cost-efficient offshore options. The World Bank estimates that **digitally delivered services were worth $3.82trn in 2022 and accounted for 54% of total global service exports**.

Key observations within the report include that in England **24 of 33 regions (73%) have Actual Service Exports (ASE) rankings in line with Services Exports Potential (SEP)** meanwhile two regions (London and the South East) accounted for around 60% of all service exports. In contrast, **there are nine English regions with significant differences between their SEP and ASE**. In the Midlands, **Shropshire and Staffordshire** (+20) comes out on top as one of these overperformers and other Midlands regions which perform well include **Leicestershire, Rutland and Nottinghamshire** (+4), **West Midlands** (+1), **Derbyshire and Nottinghamshire** (+1), **and Herefordshire, Worcestershire and Warwickshire** (+1). On the other hand, **regions which don't meet their potential in the Midlands include East Riding and North Lincolnshire** (-8) **and Lincolnshire** (-1).

In order to make sure more places achieve their export potential, the report includes both UK and regional level policies. At a UK level, **the report recommends that policymakers ensure political stability, deepening of trade relationships, and easing both immigration and mobility rules**. At regional level, **the report recommends encouraging economic complexity and sector specialisation, improving connectivity, increasing levels of education and training, boosting higher education R&D expenditure, and drawing international comparisons.**

Midlands Regions' SEP Scores:

	Actual Services Exports (£m)	Economic Complexity	Connectivity (broadband)	Connectivity (distance to airport)	Education and Skills	Higher education R&D	Total
East Riding & North Lincolnshire	1,403	15.60	12.50	11.20	10.89	0.24	50.43
Derbyshire & Nottinghamshire	3,545	16.45	9.24	10.99	12.66	2.66	52.01
Leicestershire, Rutland & Northamptonshire	4,089	17.57	9.78	9.99	12.96	1.94	52.24
Lincolnshire	788	15.45	7.31	7.03	11.09	0.21	41.09
Herefordshire, Worcestershire & Warwickshire	2,770	17.19	7.54	10.47	14.14	0.03	49.38
Shropshire & Staffordshire	7,445	15.95	8.18	8.46	12.76	0.40	45.75
West Midlands	7,184	17.87	10.63	11.41	11.91	5.86	57.68

Midlands Regional SEP vs ASE Rankings:

	SEP	SEP Rank	ASE (£M)	SEP Rank	Difference
West Midlands	57.68	12	7,184	11	+1
Leicestershire, Rutland & Northamptonshire	52.24	18	4,089	14	+4
Derbyshire & Nottinghamshire	52.01	19	3,545	18	+1
East Riding & North Lincolnshire	50.43	22	1,403	30	-8
Herefordshire, Worcestershire & Warwickshire	49.38	25	2,770	24	+1
Shropshire & Staffordshire	45.75	30	7,445	10	+20
Lincolnshire	41.09	32	788	33	-1

The Midlands Trade in Goods

In the year ending Q2 2023, the Midlands area exported 60.0bn worth of goods and imported £76.2bn. This represents a trade in goods deficit of £16.2bn, a decrease from the trade deficit in the year ending Q2 2022 which was £21.1bn.

- The West Midlands exported £33.4bn and imported £42.5bn – a trade in goods deficit of £9.1bn.
- The East Midlands exported £26.5bn and imported £33.7bn – a trade in goods deficit of £7.2bn.

Goods Exported

In the year ending Q2 2023, exports from the Midlands area were worth £60.0bn and has increased by £11.6bn (+24.1%) since the year ending Q2 2022. The UK increased by a slower rate, by 12.2% to £379.8bn.

- Since the year ending Q2 2022, the West Midlands goods exports increased by £6.9bn (+26.1%) to £33.4bn in the year ending Q2 2023.
- East Midlands goods exports increased by £4.7bn (+21.6%) to £26.5bn in the year ending Q2 2023.
    - Notably the Midlands regions had the highest increases.

The Midlands area accounted for 22.0% of England's goods exports - above London and the South East.

Quarter-on-quarter (Q2 2023 to Q1 2023) analysis shows total goods exports from the Midlands increased by £701m (+4.7%, UK -0.1%) to £15.7bn. The West Midlands increased by £145m (+1.7%) and the East Midlands increased by £556m (+8.6%).

- EU exports from the Midlands increased by £57m (+0.8%, UK -5.7%); the increase can be attributed to the East Midlands which increased by £181m (+6.2%), whereas the West Midlands decreased by £124m (-3.2%).
- Non-EU exports from the Midlands increased by £642m (+7.8%, UK +6.1%); the West Midlands increased by £268m (+5.7%) and the East Midlands increased by £374m (+10.7%).

Latest annual quarterly (Q2 2023 – Q2 2022) analysis shows total goods exports from the Midlands increased by £3.2bn (+25.1%, UK -0.8%); the West Midlands increasing by £1.8bn (+25.9%) and the East Midlands increasing by £1.4bn (+24.1%).

- EU exports from the Midlands increased by £680m (+10.9%, UK -6.2%). The West Midlands increased by £266m (+7.6%), and the East Midlands increased by £414m (+15.3%).
- Non-EU exports from the Midlands increased by nearly £2.5bn (+39.0%, UK +5.3%) as the West Midlands increased by £1.5bn (+44.6%) and the East Midlands increased by £943m (+32.3%).

Source: HM Revenue & Customs, [UK Regional Trade in Goods Statistics Quarter 2 2023](#) – Released September 2023.

Goods Imported

In the year ending Q2 2023, goods imports to the Midlands area were worth £76.2bn, an increase of £6.8bn (+9.7%) since year ending Q2 2022. UK-wide total imports increased by 12.2% to £627.8bn.

- West Midlands region imports increased by £3.2bn (+8.1%) to £42.5bn in the year ending Q2 2023.
- East Midlands imports increased by £3.6bn (+11.9%) to £33.7bn in the year ending Q2 2023.

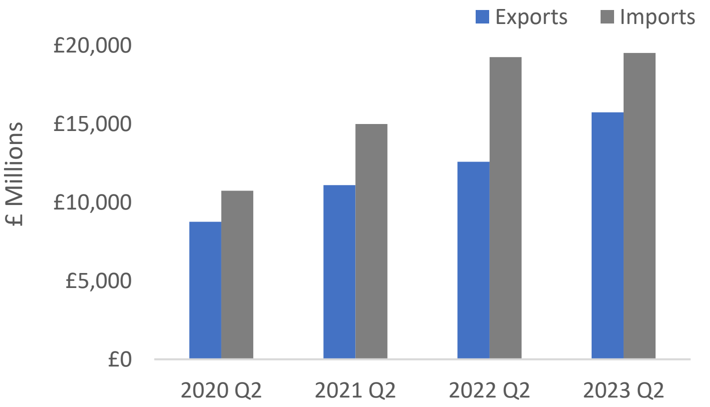
Quarter-on-quarter analysis shows **total goods imports to the Midlands increased by £28m (+0.1%, UK -4.8%). The West Midlands decreased by £68m (-0.6%) and the East Midlands increased by £96m (+1.1%).**

- EU imports to the Midlands decreased by £221m (-1.9%, UK +0.6%).
- Non-EU imports to the Midlands increased by £249m (+3.2%, UK -10.4%).

