Economic Observatory

MIDLANDS ENGINE
ECONOMIC IMPACT OF COVID-19

EDITION 11: 23RD NOVEMBER 2020

Executive Summary

- Capital Economics has revised its forecast for UK economic growth, upgrading its outlook noting the positivity around the roll-out of a vaccine. They now forecast that GDP will rise to pre-virus as early as mid-next year and that unemployment was likely to peak at 7% , instead of 9% as previously forecast.

- On the 18th November, Prime Minister Boris Johnson set out his ten point plan for a green industrial revolution which will create and support up to **250,000 British jobs**. The plan is part of the PM's mission to **level up across the country** and will mobilise **£12bn of investment** to create and support 250,000 highly skilled green jobs in the UK, whilst spurring private sector investment worth three times the government's contribution by 2030.

- The headline West Midlands Business Activity Index decreased from 58.5 in September 2020 to 51.2 in October 2020. The headline East Midlands Business Activity Index decreased from 58.6 in September 2020 to 52.3 in October 2020. **Across the UK regions, the West Midlands had the eighth highest Business Activity Index and the East Midlands was the fifth highest.**

- Quarter on Quarter Gross Domestic Product (GDP) analysis shows for the West Midlands region there was negative growth of 3.5% in 2020 Q1. For the East Midlands region there was negative growth of 4.1% in 2020 Q1. For the UK there was negative growth of 2.5% in 2020 Q1.

- According to the latest wave of ONS Business Impact of Coronavirus Survey (BICS), 44.9% of businesses in the West Midlands and 38.9% of East Midlands businesses reported profits had decreased by at least 20%. However, 32.2% of trading businesses in the West Midlands and 35.0% of East Midlands businesses reported that profits had stayed the same and around 9% of West Midlands and East Midlands businesses reported their profits had increased by at least 20%.

- The latest claimant data shows that in October 2020, there were 421,175 claimants aged 16 years and over in the Midlands Engine. This is the second month in a row where there has been a decrease, with the latest monthly decrease by 5,400, although the impacts from second lockdown will not be seen yet. There are 194,235 more claimants when compared to March 2020.

- In October 2020, there were 88,785 claimants aged 16-24 in the Midlands Engine. This has decreased by 60 claimants since September 2020. There are 42,590 more youth claimants when compared to March 2020.

- Make UK published a prepare, lead and implement report which shows how businesses need as much certainty and stability as possible during these times. Moreover, they need consistency of support. The current piecemeal and ever-changing models do not provide firms sufficient time to plan and prepare. Consistent, longer-term support, that mirrors that of international competitors, is now needed.

- The Make UK digital skills for a digital manufacturing future report shows 91% say that they have benefitted from the adoption of new technology, and eight in ten now plan to continue using technologies they have adopted. There were also productivity and production related gains to be had with 27% of companies saying adopting digital technologies boosted productivity.

- The recent CBI report – Reviving Regions – draws on a number of sources including research from the 2008 recession which analysed how resilient regions were to the 2008 financial crisis and identified low levels of resilience across the Midlands Engine. The report also identified a number of recommendations regarding labour markets, infrastructure and innovative businesses for all UK regions.

Emerging Policy Considerations

THEME	KEY CONCERNS
Jobs & Furlough	• Business leaders this week have warned that the lockdown is likely to have a short, sharp shock on job figures. • The extension of the government's Job Retention Scheme until the end of March 2021 is welcome news. However, many businesses face high levels of debt and weak confidence.
Access to Finance & Cashflow	• Companies are expressing concerns about the level of debt they have incurred due to COVID-19. • The support has not been sufficient to cover the huge losses incurred by some companies and self-employed. • Many companies are expecting the lockdown to have a large impact on their cashflow.
EU Exit	• Many businesses are too busy dealing with COVID-19 and are not able to think about long term impacts of the EU exit. • Concerns about rising costs of products and massive increases in regulatory costs. • Businesses would like reassurance from government to advise on how to import and export should a deal not be agreed. • Potential new orders on hold with some clients due to EU Exit Impasse. • Continuing uncertainty over future trading relationships with the EU after the end of the transition period is being seen as a problem for many employers in manufacturing and other export active sectors. Farmers raise similar concerns – in addition to specific concerns about the treatment of food, animal welfare and environmental standards in any future trade deals
Recruitment	• Kickstart enquiries increasing. • Still a desire to recruit amongst many businesses.
Start-Ups	• The number of Start-Up enquiries continues to increase, partly due to COVID-19 related job losses. • There is a concern that some new entrepreneurs are not seeking Start Up support and do not understand their responsibilities and obligations in relation to starting a business. This highlights the importance of these schemes to ensure the survival of new businesses.
Work from Home	• Businesses are concerned about the effects on mental health of staff working from home, and are trying to ensure colleagues' wellbeing is the best it can be. • Many businesses would like staff to return to the office, however with social distancing this remains very difficult. • Many businesses have reported capacity maximum at 50%, with staff coming in on a rota basis.
Supply Chains	• Significant concern that current disruption to supply chains is impacting adversely on businesses' ability to scale up for Christmas.
Consumer Behaviour	• Significant concern that changes in consumer behaviour is impacting adversely on businesses' ability to scale up for Christmas • It is a major concern that manufacturing sectors identified as amongst the region's strongest performers in advance of the pandemic are now amongst the most threatened
Government Support	• Previously reported concerns remain about the operation and coverage of Government business support initiatives and particularly the situation of those businesses and individuals who, for a variety of reasons, appear to be 'falling through the cracks'. Similar concerns are now being raised in relation to the application of the 'Kick Start' scheme to small businesses likely to recruit fewer than 30 young workers. • Evidence is growing of the need for both sectorally and spatially targeted interventions in support of business and employment across the Midlands.

Global and National Outlook

Global Outlook

France and Italy have both reached the grim milestone of the highest daily coronavirus death tolls since April. The Paris region is close to reaching its ICU capacity, with 93.6% of intensive-care beds across France now occupied by COVID-19 patients. Similarly, in Germany, the number of COVID-19 patients in intensive care has reached a new record, with over 70% of beds occupied including non-COVID-19 cases.

In more optimistic news, the announcement of an effective and safe vaccine means nations are turning to the quick distribution to populations. Pfitzer and BioNTech's shot requires a sophisticated deep-freeze infrastructure, complicating distribution.

European Outlook

The European Union has reached a deal on the bloc's long-term spending plans, inching closer to finalizing its landmark 1.8 trillion-euro budget and stimulus accord, which has been controversial and debated amidst member nations. The EU is under pressure to wrap up the emergency package so that it will be operational next year, as the continent contends with a surge in coronavirus cases and the worst recession in its history. The recovery plan is expected to add 2% to the EU's economic output in the coming years, according to European Commission projections. The deal, which allows the commission to raise 750 billion euros in jointly backed debt will require approval by the EU parliament and member state's governments.

Euro Stoxx 50 futures are pointing lower, despite gains in Asian markets amid record Singles' Day online sales, indicating a more tempered and modest mood on the news of a vaccine. The European Union is set to impose tariffs on $4 billion of U.S. goods, which comes into force this week. This comes as a like-for-like escalation of a trans-Atlantic fight over illegal aid to aircraft manufacturers Boeing and Airbus.

National Outlook

Brexit talks have resumed in London, with only a small amount of time left to bridge major points of contention -- fisheries and regulations – before any deal can be ratified ahead of the expiration of the transition period. The two negotiators, David Frost and Michel Barnier, will attempt to move forward over the coming days.

Members of The Institute of Chartered Accountants in England and Wales (ICAEW) have shared their thoughts about the impact of the changes to the furloughing scheme. While the extension of the scheme is still welcomed the removal of the £1K bonus has resulted in a large effect on February 2021 projected cashflows that will need reworking - amounting to £150K-£450K levels from examples of numerous businesses within the client reach of ICAEW member practices. The resulting black holes in firm's cashflows are likely to cause obstacles in the new year for many businesses.

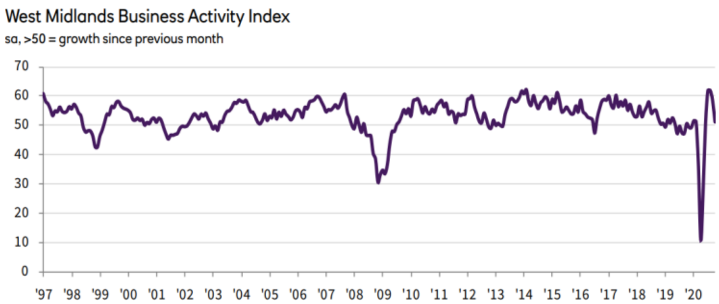
Capital Economics has revised its forecast for UK economic growth, upgrading its outlook noting the positivity around the roll-out of a vaccine. GDP is expected to return to pre-pandemic levels as soon as the middle of next year. Capital Economics have noted that its upside projections are more likely. It also noted that unemployment was likely to peak at 7% , instead of 9%.

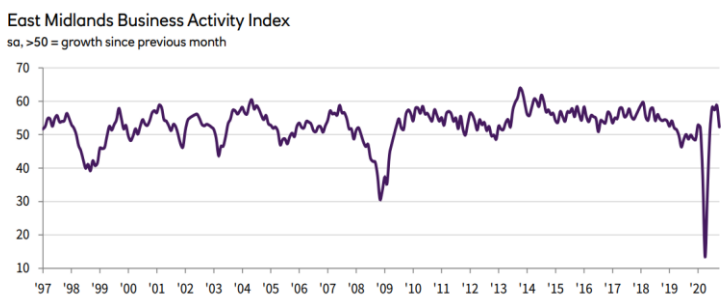
Business Activity

Purchasing Manager Index (PMI) Survey Analysis:

The headline West Midlands Business Activity Index decreased from 58.5 in September 2020 to 51.2 in October 2020. After an all time-low in March the rates of expansion had been robust throughout the third quarter until October where there was marginal growth.

The headline East Midlands Business Activity Index decreased from 58.6 in September 2020 to 52.3 in October 2020. The upturn in output was modest overall, but the slowest since June.





Source: IHS Markit, NatWest PMI, October 2020

Across the UK, the West Midlands had the eighth highest Business Activity Index and the East Midlands was the fifth highest.

Demand

After four months of growth in new work received for businesses in the West Midlands, there was a fall in October and the New Business Index registered at 49.9. The rate of contraction is fractional and is close to the no-change mark (50). East Midlands private sector firms signalled a slight expansion in new orders during October. The rate of growth was only fractional overall with the New Business Index registering at 50.4.

Capacity

For the ninth month in a row across the Midlands, firms continued to register a drop in employment. In the West Midlands and East Midlands the Employment Index was recorded at 40.2 and 45.8 respectively In October, with companies citing that due to COVID-19 there have been redundancies, drops in revenue and downsizing.

The West Midlands Outstanding Business Index has decreased from 48.2 in September to 45.3 in October. In the East Midlands, outstanding business registered a renewed fall in backlogs of work and the Outstanding Business Index was 45.5 in October.

Prices

The West Midlands Input Prices Index increased from 55.1 in September to 57.4 in October. West Midlands companies reported an increase in operating expenses in October, also the rate of inflation increased to the fastest seen since February. For the East Midlands there was a faster increase in input prices at the start of Quarter 4. The East Midlands Input Prices Index was 52.5 in September increasing to 54.5 in October.

The West Midlands Prices Charged Index has been steadily increasing for the last five months and stood at 53.9 in October. For the East Midlands, the Prices Charged Index was 47.5 in October, this has declined for the second month in a row.

Outlook

Companies in the West Midlands remain confident for a rise in output in the next 12 months with the Future Activity Index at 64.8 in October. Although, levels have fallen to a five-month low and is below the long-run average.

Output expectations among firms operating in the East Midlands deteriorated slightly in October, the Future Activity registered at 67.1.

Exports

The West Midlands Export Climate Index increased from 52.3 in September to 52.9 in October. This is the strongest improvement in export opportunities since November 2018.

The East Midlands Export Climate Index has increased from 51.0 in September to 51.9 in October. This signals the most marked improvement in export conditions since July, albeit one that was only marginal overall.

Please note, the impact of the second lockdown will not yet be seen. The indices vary between 0 and 100, a reading above 50 indicates an overall increase compared to the previous month. The Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the selected region.
Source: IHS Markit, NatWest PMI, November 2020.

Gross Domestic Product

Quarter on Quarter a year earlier (2019 Q1 to 2020 Q1) GDP analysis shows for the West Midlands region there was negative growth of 5.3% - the highest negative growth seen across all twelve regions. For the East Midlands there was negative growth of 4.6% which was the third highest negative growth. Over the same period, for the UK there was negative growth of 2.2%.

Quarter on Quarter Gross Domestic Product (GDP) analysis shows for the West Midlands region there was negative growth of 0.8% in 2019 Q4 and also negative growth of 3.5% in 2020 Q1. For the East Midlands region there was negative growth of 0.6% in 2019 Q4 and also negative growth of 4.1% in 2020 Q1.

For the UK there was negative growth of 2.5% in 2020 Q1. There was negative growth in GDP across all twelve UK regions in Q1 2020. Northern Ireland experienced the largest fall at 4.5% and the smallest decline was in London and the East of England both declining by 1.5%.

Industries – Quarter on Quarter Analysis

There was a fall in GDP for the overall four main sectors in 2020 Q1 from the previous quarter for the West Midlands region, with production falling by 3.9%, construction by 7.7%, services by 3.0% and agriculture by 2.3%.