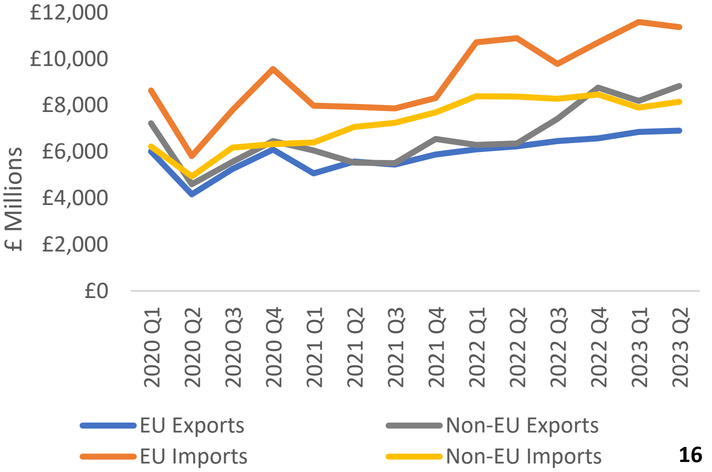
Annual quarterly analysis shows **total goods imports to the Midlands increased by £256m (+1.3%, UK -4.2%).**

- EU imports to the Midlands increased by £480m (+4.4%, UK +2.2%).
- Non-EU imports to the Midlands decreased by £223m (-2.7%, UK -10.8%).

The Midlands Total Value of Goods Exported and Imported Trends for Q2:



The Midlands Value of Goods Exported and Imported Split by Quarter and EU/Non EU Trends:



The Midlands Trade in Goods

Standard International Trade Classification (SITC)

- The total value of goods exports in five of the ten SITC sections increased (and a further 1 remained the same) for the Midlands when compared to the year ending Q2 2022.
- **The largest SITC section for goods exports in the Midlands area was machinery and transport at £41.2bn – 68.7% of total;** of which £25.1bn (60.9%) went to non-EU locations. Since the year ending Q2 2022, overall, this SITC section increased by £10.0bn (+32.1%), reflecting a **recovery in the automotive sector and wider manufacturing industry.**
- The total value of imports in six of the ten SITC sections increased for the Midlands when compared to the year ending Q2 2022.
- The largest SITC section for goods imports to the Midlands area was machinery & transport at £36.9bn, which is 48.5% of total imports (of which 58.7% or £21.7bn of imports for this section was from the EU). This section overall has increased since the year ending Q2 2022 by £6.5bn (+21.4%). When split between EU and non-EU, there was an increase of £4.5bn from the EU and an increase of £2.1bn from non-EU countries.

Goods Exported and Imported by SITC Section:

Figures in £m	Midlands Region			UK		
	Year to Q2 2022	Year to Q2 2023	% Change	Year to Q2 2022	Year to Q2 2023	% Change
Total Exports by SITC Section						
0 Food and Live Animals	£1,795	£1,997	11.3%	£14,570	£16,032	10.0%
1 Beverages and Tobacco	£108	£98	-9.3%	£7,981	£9,166	14.8%
2 Crude Materials	£1,911	£1,719	-10.0%	£10,320	£9,425	-8.7%
3 Mineral Fuels	£359	£338	-5.8%	£39,063	£45,534	16.6%
4 Animal and Vegetable Oils	£75	£50	-33.3%	£700	£714	2.0%
5 Chemicals	£3,206	£3,358	4.7%	£56,704	£61,784	9.0%
6 Manufactured Goods	£5,273	£5,844	10.8%	£38,370	£37,993	-1.0%
7 Machinery and Transport	£31,156	£41,172	32.1%	£115,545	£142,798	23.6%
8 Miscellaneous Manufactures	£4,437	£5,376	21.2%	£39,662	£43,434	9.5%
9 Other commodities nes	£8	£8	0.0%	£15,514	£12,904	-16.8%
Total Exports	**£48,328**	**£59,958**	**24.1%**	**£338,431**	**£379,783**	**12.2%**
Total Imports by SITC Section						
0 Food and Live Animals	£6,026	£6,570	9.0%	£42,951	£49,391	15.0%
1 Beverages and Tobacco	£550	£565	2.7%	£7,342	£8,115	10.5%
2 Crude Materials	£1,815	£1,607	-11.5%	£15,563	£14,092	-9.5%
3 Mineral Fuels	£1,967	£1,998	1.6%	£87,809	£99,241	13.0%
4 Animal and Vegetable Oils	£214	£216	0.9%	£2,098	£2,422	15.4%
5 Chemicals	£5,509	£5,525	0.3%	£69,797	£73,009	4.6%
6 Manufactured Goods	£12,514	£12,460	-0.4%	£66,186	£63,887	-3.5%
7 Machinery and Transport	£30,433	£36,940	21.4%	£177,529	£216,067	21.7%
8 Miscellaneous Manufactures	£10,403	£10,318	-0.8%	£77,850	£81,592	4.8%
9 Other commodities nes	£6	£4	-33.3%	£12,454	£19,974	60.4%
Total Imports	**£69,438**	**£76,205**	**9.7%**	**£559,578**	**£627,791**	**12.2%**

Country Group

- **The highest value of goods exports from the Midlands area was to the EU at £26.8bn, accounting for 44.7% of the total. The value of goods exports to the EU has increased by £3.1bn (+13.3%) since the year ending Q2 2022.**
- There was one Country Group where goods exports from the Midlands declined from the year ending Q2 2022, which was Eastern Europe (excl. EU) by £174m (-21.8%) to £625m. (-1.3% to £3.5bn).
- While there were declines in imports to the Midlands from three Country Groups; Eastern Europe (excl. EU) decreased by £351m (-53.6% to £304m), Sub-Saharan Africa by 33m (-3.7% to £857m) and Western Europe by £46m
- The highest value of imports to the Midlands area was from the EU at £43.4bn, which accounted for 57.0% of the total. Goods imports from the EU increased by £5.7bn (+15.0%) when compared to the year ending Q2 2022.

Goods Exported and Imported by Country Group:

Figures in £m	Midlands Region			UK		
	Year to Q2 2022	Year to Q2 2023	% Change	Year to Q2 2022	Year to Q2 2023	% Change
Exports by Country Group						
Asia & Oceania	£9,657	£13,344	38.2%	£54,603	£59,342	8.7%
Eastern Europe (excl EU)	£799	£625	-21.8%	£5,214	£4,221	-19.0%
European Union	£23,643	£26,778	13.3%	£174,312	£195,685	12.3%
Latin America and Caribbean	£716	£831	16.1%	£5,217	£6,211	19.1%
Middle East and North Africa (excl EU)	£2,420	£3,587	48.2%	£16,430	£22,215	35.2%
North America	£8,561	£12,158	42.0%	£52,464	£63,247	20.6%
Sub-Saharan Africa	£737	£737	0.0%	£5,643	£6,082	7.8%
Western Europe (excl. EU)	£1,790	£1,892	5.7%	£14,641	£15,969	9.1%
Undefined Country Group	£5	£7	40.0%	£9,907	£6,811	-31.3%
Total Exports	**£48,328**	**£59,958**	**24.1%**	**£338,431**	**£379,783**	**12.2%**
Imports by Country Group						
Asia & Oceania	£19,121	£19,257	0.7%	£123,599	£125,927	1.9%
Eastern Europe (excl EU)	£655	£304	-53.6%	£8,880	£2,204	-75.2%
European Union	£37,762	£43,428	15.0%	£267,198	£316,863	18.6%
Latin America and Caribbean	£1,199	£1,241	3.5%	£8,093	£9,667	19.4%
Middle East and North Africa (excl EU)	£1,513	£1,786	18.0%	£20,584	£24,073	17.0%
North America	£4,706	£5,785	22.9%	£52,796	£71,049	34.6%
Sub-Saharan Africa	£890	£857	-3.7%	£9,966	£10,245	2.8%
Western Europe (excl. EU)	£3,593	£3,547	-1.3%	£62,567	£59,895	-4.3%
Undefined Country Group				£5,896	£7,867	33.4%
Total Imports	**£69,438**	**£76,205**	**9.7%**	**£559,578**	**£627,791**	**12.2%**

Source: : HM Revenue & Customs, [UK Regional Trade in Goods Statistics Quarter 2 2023]– Released September 2023.