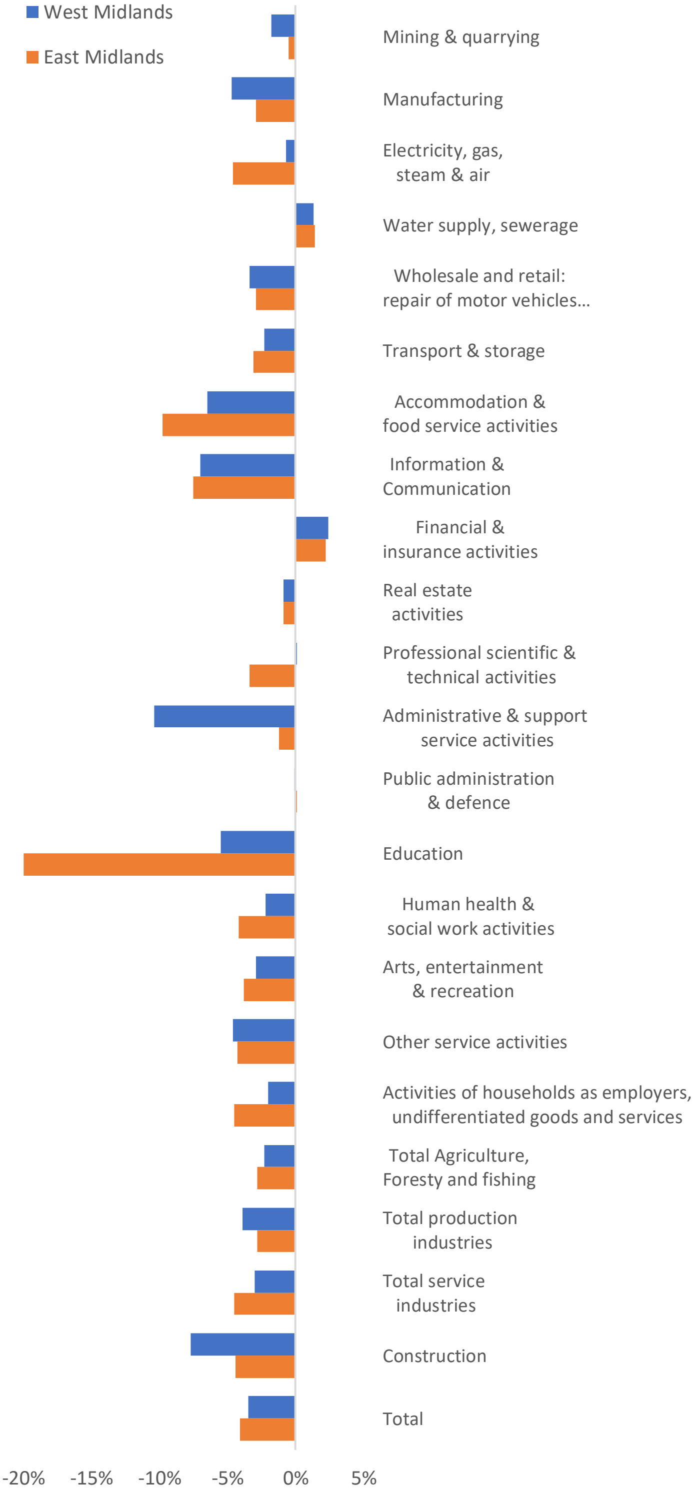
Out of the 18 industries (that fall into one of the main sectors), there were 3 industries that experienced an increase over the quarter, these include; financial and insurance activities (services sector) by 2.4%, water supply, sewage (production sector) by 1.3% and professional scientific and technical activities (services sector) by 0.1%. The highest decrease in industries for the West Midlands region was in administrative and support services activities by negative 10.4% (services sector), information and communication by negative 7.0% (services sector) and accommodation and food service activities by negative 6.5% (services sector).

For the East Midlands region, there was a fall in GDP for the overall four main sectors in 2020 Q1 from the previous quarter, with agriculture and production both falling by 2.8%, construction by negative 4.4%, and services by negative 4.5%. %.

Out of the 18 industries (that fall into one of the main sectors), there were also 3 industries that experienced an increase over the quarter, these include; financial and insurance activities (services sector) by 2.2%, water supply, sewage (production sector) by 1.4% and public administration and defence (services sector) by 0.1%.

The highest decrease in industries for the East Midlands region was in Education (services sector) by negative 20.0%, accommodation and food services activities (services sector) by negative 9.8% and information and communication (services sector) by negative 7.5%.

The following chart shows Quarter on Quarter change for GDP across all industries for the West Midlands and East Midlands regions, 2020 Q1:



ONS - Business Impact of the Coronavirus

Final results from Wave 16 of the Business Impact of Coronavirus Survey (BICS).

Of the 3,732 businesses surveyed across the West Midlands, there was a response rate of 25.5% (951). For the East Midlands, of the 3,190 business surveyed there was a response rate of 26.6% (849). Unless stated, the following data is based on the period between 5th to 18th October 2020 and only covers topics where there is a regional breakdown. Please note the data used is unweighted and should be treated with caution when evaluating the impact of COVID-19. Due to weighted data being available for the UK a comparison has not been included.

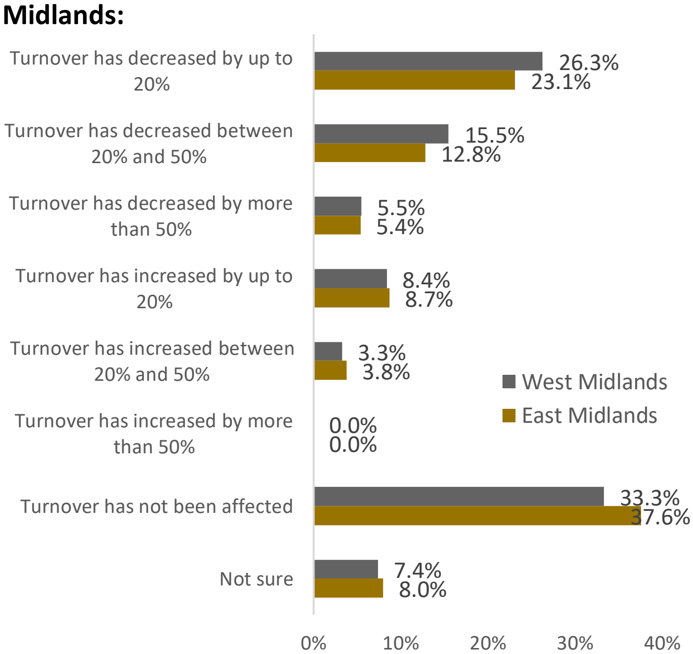
Trading and Financial Performance

The trading status of businesses refer to the period of 5th – 18th October 2020 and the turnover analysis is between 19th October – 1st November.

For the East Midlands and West Midlands figures show that fewer than 1% of businesses have permanently ceased trading. while 97.8% of West Midlands businesses and 98.4% of East Midlands businesses have continued to trade and 1.8% of West Midlands businesses and 0.8% of East Midlands businesses have temporarily closed or paused trading.

47.3% of trading businesses in the West Midlands and 41.3% of East Midlands businesses reported their turnover had decreased by at least 20%.