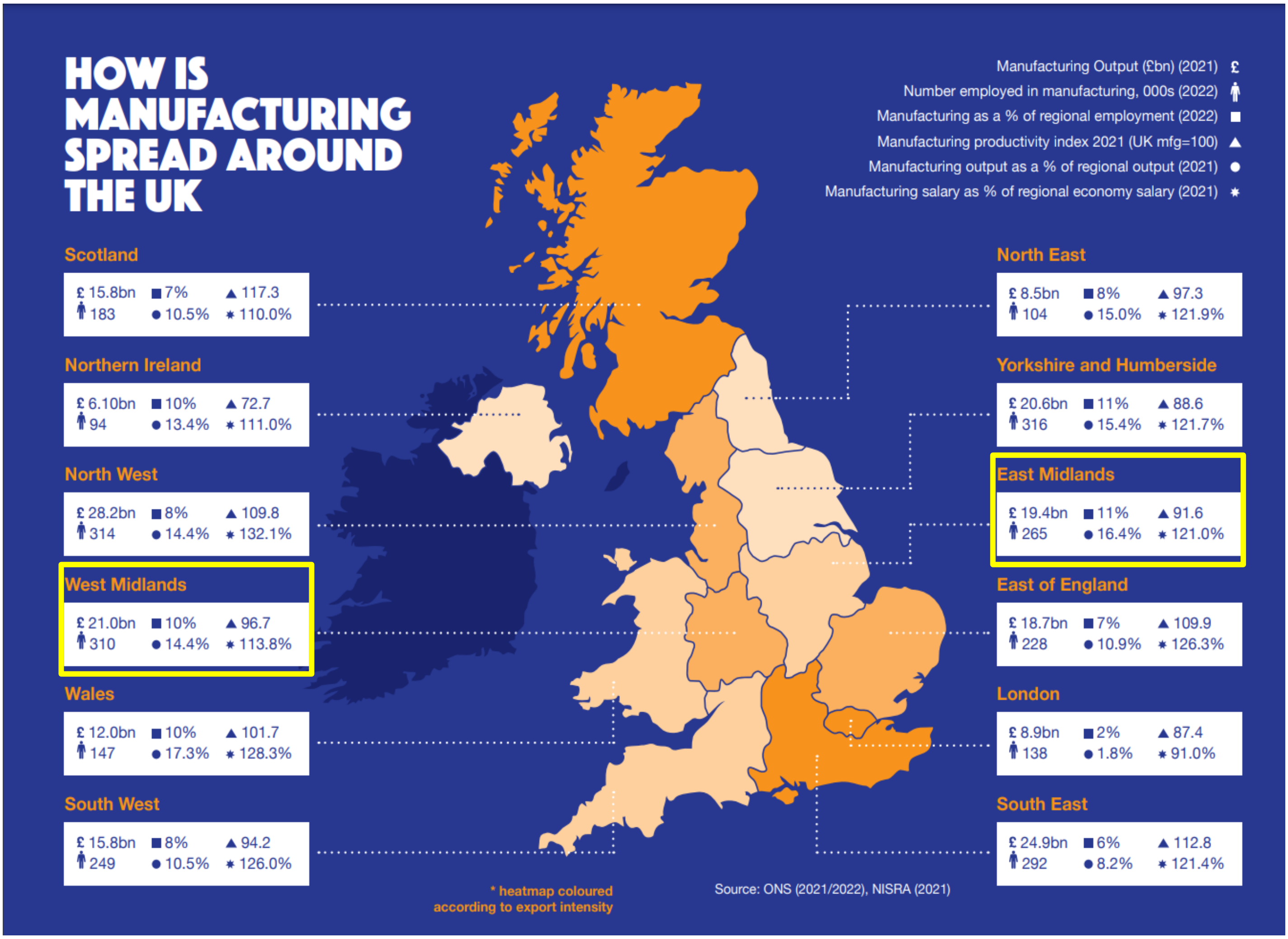
MakeUK – Manufacturing Facts

MakeUK's latest 'Manufacturing – The Facts' report reveals that the **UK's manufacturing sector has climbed one place to eight in the world rankings,** overtaking France.

The sector's output was worth **£224bn in 2022 - with six of the top ten export markets for UK goods remaining in the EU.** Aerospace and Transport saw the largest growth in exports and increased by 27.9%, highlighting the subsectors significance to the economy.

UK manufacturing sector accounts for
£224 BILLION OF OUTPUT
Providing
2.6 MILLION JOBS
Average wages
9% HIGHER
than the whole economy

Contrary to popular opinion, **manufacturing jobs are better paid than both services and the economy overall. The average salary in manufacturing was £36,488**, which is almost 10% higher than the economy average of £33,402 and £32,676 for services.



When looking at regions, the North West remains the biggest manufacturing area of the UK, worth £28.2bn in output and employing 314,000 people. The sector accounts for almost 15% of North West economic output and 8% of regional employment. The **West Midlands is the second largest region** with 310,000 jobs and £1.0bn output. Manufacturing output as a percentage of total regional output and manufacturing employment as a percentage of total regional employment are higher in the East Midlands than any other English region (16.4% and 11% respectively).

Taken together though, the **Midlands regions are even larger, with manufacturing employing almost 600,000 people and contributing over £40bn in output.**

While wages are higher in manufacturing than the regional economy average, the **sector's productivity in the Midlands region is lower than the national sector average.**

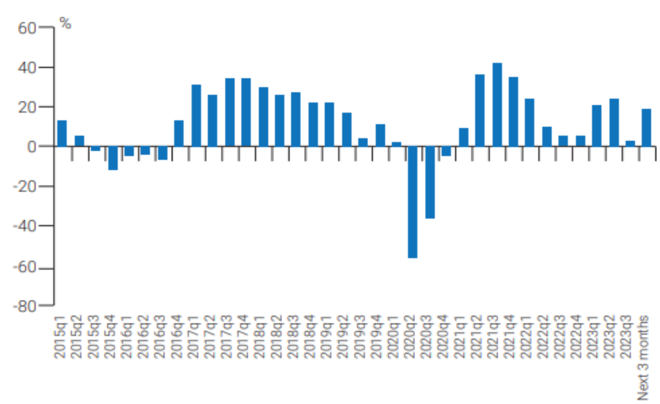
MakeUK – Manufacturing Outlook

The latest Make UK/BDO Manufacturing Outlook Survey – for Q3 2023 – shows that the positive picture of the first half of the year has now gone **sharply into reverse.** The overall picture is one of **ceasing recruitment plans and orders slowing at home and abroad.** As a result, Make UK has **cut its forecast for growth for 2023 with output** set to fall this year, while the forecast for next year is within the margins of no growth at all. Findings this quarter include:

- The **latest balance for output reported at +3%, down from +24% in Q2 2023** highlighting the weakest performance for production since Q4 2020.
- The **balance for total orders has declined to -1%,** the lowest levels since Q4 2020. UK orders have also declined into negative territory reporting at -3% for this quarter and the export orders balance reported at -3% as well.
- The **balance for employment is -1%, the lowest since Q1 2021.**
- In contrast, **investment activity has remained robust** with a balance of +17% of manufacturers planning to increase their spending on plant & machinery over the next twelve months
- **Business confidence remains positive** and, contrary to other metrics this quarter, has improved since Q2 2023.
- The share of manufacturers raising prices on their goods is showing material signs of falling indicating that the **rate of inflation taking place upstream will start to fall too**.

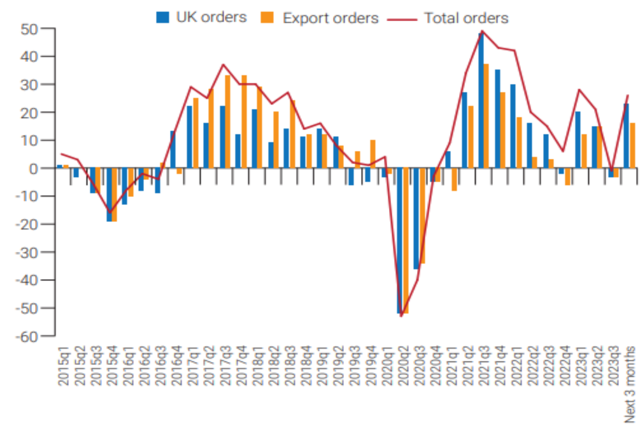
Output balance falls to lowest level since Q4 2020

% balance of change in output



All measures of orders fall into negative territory for this quarter

% balance of change in orders

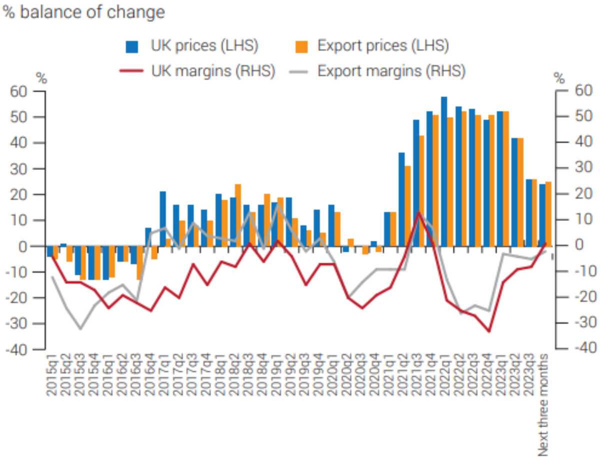


Despite the challenges and worrying statistics, **manufacturers remain upbeat, predicting that the downturn in Q3 is a temporary blip.** Manufacturers believe that the final quarter of this year will post very positive results to end 2023 on a high. The industry has reported that **they expect total orders to improve significantly next quarter, over and beyond the positivity that was witnessed in the first and second quarters of the year**. Optimism may also be driven by the reduction in prices now filtering through.

In addition, the overall picture masks a **strongly emerging sectoral divergence with the other transport (largely aerospace), food and drink, and chemicals sectors continuing to perform very strongly relative to other sectors.** The aerospace sector in particular has benefitted from a large number of orders for new aircraft over the last year, as well as a strong rebound in long haul international travel. In contrast, **output in metal products is suffering**.

Inflation shows first signs of genuine easing but margins remain in negative territory

% balance of change



Output summary

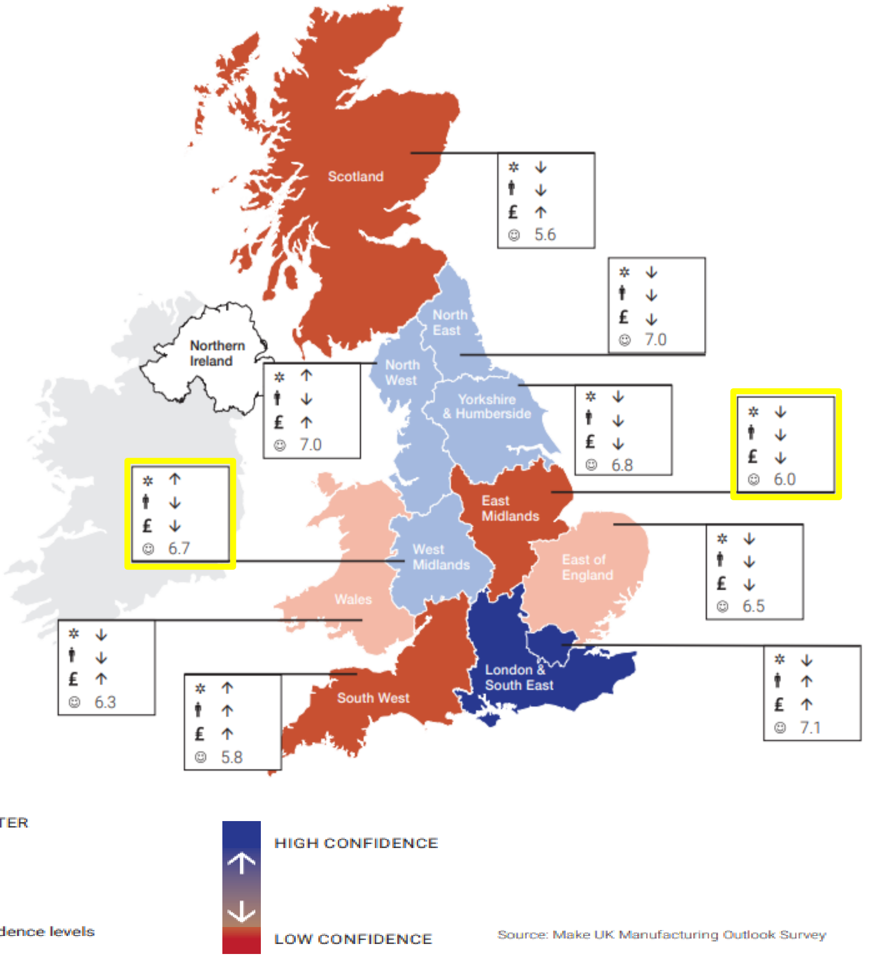
% balance of change

SECTOR	PAST 3 MONTHS	NEXT 3 MONTHS
Basic Metals	14%	43%
Metal Products	-14%	15%
Mechanical	11%	25%
Electronics	14%	29%
Electrical	10%	10%
Rubber & Plastics	0%	11%
TURNOVER		
£0-9m	5%	25%
£10-24m	-4%	17%
£25m and over	24%	21%

MakeUK – Manufacturing Outlook

There are also regional differences in the survey findings. Overall, all regions and nations in the UK maintain positive business confidence (above the '5' inflexion point), but some parts of the nation have shifted their UK economic confidence into negative territory.

- The **East Midlands reported the largest negative change in business confidence in the last three months, falling by 0.5 to 6.0.** Whilst the region remains very optimistic, they rank low in comparison to most parts of the UK.
- **West Midlands business confidence in manufacturing is at 6.7,** slightly down from 6.8 in the previous quarter but the fourth most optimistic region in the country.
- The **largest improvement in business confidence was reported by the South West,** which increased by 0.6 to 5.8.