The following chart shows how business turnover has been affected in the West Midlands and East Midlands:



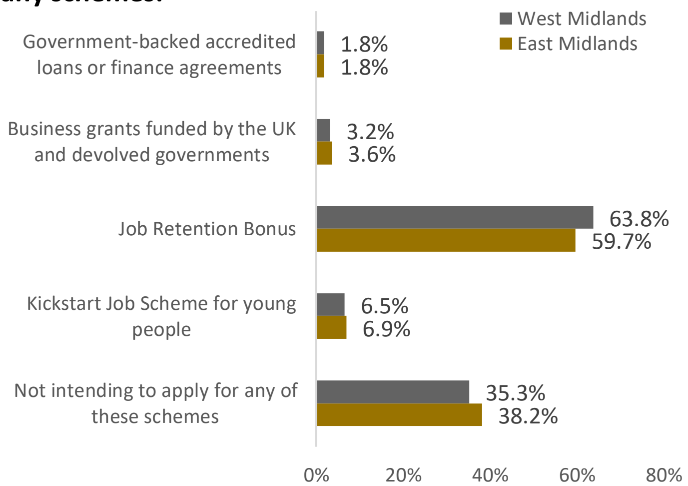
Government Schemes and Initiatives

Responses may cover to the point of completion of the questionnaire (19th October to 1st November).

63.3% of West Midlands businesses and 60.4% of East Midlands businesses reported that their business was expecting to use the Coronavirus Job Retention Scheme in the next two weeks.

63.8% of responding West Midlands businesses and 59.7% of East Midlands businesses were intending to apply for the Job Retention Bonus.

The following graph shows what/if any businesses in the West Midlands and East Midlands intend to apply for any schemes:



Excluding other and not sure responses, 5.2% of businesses in the West Midlands and 5.6% of businesses in East Midlands businesses were not intending to apply for the Job Retention Bonus due to furloughed employees being made redundant before the end of January 2021. A further 4.4% of West Midlands businesses and 2.7% of East Midlands businesses reported they were not applying due to furloughed employees not being eligible and 45.5% of West Midlands businesses and 47.8% of East Midlands businesses did not have any furloughed employees.

13.1% of West Midlands businesses and 13.8% of East Midlands businesses intended to use the Job Support Scheme Expansion for Closed Business Premises. 10.9% of West Midlands and East Midlands businesses are intending to apply for the standard Job Support Scheme.

68.6% of businesses in the West Midlands and 68.1% of East Midlands businesses reported that the support received from initiatives or scheme helped the business to continue trading.

Source: ONS, Business Impact of Coronavirus Survey

ONS - Business Impact of the Coronavirus

Coronavirus Job Retention Scheme Top-Ups

39.2% of West Midlands businesses and 37.3% of East Midlands businesses are providing top-up to any furloughed workers pay, on top of the Coronavirus Job Retention Scheme payments, while 53.6% of West Midlands businesses and 56.2% of East Midlands businesses were not.

Profits

Businesses were asked in the last weeks if the Coronavirus had affected profits when compared with normal expectations for the time of year. Responses may cover to the point of completion of the questionnaire (19th October to 1st November).

44.9% of businesses in the West Midlands and 38.9% of East Midlands businesses reported profits had decreased by at least 20%. However, 32.2% of trading businesses in the West Midlands and 35.0% of East Midlands businesses reported that profits had stayed the same and around 9% of West Midlands and East Midlands businesses reported their profits had increased by at least 20%.

Homeworking

77.8% of West Midlands businesses and 74.3% of East Midlands businesses reported they had more staff working from home as a result of the pandemic. While 19.5% of West Midlands businesses and 21.5% of East Midlands businesses reported they did not have more staff working from home due to the pandemic.

Insurance Claims

Responses may cover to the point of completion of the questionnaire (19th October to 1st November).

3.9% of West Midlands businesses and 3.4% of East Midlands businesses reported they had made insurance claims as a result of COVID-19.

8.1% of West Midlands businesses and 20.7% of East Midlands businesses have received funds for all claims. 8.1% of West Midlands businesses and 3.4% of East Midlands businesses had received funds for some insurance claims. While 75.7% of West Midlands businesses and 69.0% of East Midlands businesses had not received any funds for insurance claims.

International Trading

Fewer than 1% of West Midlands businesses and 1.8% of East Midlands businesses continuing to export found that within the last two weeks they had not been able to export. While fewer than 1% of business in the West Midlands and 1.4% of East Midlands businesses had not been able to import within the last two weeks.

34.1% of exporting businesses in the West Midlands, and 29.2% for the East Midlands reported their businesses were still exporting but less than normal. Of those businesses who continued to trade and import, 27.0% in the West Midlands and 26.1% in the East Midlands were importing less than normal.

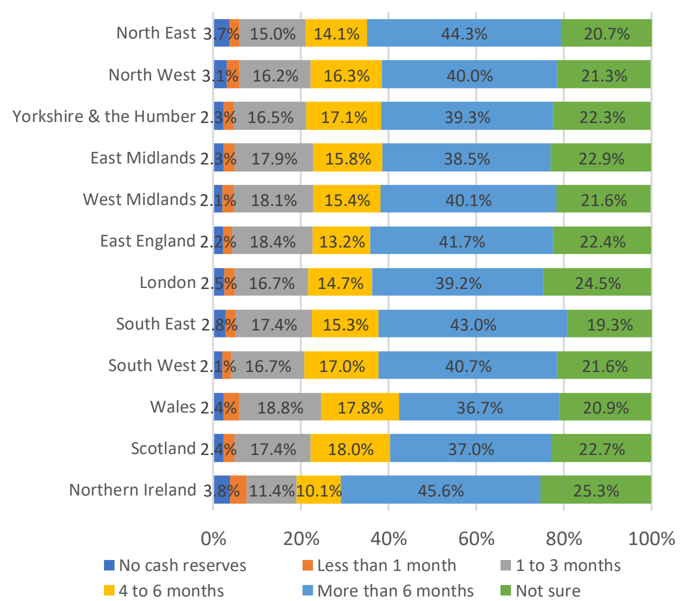
56.5% of West Midlands businesses and 59.0% of East Midlands businesses who were exporting reported that they had not been affected and 61.3% of West Midlands importers and 60.2% of East Midlands importers said that importing had not been affected.

2.4% of businesses in the West Midlands and 3.3% for the East Midlands are exporting more than normal. The figures for importing more than usual are 4.1% for the West Midlands and 3.8% for the East Midlands.

Cash Flow

2.1% of West Midlands businesses and 2.3% of East Midlands businesses that have not permanently stopped trading have no cash reserves.

The following graph shows for businesses that have not permanently stopped trading how long their cash reserves would last:



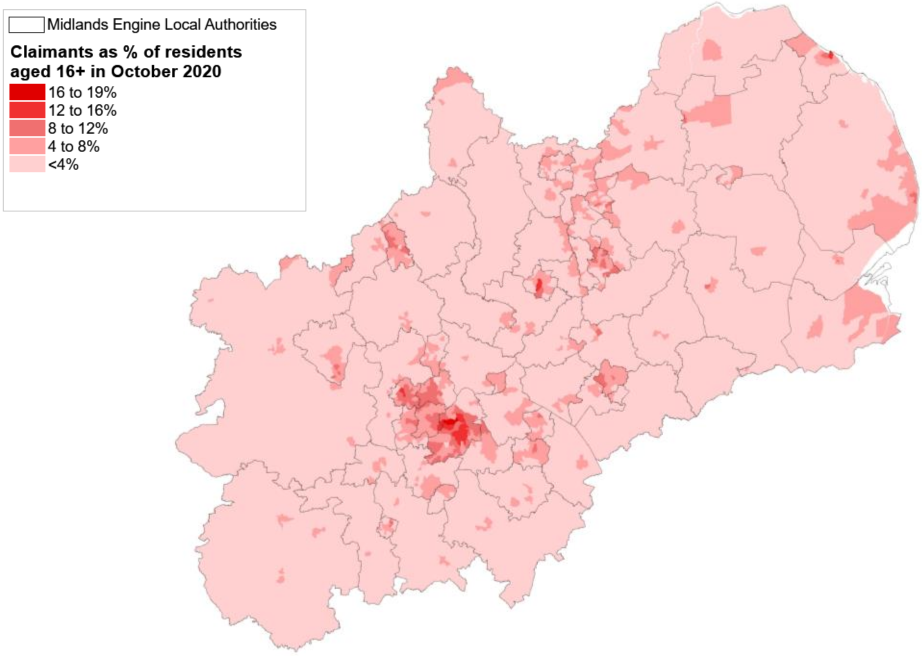
Source: ONS, Business Impact of Coronavirus Survey

Claimants

In October 2020, there were 421,175 claimants aged 16 years and over in the Midlands Engine. This is the second month in a row where there has been a decrease, with the latest monthly decrease by 5,400 (-1.3%, -1.6% UK), although the impacts from second lockdown will not be seen yet. There are 194,235 (+87.7%, UK +105.9%) more claimants when compared to March 2020.

The number of claimants as a percentage of residents aged 16 years and over was 2.7% (UK 2.4%) in March 2020, this has increased to 5.0% in October (UK 4.8%).

Claimants as Percentage of Residents Aged 16 Years and Over in October 2020:

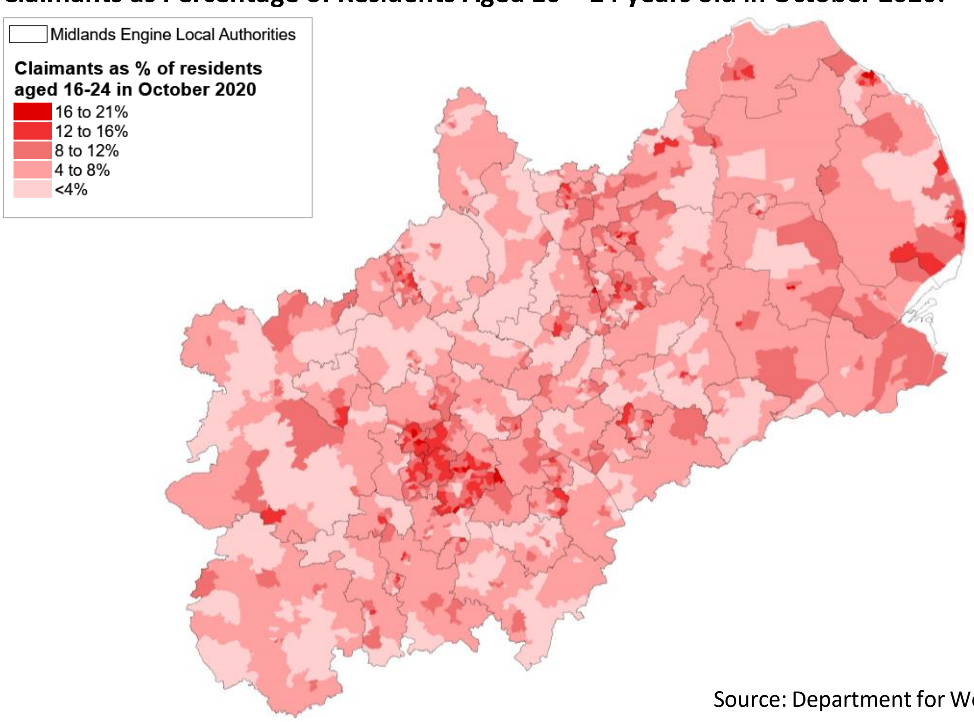


Out of the 65 local authorities within the Midlands Engine, 15 were at or above the UK average of 4.8% for the number of claimants as percentage of population – the top 3 were in Birmingham at 9.3%, Wolverhampton at 8.2%, and Sandwell at 7.6%.

In October 2020, there were 88,785 claimants aged 16-24 in the Midlands Engine. This has decreased by 60 claimants since September 2020 (-0.1%, UK -0.2%). There are 42,590 (+96.4%, UK +116.4%) more youth claimants when compared to March 2020.

The number of claimants as a percentage of residents aged between 16 and 24 years old was 3.8% (UK 3.4%) in March 2020, this has increased to 7.5% in October (UK 7.4%).

Claimants as Percentage of Residents Aged 16 – 24 years old in October 2020:



Out of the 65 local authorities within the Midlands Engine, 26 were at or above the UK average for the number of claimants as a proportion of the population aged 16–24 years old. At the highest end of the scale was Wolverhampton at 12.5%, Sandwell at 11.7% and Walsall at 11.3%.

Source: Department for Work and Pensions, November 2020

Reviving Regions

A report from the CBI highlights that action is needed to ensure regions can bounce back from the impacts of COVID-19 and succeed outside the EU, whilst addressing the longstanding gaps in productivity and equality across England.

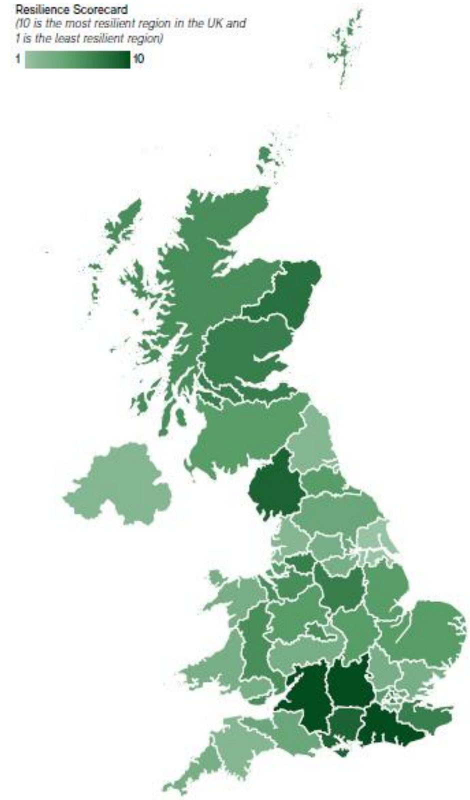
Recent research into the effects of the 2008 financial crisis can help identify the factors that helped the 'resilience' of regions. Areas that bounced back quicker tended to have greater shares of the population with higher level qualifications; more specialised industries; lower concentrations of low-medium tech manufacturing; more investment; more new enterprise start-ups and denser populations. The most 'resilient' region was the South East. The least resilient were the North East and Yorkshire and the Humber, though there was considerable variation within regions.