The optimism of regions and nations this quarter is **contradictory relative to the actual business performance reported in the latest survey data.** For example, seven out of ten regions or nations reported a decline in output levels on balance since last quarter, but half of the UK still intends to increase their investment over the next twelve months. Despite the abnormal performance, **it is clear businesses feel confident about the future.**

- Both output and orders remain strong in the West Midlands with an order balance of **+55% and an output balance of +36% (both the highest of all regions in the UK).** Looking forward, both **of these are set to increase further in the next quarter with orders at +32% and output at +41%.**
- The **situation in the East Midlands is less positive, with a current output balance of -7% and order balance of +4%**. However, anticipation for output and order levels for the final quarter are strong, with a +**24% and +18% increase reported.**

Regional summary

% balance of change

	OUTPUT		TOTAL ORDERS		EMPLOYMENT	
REGION	PAST 3 MONTHS	NEXT 3 MONTHS	PAST 3 MONTHS	NEXT 3 MONTHS	PAST 3 MONTHS	NEXT 3 MONTHS
Scotland	10	23	-10	21	11	18
North East	25	63	25	63	-13	0
North West	26	21	16	32	16	16
Yorks & Humber	6	6	13	25	-25	13
East Mids	-7	24	4	18	3	17
Eastern	-14	36	15	38	-7	-7
South East & London	13	27	7	40	10	20
South West	23	-31	-8	-38	15	-15
West Mids	36	41	55	32	13	22
Wales	-11	11	0	33	0	11

Local Business and Policy Intelligence By Sector

SECTOR	KEY INSIGHTS
Services	• In August, the UK's services sector reported its **first decline of the year**, reporting a score of 49.5 in the S&P Global/CIPS UK Services PMI, indicating a reduction in output (below 50). • S&P said that "Service providers saw **customer spending reverse** course during August as **higher borrowing costs, subdued business confidence, and stretched household finances** all acted to curtail growth."
Green Economy	• A range of major organisations have come together to form a new industrial partnership, **East Midlands Hydrogen**, which is aimed at **attracting ongoing investment, developing skills and creating jobs**. The partnership includes D2N2 LEP, Cadent, Uniper, Toyota, Midlands Engine, East Midlands Freeport and Leicester and Leicestershire Enterprise Partnership. • **Hydrogen skills** are the focus of a recent report commissioned by Midlands Engine. • **Green growth activity in the East Midlands has fallen over the past year amid the cost-of-doing-business crisis – but has still more than doubled since 2015**, new research shows. A joint annual study by East Midlands Chamber and Derby Business School at the University of Derby found the proportion of businesses across Derbyshire, Leicestershire and Nottinghamshire that have made any income from environmentally-friendly goods and services **dropped from 45% in 2022 to 36% in 2023.**
Retail, Hospitality and Tourism	• UK **retail sales volumes fell in the year to August for a fourth consecutive month**, and at the fastest pace since March 2021, according to the latest quarterly CBI Distributive Trades Survey. Sales are expected to contract again next month, albeit at a slower pace. • Looking at July, British Retail Consortium analysis **shows a sharp fall in retail sales during July, with volumes declining by 1.2%.** The sixth wettest July since 1836 had a huge impact on footfall, reducing the overall number of shopping trips. With August not being much better, it was a **summer to forget for many retailers**. • There is also widespread concern for the local and national hospitality industry. According to figures from the Campaign for Real Ale, **pubs in the UK closed at the rate of 30 a week in the first half of this year.** • **FSB has launched a "Tinsel List" of asks to support UK tourism, hospitality and retail in the run up to Christmas** season. They include raising the **VAT threshold, increasing the Small Business Rates Relief, and measures to ensure cheaper energy costs.**
Manufacturing	• Midlands manufacturers have **generally been in a good place order wise this year** but are still struggling with structural issues related to **costs, skills shortages and the global trading environment.** Recent months have **marked a slowdown in activity**, highlighted in MakeUK's most recent outlook report (see separate section in this Monitor). • Also, in the three months to August 2023, UK manufacturers reported the **sharpest fall in output volumes since September 2020 according to the CBI's latest Industrial Trends Survey.** Output fell in 15 out of 17 sub-sectors in the three months to August. • However, UK automotive has continued its post-Covid recovery, with **car production up 31.6% in July according to the SMMT, marking the sixth consecutive month of growth**. Despite this growth, **output remained -29.4% lower than pre-pandemic July 2019.** Automotive's resurgence appears to be **supporting order resilience in the West Midlands**.
Logistics & Transport	• **Take-up of industrial and logistics space across the Midlands (units of 100,000 sq. ft +) reached 4.12 million sq. ft in H1 2023, according to Savills latest Big Shed Briefing**. While this is down on recent years, **take-up for the year to date surpasses the first half of 2019**, signifying a return to levels seen prior to the pandemic. • **According to CBRE's UK Logistics Market Summary Q2 2023, the East Midlands had the highest share of take-up of all regions in Q2 at 1.1m sq. ft across six deals**, bringing the total H1 take-up to 3.4m sq. ft.
Agriculture	• According to the latest IFAC food and agribusiness report, employers in the farming sector are struggling with a **lack of available staff and rising costs. 82% of businesses surveyed are working on cost-saving measures, while 75% reported an increase to costs this year.** • Failure to support farming undermines food security according to the IPPR. The thinktank suggests that **urgent action must be taken to support farmers by funding measures that help to mitigate climate change, reduce greenhouse gas emissions and restore nature.**

Business Insights and Impact on the UK Economy

ONS have published the final results from Wave 91 of the [Business Insights and Conditions Survey (BICS)](#).

Financial Performance

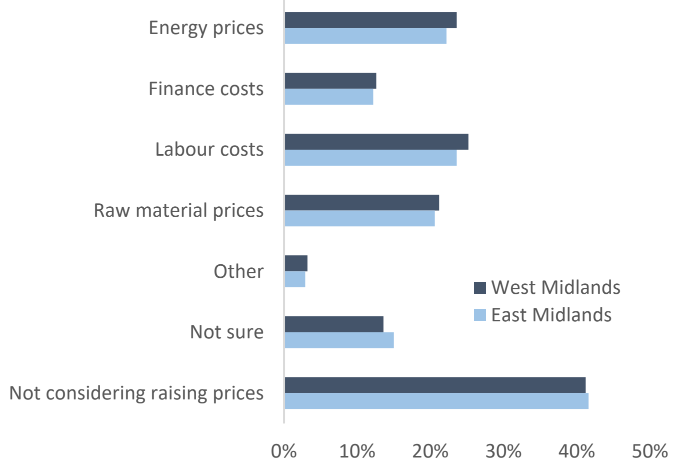
24.2% of West Midlands businesses and 22.6% of East Midlands businesses reported that the business turnover in August 2023 when compared to the previous month had increased. While 26.2% of West Midlands businesses and 24.7 of East Midlands businesses reported turnover had decreased.

29.6% of West Midlands businesses and 27.7% of East Midlands businesses expect turnover to increase in October 2023. While 11.3% of West Midlands businesses and 11.6% of East Midlands businesses expect turnover to decrease.

Prices

25.2% of West Midlands businesses and 23.6% of East Midlands businesses reported labour costs was a factor for the business to consider rising prices in October 2023.

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



Impacts of Price Rises

55.2% of West Midlands businesses and 53.4% of East Midlands businesses have had to absorb costs due to price rises.

Demand for Goods and Services

13.2% of West Midlands businesses and 11.6% of East Midlands businesses reported the domestic demand for goods or services in August 2023 when compared to the previous month had increased. 17.3% of West Midlands businesses and 18.2% of East Midlands businesses reported a decrease.

3.9% of West Midlands businesses and 4.0% of East Midlands businesses reported the international demand for goods or services in August 2023 when to the previous month had increased. 6.0% of West Midlands businesses and 6.2% of East Midlands businesses reported a decrease.

Number of Employees

18.7% of West Midlands businesses and 18.8% of East Midlands businesses reported the number of employees had increased in August 2023 when compared to the previous month. 12.8% of West Midlands businesses and 12.3% of East Midlands businesses reported the number of employees had decreased.

For both Midlands regions, 18.2% of businesses expect the number of employees in October 2023 to increase. 7.2% of West Midlands businesses and 7.0% of East Midlands businesses expect the number of employees to decrease.

Recruitment Difficulties

24.0% of West Midlands businesses and 24.8% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in August 2023.

Debts and Insolvency

26.2% of West Midlands businesses and 26.4% of East Midlands businesses reported repayments were up to 20% of turnover. 7.7% of West Midlands businesses and 6.6% of East Midlands businesses reported repayments were between 20% and 100% of turnover.

45.8% of West Midlands businesses and 45.3% of East Midlands businesses had high confidence to meeting current debt obligations. 16.9% of West Midlands businesses and 15.8% of East Midlands businesses reported moderate or low confidence to meeting debt obligations.