Local recovery prospects may be partly influenced by the persistence of higher home working and shifting spending patterns. This has important implications for the future of town and city centres and especially for retail, hospitality and leisure. These sectors typically absorb a lot of low skilled workers and following the financial crisis they hired workers quickly in response to economic recovery.

CBI highlights the following for the Midlands:

- In the Midlands, private investment outweighs public in R&D.
- The West Midlands is one the regions that may be most exposed to changes in future trading relationships with the EU.
- The weekly volume of online job adverts in the first week of October found even in the highest performing region, the East Midlands, it was still 17% below 2019 averages.
- In the East Midlands, 69% of local businesses stated that the region's skills shortage was their biggest barrier to growth.
- In the absence of a strong regional voice, ownership of growth strategies can be less clear. This is particularly the case in regions such as the East Midlands, where there is no devolved authority.
- Metro Mayors can also have an important role to play in supporting bids and attracting investment to regions. For the West Midlands, there is a continued call for the creation of a "Gigafactory" in Coventry where batteries for electric vehicles could be manufactured. This would align new technology with the regions existing strength in automotive industries. Locating innovation and R&D activity in areas of industrial and sectoral strengths will be key to ensuring that investment in innovation translates into business productivity and sector growth.

Resilience Scorecard for UK NUTS 2 Level Regions



CBI have ten recommendations across three areas, examples in each area include:

1. Build vibrant local labour markets

- LEPs and Growth Hubs must have the resource and capacity to deliver locally specific skills support. This should address the barriers SMEs face in investing in skills and should support the UK's global ambitions for net zero and digital industries.

2. Transform local infrastructure to facilitate new ways of working

- Government should provide Mayoral Combined Authorities and Sub-National Transport Bodies with long-term devolved funding settlements to deliver a clear regional vision for connectivity, housing, and economic growth. This must be complemented with multi-year budgeting for Local Authorities to allow for integrated long-term planning and investments.

3. Inspire world-class, innovative businesses to invest in all regions

- Government should urgently outline plans for the future of the UK Shared Prosperity Fund. To include parity with existing EU funding allowing local investment to align with local growth strategies and regional recovery plans.
- Working with local and regional stakeholders, government must close the gap across regions between supply and demand for equity finance, supporting businesses to invest to grow, and create a thriving, post-pandemic economy.

Source: CBI, Reviving regions, November 2020 – Regional Growth

Ten Point Plan for a Green Industrial Revolution

On the 18th November, Prime Minister Boris Johnson set out his ten point plan for a green industrial revolution which will create and support up to **250,000 British jobs**. The plan is part of the PM's mission to **level up across the country** and will mobilise **£12bn of investment** to create and support 250,000 highly skilled green jobs in the UK, whilst spurring private sector investment worth three times the governments contribution by 2030.

The industrial heartlands, including the West Midlands, are at the centre of this plan which covers:

- Offshore wind: **Producing enough offshore wind to power every home**, quadrupling how much we produce to 40GW by 2030, supporting up to 60,000 jobs.
- Hydrogen: Working with industry aiming to generate **5GW of low carbon hydrogen production capacity** by 2030 for industry, transport, power and homes, and aiming to develop the first town heated entirely by hydrogen by the end of the decade.
- Nuclear: Advancing nuclear as a clean energy source, across large scale nuclear and developing the next generation of **small and advanced reactors**, which could support 10,000 jobs.
- Electric vehicles: Backing our world-leading car manufacturing bases including in the West Midlands, North East and North Wales to **accelerate the transition to electric vehicles**, and transforming our national infrastructure to better support electric vehicles.
- Public transport, cycling and walking: Making cycling and walking more attractive ways to travel and investing in **zero-emission public transport of the future**.
- Jet Zero and greener maritime: **Supporting difficult-to-decarbonise industries** to become greener through **research projects for zero-emission planes and ships**.
- Homes and public buildings: Making our homes, schools and hospitals greener, warmer and more energy efficient, whilst creating 50,000 jobs by 2030, and a target to **install 600,000 heat pumps** every year by 2028.
- Carbon capture: Becoming a **world-leader in technology to capture and store harmful emissions** away from the atmosphere, with a target to remove 10MT of carbon dioxide by 2030, equivalent to all emissions of the industrial Humber today.
- Nature: **Protecting and restoring our natural environment, planting 30,000 hectares of trees every year**, whilst creating and retaining thousands of jobs.
- Innovation and finance: **Developing the cutting-edge technologies** needed to reach these new energy ambitions and make the City of London the global centre of green finance.

To deliver on the plan, the Prime Minister has announced new investment, including:

- Carbon capture: An extra £200 million of new funding to create **two carbon capture clusters** by the mid-2020s, with another two set to be created by 2030
- Hydrogen: Up to £500 million, including for trialling **homes using hydrogen for heating and cooking**, starting with a **Hydrogen Neighbourhood** in 2023, moving to a **Hydrogen Village** by 2025, with an aim for a **Hydrogen Town** – equivalent to tens of thousands of homes
- Nuclear: £525 million to help develop large and smaller-scale nuclear plants, and **research and develop new advanced modular reactors**.
- Electric vehicles: £1.3 billion to accelerate the **rollout of charge points for electric vehicles in homes, streets and on motorways**
- £582 million in grants for those buying **zero or ultra-low emission vehicles**
- Nearly £500 million to be spent in the next four years for the development and **mass-scale production of electric vehicle batteries**, as part of our commitment to provide up to £1 billion, boosting international investment into our strong manufacturing bases including in the Midlands and North East.
- Homes and public buildings: £1 billion next year into making **new and existing homes** and public buildings more **efficient**
- Greener maritime: £20 million for a **competition to develop clean maritime technology**, such as feasibility studies on key sites
- £1 billion **energy innovation fund**
- £5 billion for alternative **greener ways of travel** including cycling, walking, and buses
- £5.2 billion to create for **new flood and coastal defences** in England by 2027.

Source: Prime Minister's Office, *Gov.uk Press Release, 2020*

Make UK – Prepare, Implement, Lead

Make UK – Prepare, Implement, Lead (3 Point Action Plan). At the time of Make UK's report being published the second lockdown was impending.

Make UK reported that manufacturers and wider industry need a clear strategy from Government that ensures that we prepare, implement and lead as we move into a second national lockdown and face the prospect of further lockdowns. It is vital that lessons are learnt from the first national lockdown and local lockdowns to protect the public, businesses and local communities. Businesses need as much certainty and stability as possible during these challenging times. Moreover, they need consistency of support as 35% of manufacturers said lockdowns are the biggest concerns to their businesses in the next 12 months. The current piecemeal and ever-changing models do not provide firms sufficient time to plan and prepare. Consistent, longer-term support, that mirrors that of international competitors, is now needed.

1. Prepare: As Lockdown Starts

- A clear and consistent message from Government – the Prime Minister stated that the manufacturing sector will remain open and operational.
- Establish an Industry Action group Unit which is made up of business leaders feeding into COBRA on a weekly basis.
- Build supply chain resilience by working with key trading partners to ensure borders remain open.

2. Implement: Through Lockdown

37% of manufacturers expect it will take over 12 months to return to normal trading conditions.

- Regional and local authorities to coordinate the matching of supply and demand for ventilators and PPE.
- Introduce a kitemark system which shows businesses have been inspected by the HSE.
- A longer-term plan to protect jobs and skills from day one and implemented nationally with appropriate funding to support businesses.
- Financial support for individuals self-isolating and for their employers.
- Proper enforcement of mask wearing, hand sanitising and social distancing.

3. Lead: Exiting Lockdown

26% of manufacturers estimate they will be at full operating levels by the start of 2021.

- A clear exit strategy with collective agreement between industry, scientists and government on when we come out of lockdown and must include a fully functioning test, trace and isolate system without time delays.
- Fix national testing to avoid further lockdowns.
- Securing a good deal with the EU and giving business sufficient tome to prepare.
- A ready to go strategy to fire up demand by creating the right economic conditions for businesses.

Make UK recommendations
Improving Skills and Creating Jobs:

- Introduce employment tax amnesty (i.e. NICs) to encourage recruitment and retention. 45% of manufacturers plan to recruit an apprentice in the next 12 months.
- Establish a National Skills Taskforce which will retain talent and skills and support those who lost their jobs.
- Provide greater flexibility of the Apprenticeship Levy and upfront support for SMEs. 50% of manufacturers have already made redundancies, with most companies reporting up to 25% of their workforces have been lost. Also, 1 out of 5 companies have firm plans to make more redundancies in the next 6 months.
- Continue to prioritise the green economy.

Boosting Investment and Innovation:

- Double the R&D tax credit whilst making it more accessible to SMEs, this will ensure innovation continues.
- Extend the temporary increases to annual investment allowances which are due to end at the end of the year.
- Immediately roll out 5G across all the regions.

Mitigate Cash Flow Challenges and Sustainable Debt Management:

- Immediately waive business rates for the manufacturing sector (almost 6 out of 10 manufacturers report government should prioritise this for the manufacturing sector) and commit to reducing the costs of business rates in the longer-term to reduce the cost to business.
- Ensure that firms that have taken on exceptional debt for both job and business continuity are afforded the proper financial instruments.

Make UK – Digital Skills for a Digital Manufacturing Future

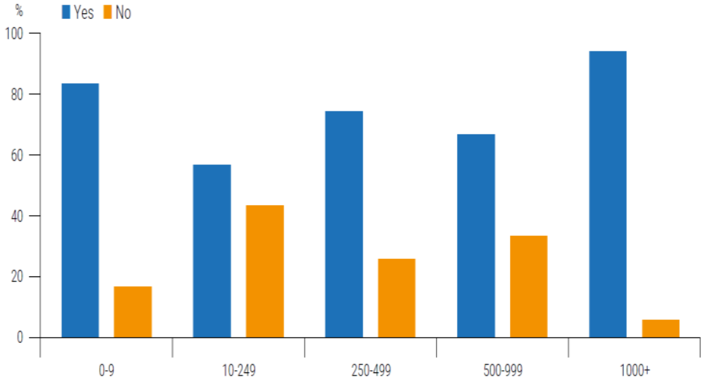
In Summary:
Much of what was possible is due to a transformation in recent decades, with a more agile, digital sector, increasingly deploying smart solutions to the challenges of the day.

The urgency of the situation became a catalyst for change that was already underway. Within two weeks of lockdown, nearly half of manufacturers had already shifted to digital working practices, with 94% having staff working from home. This is in industries often associated with manual tasks and a high proportion of production-based work.

91% say that they have benefitted from the adoption of new technology, and eight in ten now plan to continue using technologies they have adopted. There were also productivity and production related gains to be had with 27% of companies saying adopting digital technologies boosted productivity And 12% said it increased the rate of production.

64% of manufacturers had undertaken training to improve digital skills in the last 12 months. Companies with 0-9 employees and companies with over 1,000 employees that were more likely to have undertaken such training with 83% and 94% respectively.

Percentage of businesses that have undertaken digital skills training in the past 12 months by increasing employee size:



Source: Make UK Digital Skills Survey (2020)

Of those companies that did undertake some form of digital skills training in the past year, 87% said this had put them at an advantage when the pandemic struck and they were forced to adopt new ways of working at speed.

A third of manufacturers have not undertaken digital skills training this past year. Two-thirds recently reported a lack of confidence that vocational training is keeping pace with the digital skills they need.

The wider picture is of change accelerating and expanding, the use of big data, predictive analytics, robotics, multipurpose production, artificial intelligence and automation.

Within British manufacturing there have been multiple success stories. But none of this should be a cause for complacency. With the pandemic ongoing and the end of the UK's transition period out of the European Union looming, many manufacturers find themselves facing a perilous position.

Skills and training have always been near the top of the agenda for any policy discussion with manufacturers. Today, the case for enabling a tidal surge of digital skills is overriding. 45% of companies said they had already changed their skills and training in light of COVID-19.

Acquiring digital skills isn't just a short-term benefit. Make UK research found that a lack of digital skills remains the biggest barrier to adoption of Industrial Digital Technologies (IDTs).

Barrier to adoption of IDTs:

2018	Position	2020
Digital skills	1	Digital skills
Data compatibility	2	Data compatibility
Technical knowledge	3	Finance
Change management culture	4	Technical knowledge
Finance	5	Change management culture
Cyber security	6	Cyber security

Source: Make UK, Innovation Monitor: Bouncing Back Smarter (2020)

In the full report Make UK also sets out an agenda for the acceleration of digital skills, calling on Government to work with Industry to deliver:

- A National Skills Taskforce to take immediate action on delivering digital skills, and to develop "skills forecasting" to ensure we are fit for the future.
- Industry working with recruitment agencies to deliver digital skills training to candidates.
- A digital skills account to provide employees with access to life-long learning.
- The introduction of a digital skills "gate post" for a pre-16 curriculum that delivers digital skills, intertwined with the learning of all subjects.
- Industry promoting the take up of digital provision amongst young people, inspiring them to pursue careers where digital skills are in demand.

Local Business Intelligence

This section draws on contributions from the East Midlands Chamber, Make UK, the NFU, CBI, FSB, Growth Hubs and Universities across the region (sourced from Midlands Innovation and Midlands Enterprise Universities networks).

East Midlands Overview

The latest BCC Quarterly Economic Survey (Q3) presented the most positive picture of business conditions in the East Midlands for some time. This was probably a reflection of easing of national lockdown and the implementation of 'Eat-out-to-help-out' over the Summer – coupled with the rebound from the severe contraction witnessed in Q2. Unfortunately, the resurgence of COVID-19 cases since September has dampened this modest Summer optimism. At the time of writing, the Q4 survey is in the field. It is likely to capture a significant shift in business sentiment.

Businesses continue to report extremely challenging trading conditions in many sectors – particularly those characterised by social consumption – such as hospitality, entertainment and sport.

The looming end of the Brexit transition period is becoming an increasing concern to export active Chamber members – particularly in the light of the limited information currently available about the specific nature of border controls and associated administration.