4.9% of West Midlands businesses and 5.2% of East Midlands businesses reported moderate risk of insolvency. **86.3% of West Midlands businesses and 84.6% of East Midlands businesses reported either low or no risk if insolvency.**

Overall Performance

25.8% of West Midlands businesses and 25.4% of East Midlands businesses reported that the overall performance in August 2023 when compared to the same month in the previous year had increased. While 20.0% of West Midlands businesses and 19.0% of East Midlands businesses, performance had decreased.

39.9% of West Midlands businesses and 37.0% of East Midlands businesses expect overall performance to increase over the next 12 months. While 8.4% of West Midlands businesses and 8.2% of East Midlands businesses expect performance to decrease.

Please note – the survey reference period: 1st to 31st August 2023. Survey live period: 4th to 17th September 2023. The response rates are low and the data is unweighted and should be treated with caution.

4. Innovation and Clusters

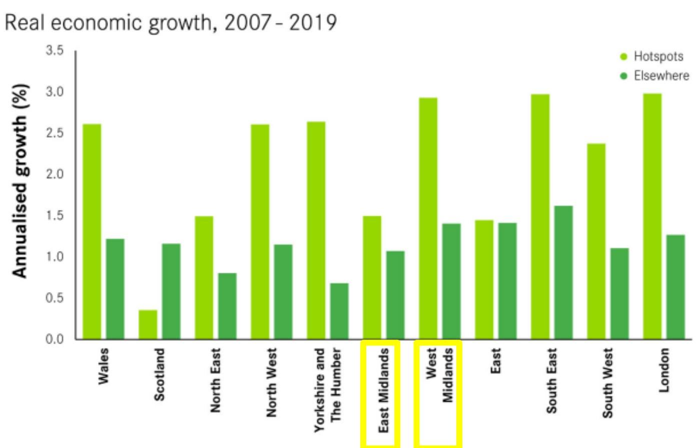
Innovation Hotspots

A new study by Centre for Cities, [Innovation Hotspots: Clustering the New Economy](), has mapped **344 nationally significant hotspots of innovative firms across the UK.**

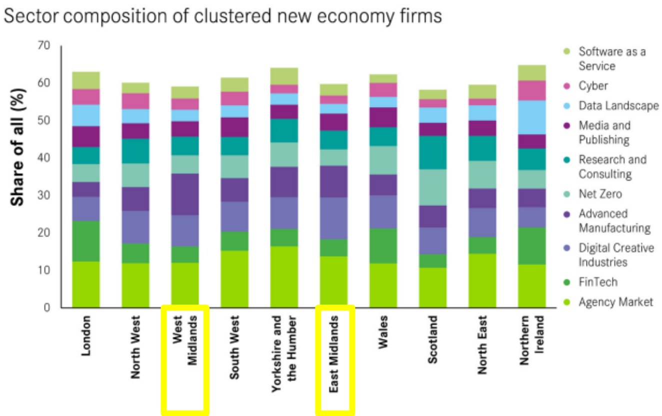
Utilising data from [The Data City](), the research finds that:

- **344 hotspots comprising 18,468 businesses exist across the UK.**
- Nearly **90% of clustered new economy firms are in urban areas**. The largest hotspots are in city centres, with central London alone containing nearly 40 per cent of all the clustered new economy firms.
- **0.6% of Britain's businesses are clustered new economy firms**, yet they account for around 1% of national output
- **1 out of 5 new economy firms are in hotspots.**
- **Neighbourhoods with hotspots are more productive and have grown faster** than the rest of their regions.
- Monoclusters - hotspots dominated by a single industry - are very rare to find. Instead, **hotspots are almost always melting pots of different sectors.**
- **Big cities outside the Greater South East (including in the Midlands, such as Birmingham), have fewer and smaller hotspots than expected**. This is partly explains their wider economic underperformance.
- Regression analyses show how the **benefits of agglomeration – namely access to a deep pool of skilled workers and a network of knowledge-based businesses** – affect the formation of hotspots.
- Universities have little positive impact on the size of the new economy in their labour market areas, but they do **play a role in organising innovative companies into hotspots in their vicinities.**

Annualised GVA growth estimates



The frequency of the 10 most common new economy industries among clustered firms by region, 2022



The report identifies over **30 hotspot locations in the Midlands Engine geography**, around 9% of the UK total. Within this there are **particular concentrations of hotspots and larger hotspots in Birmingham, Nottingham, Leicester, Coventry and Warwick. But also others in more rural areas such as Herefordshire and Wyre Forest.**

The report highlights that the West Midlands has an interesting feature that is an "exception to the rule" across other regions: **urban areas in the region anchor the clustered economy to a lesser degree than elsewhere**. One of the reasons for this is the **relative lack of cluster-prone, service-orientated new economy firms in the urban parts of the West Midlands:** on average, 64% of new economy firms in urban areas are engaged in services. In Birmingham, by contrast, it is just 52%, and in Coventry it is 51%; demonstrated in Figure 4 above which shows the disproportionate **strength and reliance of advanced manufacturing in the West Midlands, and to a lesser extent the East Midlands**. Also, the West Midlands stands out as a place in which the **amount of new economy activity in urban areas is far below that found in the rest of the region** – partly explained by the relative strength of the region's non-urban parts.

Centre for Cities recommend the following to government in response to their findings:

1) **Ease constraints on parts of the country where there is an undersupply of office and laboratory space** with new development in strategic, well-connected locations.
2) **Deal with big city underperformance by improving transport connectivity and ensuring that Investment Zone sites are close to existing hotspots** and appropriate anchors.
3) Elsewhere in the country, **prioritise areas with hotspots when developing and implementing transport, redevelopment**, and relocation schemes to make the most out of their potential.

The report forms part of a wealth of literature related to clustering and innovation policy, for example [FSB's recent "Tech Tonic" report](), and [TechUK's UK Tech Plan](), alongside Midlands Engine's own cluster work (see later pages).

Clusters – KPMG Local Business Pulse Index

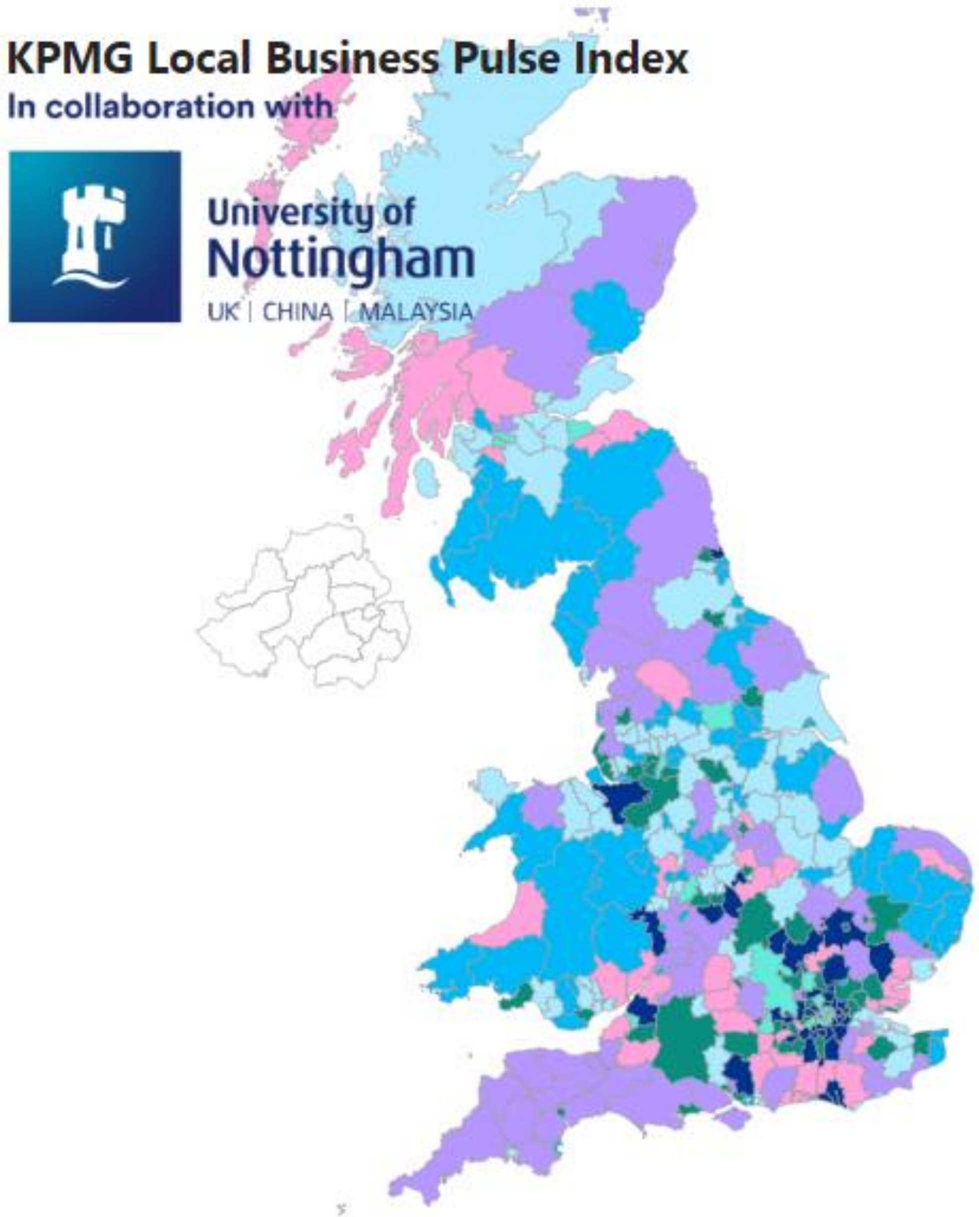
In partnership with the **University of Nottingham, KPMG's** [Local Business Pulse Index (LBPI)] presents forward-looking and data-led insights on the UK's economic geography. It deep dives into 363 areas across the UK, presenting a **typology of local places and a view across the productive strengths and growth opportunities of each area.**

The LBPI **segments localities into seven clusters, each with common economic and business conditions**, and a single dominant characteristic. The clusters, generated using machine learning are: **business creation, sales growth, high investment, high productivity, research and innovation, employment growth, and consumption growth.** All the data can be interactively explored here, including a dedicated profile for each area (Local Authority level).

Cluster Name	Description
Business Creation	These localities show the highest rate of new business creation. They also show high rates of expected investment growth, as new businesses invest and expand their activities.
Sales Growth	These localities show strong expected growth in sales, together with strong expected growth in employment as firms recruit to meet high demand for their goods and services.
High Investment	These localities lead the country in their expected growth in investment. They also show high rates of working from home, as firms invest in new digital infrastructure to facilitate flexible working.
High Productivity	These localities stand out for high productivity growth (gross value added per job filled). They also show the highest rates of work from home, as firms adapt to the hybrid work economy.
Research and Innovation	These localities show the strongest growth in venture capital investments and research and development expenditure. Located across the UK, these localities represent innovation clusters for the new economy.
Employment Growth	These localities show the strongest growth in new job openings, and also high rates of expected growth in future hirings. They are also characterised by above average rates of working from home.
Consumption Growth	These localities stand out for their consumer and leisure-focused economy, which has rebounded strongly post-Covid. Consumers in these areas, which tend to be more rural, have higher than average credit scores.

The data reflects the Midlands Engine's diverse economic geography and the role of different area clusters from a business and economic growth perspective:

- "**High Investment" and "Business Creation" are the most common clusters of Midlands areas**, including a cluster of the latter within Herefordshire, Shropshire, Derbyshire and Staffordshire. While **high investment is particularly prevalent in Warwickshire and the wider West Midlands, Nottinghamshire and Lincolnshire.**
- **Several Midlands cities – Nottingham, Leicester and Coventry – are categorised within the "Sales Growth" cluster**, suggesting high demand and performance of business activity.
- "**High Productivity" is represented in 5 areas** (2 in Leicestershire), and **"Employment Growth in 4 areas** (2 in Warwickshire).
- "Consumption Growth" reflects areas reliant on tourism and leisure, while **only Birmingham is within the "Research and Innovation" cluster.**



Clusters – Midlands Engine Project

As highlighted in previous editions of this Monitor, the Midlands Engine has an active clusters programme – led by the main project report published earlier this year: Exploring the Investment Potential of Midlands Clusters. Following on from the report has been the production and release of "**Cluster Snapshot" reports, highlighting key insights of 23 Midlands clusters identified in the project.**

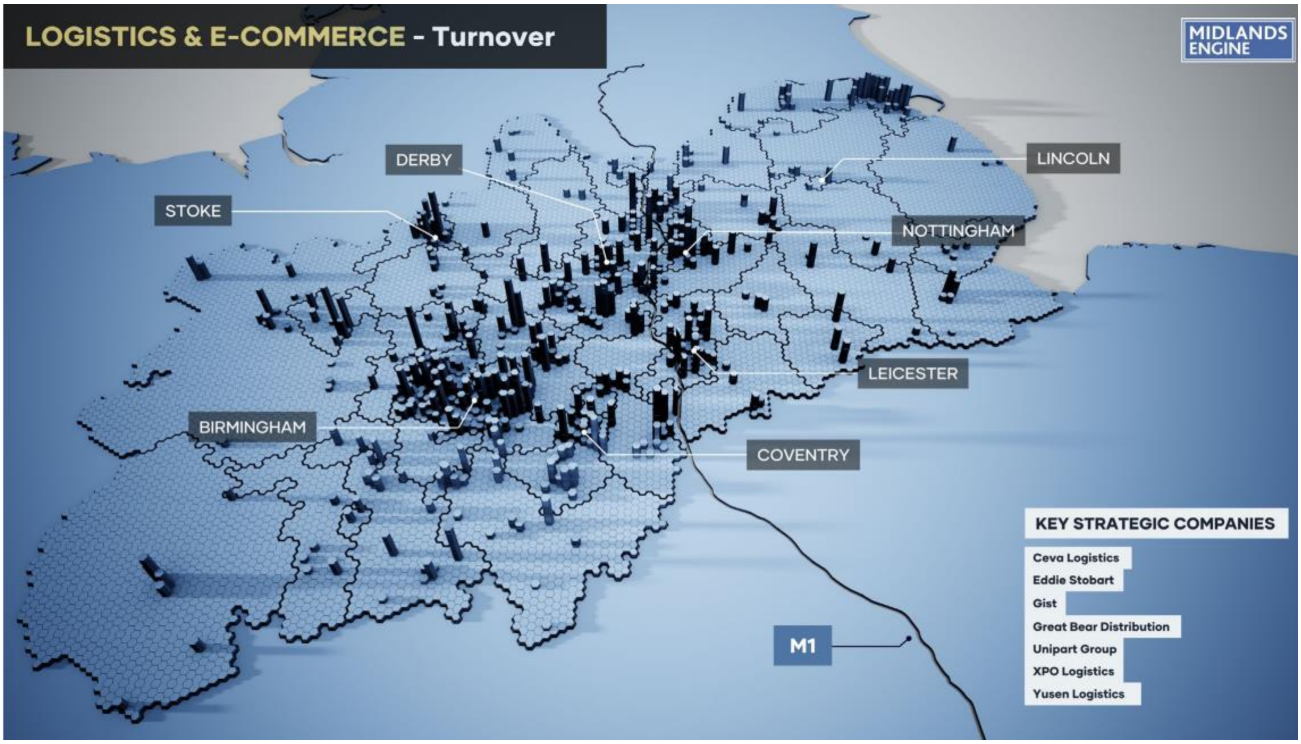
The majority of the cluster snapshots have now been published and can be accessed on the Midlands Engine Resource Library. Recent **releases include snapshots related to the following clusters:**