Manufacturing -Make UK

Make UK Advisory Boards in the Midlands report a particular concern over the removal of the job retention bonus and the impact this has had on cash flow forecasts, managing absence and overall a fatigued manufacturing workforce dominated the conversation in the West Midlands. In the East it was striking a what a mixed bag the sector is, some doing okay and some really struggling again.

Brexit preparedness remains a concern for many businesses in this sector – in the absence of clarity over future trading arrangements with the EU. Concerns have been raised that many firms - post-COVID-19 – will not have the resources necessary to stockpile supplies in order to mitigate potential delays resulting from customs checks and associated administrative processes.

There is growing evidence of differentiation between manufacturing sub-sectors in feedback on trading conditions.

While an 'upper quartile' are reported to be operating at or near normal levels, other firms are experiencing very different conditions and report continuing uncertainties in their ability to forecast and plan for future demand. This month feedback from Make UK Advisory Boards in the Midlands reveals a difference in tone from manufacturers in East and West Midlands – the former appearing somewhat more optimistic than the latter – but the picture is very variable.

The automotive sector continues to experience low demand and is said to be particularly vulnerable to the impacts of friction at borders after the end of the Brexit transition. Civil aviation has been similarly hard hit and is not expected to recover for some time. Demand for non-COVID-19 related medical supplies is said to have declined – in marked contrast to medical supplies required for COVID-19 response and treatment. Similarly, producers of food for supermarkets expect a strong Christmas, while producers of goods to high street retail in general face far more uncertain demand in the run-up to the end of the year.

Farming – NFU

Early indications are that national lockdown measures introduced on 5th November have caused less disruption within the sector than was the case in March. The general view is that there has been less panic buying by consumers and as a result, there has been less pressure on supply chains than was the case during the first national lockdown. In general, the sector is reported to have been better prepared coming into the second national lockdown than was the case in March.

There is some anecdotal evidence of producers who are able to shift the balance of their output towards longer shelf-life products in response to the closure of food services outlets.

As we near the end of the Brexit transition period, concern remains within the farming sector about the basis of future trading relationships with the EU – particularly given the paucity of information available to inform business planning. Concerns are also being voiced about the protection of food, animal welfare and environmental standards in the context of potential future trade deals.

The future of agricultural productivity schemes and larger rural socio-economic development schemes that have been funded through the Common Agriculture Policy or from other EU sources are also noted as causing significant concern within the sector. More detail from Government on how the planned Shared Prosperity Fund will be applied in agriculture and the rural economy is necessary.

Small Business – FSB

In a month where new figures published by the Office for National Statistics (ONS) showed that the number of self-employed people in the UK has fallen by half a million (to 4.5million) since this time last year this time last year, FSB has published its latest quarterly Small Business Index (SBI) report, based upon more than 1,600 respondents nationally. This data set has enabled the FSB to produce a breakdown for each of the English regions and the devolved nations.

The West Midlands has seen a sharp fall in business confidence in Q3, recording the lowest levels of confidence when compared to other English regions. In addition, more than a quarter (27%) of small businesses in the West Midlands have lost staff over the last three months and more than half (56%) reported a decrease in revenue over the last three months, as the nationwide lockdown had a considerable impact on spending opportunities for consumers. Meanwhile, confidence in future business performance over the next three months has fallen and almost a third (30%) expect to decrease capital investment in their business in the coming quarter.

In the East Midlands, it's a similar picture though not quite as stark as that for the West Midlands. Confidence amongst East Midlands small businesses is at a low ebb and has fallen significantly from Q2. However the proportion of firms reporting staff reductions is significantly lower, at less than one fifth (17%), which is lower than predicted three months ago.

Oddly, almost three fifths of East Midlands Small Businesses reported a decrease in revenue in Q3 - the highest it's been since EMSBI began - yet they remain the most optimistic of all about future revenue. Overall the East Midlands is more optimistic than other regions within the UK.

Notwithstanding these nuances between the West and East Midlands SBI findings, overall the regional and supra-regional trends are reflective of the national picture, with index scores across the board on a decline.

In light of these and other research findings the FSB welcomed the Chancellor's enhancement of existing support measures along with the extension of the furlough scheme. The FSB are now calling for fresh interventions to reduce the costs of hiring, further alleviate the business rates burden and provide more resources for those looking to start-up for the first time. They have also renewed calls for help for those that have received no income support to date, not least company directors, the newly self-employed, those without premises and those further down supply chains in the retail, leisure and hospitality sectors. An ambitious rescue package for these groups is urgently needed.

One notable positive for FSB during the month concerned Universal Credit. They called for a delay to the reintroduction of the Minimum Income Floor (MIF), which reduces Universal Credit support among self-employed claimants by assuming that they earn a consistent monthly wage with no regard for the fact that their incomes routinely fluctuate. This was due to take effect in November but has now been pushed back to April. FSB regard this as a positive step forward and will continue to argue for the permanent suspension of MIF.

Other issues identified by the FSB include:

- Concern about the postponement of the Job Retention Bonus - many were relying on this income and had already factored it into their future plans;
- Difficulty accessing the Bounce Back Loans top-up have been reported by some;
- Concerns about Professional Indemnity Insurance, where massively increasing PI insurance premiums, coupled with common public procurement practices of demanding £X million of cover to be considered as a potential supplier, is disadvantaging smaller businesses; and
- Some confusion has been reported about the Kickstart scheme, specifically in relation to intermediaries, with some businesses and business-facing organisations unaware of the range of providers available in a given area.

Local Business Intelligence

THEME	KEY CONCERNS
Advanced Manufacturing & Engineering	**Sales** • The impact of the COVID-19 pandemic has been mainly reflected in the sales pipeline of manufacturing businesses. **Investment** • The probabilities of receiving foreign investment have also decreased for some manufacturing businesses as a result of the pandemic.
Food & Drink	**Demand** • Surge in demand for food & drink, partly as a result of EU exit fears. **Jobs & Furlough** • Concern around labour supply going into 2021 if demand continues this trend and if incoming seasonal support from EU nationals reduces.
Business, Professional & Financial Services	**Cross Theme** • Difficult for some businesses to forecast future work beyond 4-6 weeks. **Business Costs** • Some businesses experiencing a rise in direct costs.
Retail	**Lockdown** • Non-essential retail businesses have been forced to shut under the new restrictions, which has a negative impact on the sector. • Garden centres have been allowed to remain open during this time, and many retail businesses think this is unfair. **Trade** • Businesses experiencing delays in shipping from overseas. **New Business Models** • Some businesses who have increased their online platform during the pandemic have reported an increase in online sales during lockdown.
Visitor Economy	**Lockdown** • Hospitality and leisure businesses have been forced to shut under the new restrictions. • This is devastating news for businesses in the region, once again facing the uncertainty of not knowing whether they will be able to come out the other side after 2nd December.
Health & Life Sciences	**Diversification** • Those businesses who have been able to diversify products and services have seen good results.
Construction	**Demand** • A number of businesses have reported downturns in the number of projects recently. • A number of factors are causing challenges in the sector including supply chain issues, end customer challenges in terms of raising finance, uncertain demand and loss of confidence and pausing of schemes.

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