- **Brownfield Regeneration**
- **Circular Economy**
- **Ceramics, Metals and Materials**
- **Rail**
- **Connected Devices Technology**
- **Disruptive Technologies for Professional and Financial Services**
- **Logistics & E-Commerce**
- **Cyber**
- **Automotive**

Looking at the final 3 in the list as examples, the below content (continuing onto the next page) demonstrates the **richness of the insight provided in the snapshots.**

Snapshot Findings Example: Logistics & E-Commerce in the Midlands

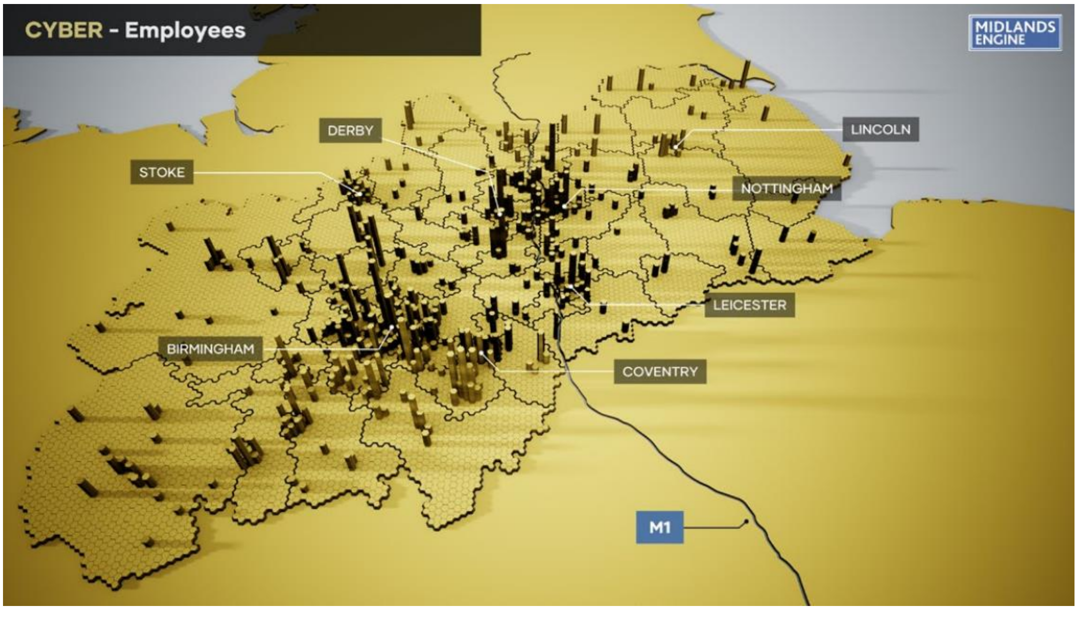
- Over 80,000 jobs; 26% of national and largest region in the UK.
- 16% of Midlands university graduates studied relevant subjects to logistics and e-commerce, including from 4 of the top 25 UK universities for Social Sciences and Management, and Computer Science and Information Systems.
- Almost 1,200 businesses; 23% of UK total and 82% growth since 2013.
- 117 high growth companies (24% of UK) and 49 £100m+ turnover companies (51% of UK).
- Over 51% of Innovate UK funding to logistics and e-commerce businesses since 2005 has been awarded to those with a Midlands address.
- 25% of UK logistics and e-commerce Foreign Direct Investment Capex and 12% of UK logistics and e-commerce Domestic Direct Investment Capex 2017-2021.



Clusters – Midlands Engine Project

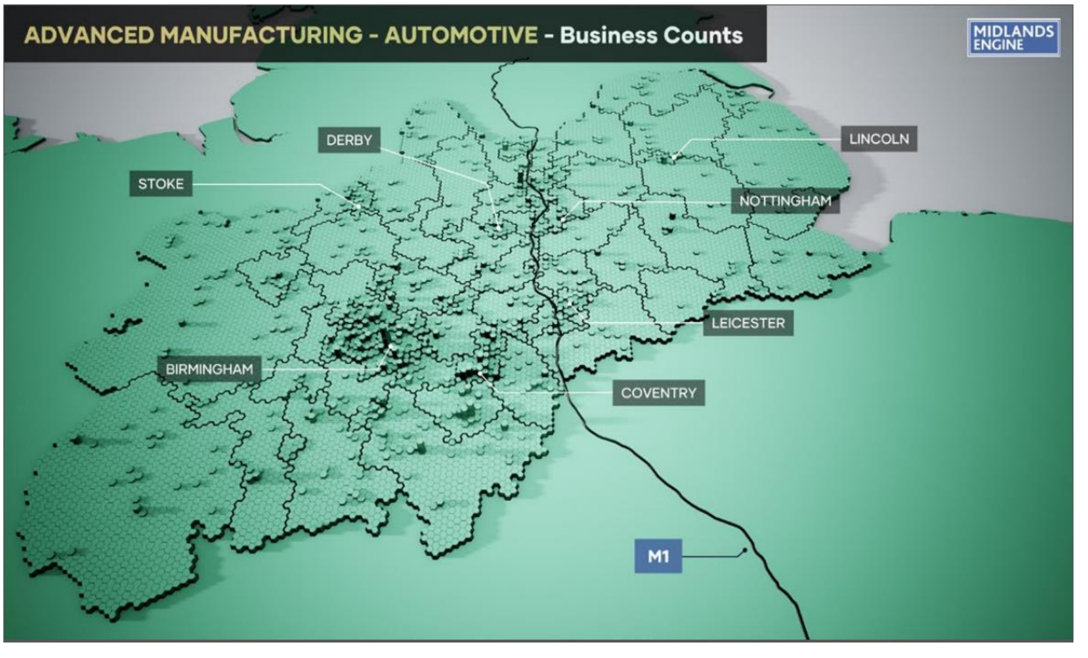
Snapshot Findings Example: Cyber in the Midlands

- Over 31,000 jobs; 9% of the UK total and the most of any region outside London and the South East
- 6% of Midlands university graduates in 2021 studied relevant subjects to cyber, including from 4 of the top 25 UK universities for Computer Science and Information Systems.
- Over 1,300 businesses; 14% of UK total and 76% growth in business numbers since 2013.
- 104 high growth companies (10% of UK) and 30 £100m+ turnover companies (21% of UK).
- 37% of Innovate UK funding awards for cyber since 2005 have been awarded to Midlands-based businesses.



Snapshot Findings Example: Automotive in the Midlands

- Over 51,000 jobs; 25% of UK total and the most of any region.
- 6% of Midlands university graduates studied relevant subjects to automotive, including from 4 of top 25 UK universities for Engineering & Technology.
- Over 1,400 businesses; 25% of UK total and most of all regions. 172% growth since 2013.
- 61 high growth companies (29% of UK) and 29 £100m+ turnover companies (51% of UK).
- 60% of Innovate UK funding to automotive businesses since 2005 has been awarded to those with a Midlands address.
- 38% of UK automotive Foreign Direct Investment Capex and 21% of UK automotive Domestic Direct Investment Capex 2017-2021.



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

MIDLANDS ENGINE OBSERVATORY

In Partnership: