MIDLANDS ENGINE
ENGINE
Observatory

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 12: JANUARY 2021

Executive Summary

- As 2021 begins, the world is faced with **promise and peril.** Continued rises in COVID-19 infection rates and fatalities are juxtaposed with the hope given by mass vaccination rollouts, in the context of major political and economic instability, notably the transition of power in the US and navigating the UK's new relationship with the EU.
- Announced on 4th January, England and Scotland have entered a **national lockdown** with legal 'stay at home' instructions and nationwide requirements for many businesses to temporarily close.
- On 24 December 2020, the UK and EU agreed on a new **Trade and Cooperation Agreement** to govern the future trading and security relationship now that the UK has left the EU. The landmark 1,200-page document has generally been welcomed, representing a more comprehensive agreement than the EU has with other third-party countries. However, key practical business and operational issues are beginning to arise as a result of the additional rules and regulations provided by the agreement.
- The headline West Midlands Business Activity Index **rose** to 54.2 in December, from 50.5 in November, to signal a solid rate of expansion that was the quickest since September. The headline East Midlands Business Activity Index registered 51.3 in December, up from 46.8 in November. Across the UK, **the West Midlands had the highest Business Activity Index and the East Midlands was the fourth highest**.
- Companies in the West Midlands **remain confident for a rise in output in the next 12 months** with the Future Activity Index rising to a five month high of 73.6 in December. East Midlands firms signalled slightly less upbeat expectations regarding the outlook for output over the coming year. Although relatively strong, the degree of confidence was down on November's recent high, and was lower than the UK average standing at 70.3.
- Make UK, in association with PwC, published its Executive Survey 2021: 'Building Agility in Manufacturing'. It finds that fears over the impact of the UK's new trading relationship with the EU and the **attractiveness of the UK for both investment and talent are clouding the outlook for manufacturers in 2021.** While many are investing in an effort to boost productivity and build agility and are confident about the prospects for their own companies and UK manufacturing as a whole, they are **not so confident about the prospects of either the global or UK economies in 2021.**
- According to EY's most recent regional forecasts, COVID-19 has made **levelling up even harder by weakening the sectors that towns in the North and Midlands are most dependent on.** EY project cities will grow faster than towns and the South will outpace the North over the next three years. This is reflected in the GVA outlook for the Midlands regions between 2020 and 2023: **a 0.3% contraction is expected in the West Midlands while East Midlands GVA is expected to remain flat.**
- The latest claimant data shows that in November 2020, there were **416,085 claimants** aged 16 years and over in the Midlands Engine. 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 November (UK 4.9%).**
- A study by the Institute of Fiscal Studies on The Geography of the Covid-19 crisis in England presented a 'Health Index' showing health-related vulnerability at local authority area level. Across England, **areas in the northern spine of England are more vulnerable than average along health and family dimensions**: these include South Yorkshire, **Derbyshire and Nottinghamshire,** which have relatively older, more deprived populations. Other such areas are clustered in the **West Midlands (particularly around Birmingham).**
- **The consequences of the post-Brexit trade deal with the EU are causing problems for many exporters and importers**. Whilst some of these problems may be characterised as 'teething problems' that may lessen over time, others are simply a function of the new requirements for border checks and documentation. This is increasing cost and causing delays to the movement of goods.
- Local businesses and representative groups are asking 'What is Plan B on COVID-19?' They are calling for a **comprehensive, organised package of support for 2021**, rather than short term reactive measures aimed at surviving to the Spring. Businesses have also identified initial issues related to the UK's new trading relationship with the EU. For example **changes to VAT regimes, uncertainty around data sharing provisions, the transition away from EU bodies and standards across sectors** and additional paperwork requirements such as Rules of Origin.

Emerging Policy Considerations

THEME	KEY CONCERNS
Jobs & Furlough	• Removing NI and pension contributions from furlough for closed businesses • Signals from businesses are that they will be making large scale redundancy decisions, and business sentiment is now very low
Access to Finance & Cashflow	• Businesses are asking 'What is Plan B on COVID-19?' 'What does it look like?' and 'Can we have a more stable longer term 12-month plan?' This will help them plan for recovery and in the long term adapting to COVID-19 conditions. • Enhanced grant support for the most affected businesses is welcome, but businesses are calling for a comprehensive, organised package of support for 2021, rather than short term reactive measures aimed at surviving to the Spring. • Government is urged to ensure that local authorities are allocated sufficient discretionary grant funding to support non-business rates payers, as well as rates payers and also that supply chain businesses, who fall outside of these closed sectors but are critically impacted nonetheless, also get help. • Changes to the Coronavirus Business Interruption Loan and Bounce Back Loan Schemes to support business recovery and accessing finance for future growth • Businesses are calling for extending business rates relief, VAT reliefs and bringing forward further VAT deferral scheme. • The Government must urgently reveal its business rates strategy for firms in the beleaguered retail and hospitality sectors, according to real estate firm Colliers International. • Kickstarter concerns – further concerns have been raised regarding the complex and lengthy process surrounding the Kickstarter programme which echo similar feedback before Christmas. Some businesses deterred from applying as they are unable to commit sufficient time to understand the rules and application procedure. • R&D rebates are delayed which is putting additional strain on the businesses
EU Exit	• Some signs of EU Exit related problems. The number of enquiries on UK transition is increasing, with very specific queries being asked that companies cannot find the answers to online. For example: • How to claim preference for EU goods • VAT queries from providers of both services and goods • UK Certificate of Origin and EUR1s • Temporary movement of goods and carnets • Data sharing to a private Individual/ Business in the EU • Details of tariffs for sales to ROI/NI • If a carnet needs to be issued for engineers based in NI travelling to ROI • VISA requirements when sending support engineers to the EU. • Cost to provide a carnet for each visit. • Documents required by EU customers. • Declarations to make for smaller retail orders to EU • Shipments to private customers in EU stuck as customs are requesting an EORI number. • Lack of guidance for certifications and standards. • The issue has been raised that Gov.uk guidance is not pitched at the appropriate level, is not easy to access, is too detailed without an overview and is not operationally relevant. This makes it hard for businesses to navigate the impacts or understand the requirements.
Start-Ups	• Among the negativity, there are also positive stories, with many businesses continuing to adapt to the new 'normal', investing and looking beyond the current restrictions. • There's also evidence of businesses who diversified to survive earlier months of the pandemic and who have struck on successful ideas, leading to the expansion of their business also removing the need to rely so heavily on government support such as the furlough scheme. One such success story has led to expansion and investment in new machinery that otherwise would not have taken place.
Supply Chains	• Enhanced grant support for closed businesses with high overheads and other significantly impacted organisations - such as supply chain firms and charities - falling through the gaps in existing schemes.

Brexit – Risks to the Midlands Engine

IDEAS

- **Restrictions on EU work and study –** UK students will no longer take part in the Erasmus exchange programme, while it will be harder for UK workers with professional qualifications to prove they are equivalent to those in Europe.
- **Issues for specific sectors** – for example, in health and life sciences there is a fear of more expensive clinical trials and slower legal authorisation of medicines, and within creative the UK has withdrawn from Creative Europe.

PEOPLE

- **Reduced access to labour** – new points-based system will make hiring from EU countries more difficult, which could mean Midlands businesses are unable to fill skills gaps. Sectors most likely to be affected include transport, warehousing, hospitality and manufacturing, but there could be wider impacts if domestic skills migrate to London.
- **Changes to rules on business travel** – including the need for a visa or work permit for certain activities.
- **EU nationals leaving the UK –** potential reduction in skills if EU nationals living in the UK decide to migrate to EU.
- **Settlement Scheme Take-Up -** It is estimated 20,000 people (non-Irish EU nationals) are still to apply for settlement in Birmingham alone.

INFRASTRUCTURE

- **Delays at border crossings** – potentially 60-80% reduction of flow at ports – due to additional customs checks and paperwork.
- **VAT threshold** – as the UK has now left the EU, the VAT threshold for the UK has gone this has implications for the tax burden on British buyers. Due to the new frictions with regards to VAT, numerous companies announced that they would be ceasing trade within the UK in the short-term.

BUSINESS ENVIRONMENT

- **More friction for businesses** – More customs checks and additional paperwork when exporting goods, such as relating to Rules of Origin (ROO) and a lack of mutual recognition on standards. Tariffs could be payable where ROO are not met, a particular concern for manufacturing firms, food exporters and electric car / battery manufacture. Red tape on the EU side of the deal is impacting on demand, with EU customers not prepared to take on the additional cost of regulation on their side. Logistics companies are cancelling or charging 2.5 times the original cost;
- **Policy and regulatory change –** changes to VAT regimes, uncertainty around data sharing provisions and transition away from EU bodies and standards across sectors – e.g. UK withdrawal from EU Aviation Safety Agency
- **Reduced competitiveness** – Cost and time pressures could lead to EU customers switching to other suppliers. Important Midlands manufacturing sectors are especially vulnerable given their reliance on EU value chains.
- **Exclusion of services in the trade deal** – Service sector will face restrictions on trade. Financial services has additional risks, given that rules on equivalence and "passporting" have not yet been addressed.

PLACES

- **Displacement of some foreign-owned firms in the region** – if loss of full single market and customs union access is deemed to much of a loss of competitiveness.
- **Uncertainty around regeneration funding** – Loss of ERDF and ESF and lack of certainty around UKSPF.

Global and National Outlook

Global Outlook

As 2021 begins, the world is faced with promise and peril according to Deloitte. They note that on the positive side, the distribution of vaccines is under way, offering the promise that, sometime later in the year, the negative impact of the virus could ultimately abate. On the negative side, they highlight the virus continues to threaten economic stability, especially in those parts of the world where the outbreak has not been controlled.

According to Deloitte the US economy clearly weakened toward the end of 2020. Personal income and consumer spending both declined in November and some measures of housing activity weakened after many months of stellar performance. The US Congress finally passed and the president signed a spending package of about US$900 billion. It includes extended unemployment insurance, cash for households and businesses, and money for education and medical care. The recent Capitol Hill riots have shone a light on the fragility of American democracy, as one if not the most divided industrialised democracies.

A WHO team trying to enter China to investigate the virus's origins has been delayed by visa issues, sparking speculation that China is trying to block any formal investigation in to the virus's origins. China's economic growth continues at a healthy pace. Consumer spending has been boosted by confidence that the virus is under control. Fixed asset investment has been helped by substantial funding for state-owned enterprises as well as regional governments. And exports have performed well, in part owing to China's global competitiveness in technologies for which demand has accelerated during the pandemic.

Global food prices have risen sharply in recent months, potentially creating economic and social stress. The prices of wheat and soybeans are now the highest they have been since 2014. In the past, sharp swings in food prices often led to politically destabilizing mass protests or a sharp rise in unsustainable government debt when governments attempt to subsidize food costs for consumers.

European Outlook

In the EU Deloitte note that "the fourth quarter outbreak of the virus on the European continent quickly abated due to the imposition of economic restrictions as well as reduced consumer mobility through lockdown restrictions. In addition, many governments in the European Union extended support for the labour market well into 2021, thereby averting further economic distress. The result is likely to be a strong upturn in growth in the first quarter of 2021 after a likely decline in activity in the last quarter of 2020. Moreover, vaccine distribution is underway, thereby setting the stage for a significant acceleration in growth later in the year".

Germany extended and tightened its lockdown, limiting travel to 15 kilometres for those living in worst-affected areas and restricting private gatherings.

National Outlook

Under the circumstances the UK-EU FTA, reached during a pandemic, to a tight timetable and with, at times, what seemed to be irreconcilable differences, is an achievement and is generally good news for the economy as it brings clarity and for business and a better outcome than operating under World Trade Rules. It is one of the biggest trade deals ever done and agreed in record time, but it isn't as big as the Single Market. As the UK has now left the EU, the VAT threshold for the UK is gone. Due to the new frictions with regards to VAT, numerous companies announced that they would be ceasing trade within the UK in the short term. Some left due to VAT complication, others because the UK was now outside the EU's food safety sphere.

England and Scotland have entered a national lockdown with legal 'stay at home' instructions. Daily virus cases in the UK have soared, set a new record, as 1 in 30 Londoners is estimated to have the virus.

Early in the COVID-19 pandemic, it became clear that people's mental health would suffer. Whether through bereavement, unemployment, social isolation, not being able to access support services – or a host of other routes – an alarming picture began to emerge and attract attention.

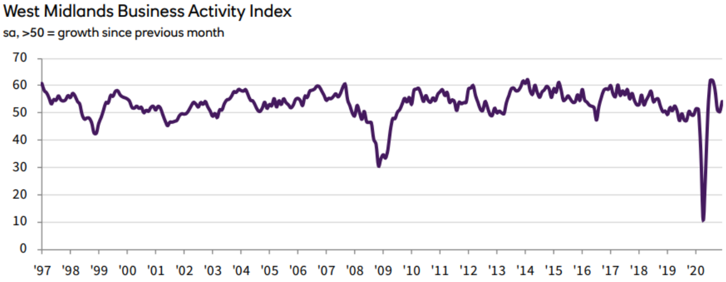
GDP in the UK fell by 2.6% in November. The decline was linked to the government restrictions which reduced economic activity. GDP in November was 8.5% lower than levels seen in February.

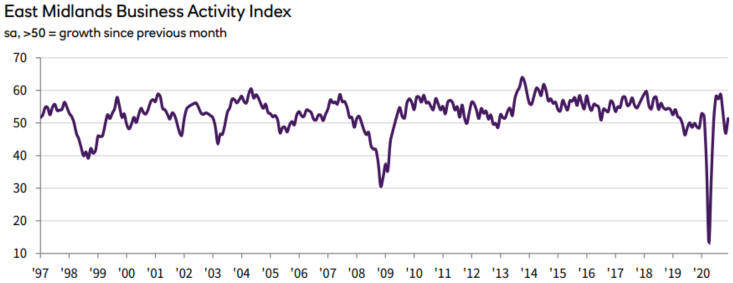
Business Activity

Purchasing Manager Index (PMI) Survey Analysis:

The headline West Midlands Business Activity Index rose to 54.2 in December, from 50.5 in November, to signal a solid rate of expansion that was the quickest since September.

The headline East Midlands Business Activity Index registered 51.3 in December, up from 46.8 in November. Although only marginal, the rate of output growth was sharper than the UK average.





Source: IHS Markit, NatWest PMI, January 202

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

Demand

December data highlighted a renewed upturn in new work intakes at West Midlands private sector companies and the New Business Index registered at 52.3. East Midlands private sector firms signalled the sharpest increase in new orders received by firms operating in the East Midlands for three months with the New Business Index registering at 51.9.

Capacity

For the eleventh 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 48.8 and 49.1 respectively. In December, with companies citing that due to COVID-19 there have been redundancies, drops in revenue and downsizing. The rate of contraction in staffing levels was softer than the UK average in the East Midlands.

The West Midlands Outstanding Business Index has was 51.1 in December. In the East Midlands, outstanding business registered an increase in backlogs of work and the Outstanding Business Index was 51.7 in December.

Prices

The West Midlands Input Prices Index increased to 67.1 in December. West Midlands companies reported an increase in operating expenses, with the overall rate of cost inflation accelerating to the fastest in two-and-a-half years. For the East Midlands Input Prices Index was 62.6 in December, higher input prices stemmed from increases in raw material and freight costs, as shipping issues pushed supplier prices up.

The West Midlands Prices Charged Index has been steadily increasing for the last seven months and stood at 54.2 in December. For the East Midlands, the Prices Charged Index was 50.8 in December, the first increase since August.

Outlook

Companies in the West Midlands remain confident for a rise in output in the next 12 months with the Future Activity Index rising to a five month high of 73.6 in December.

East Midlands firms signalled slightly less upbeat expectations regarding the outlook for output over the coming year. Although relatively strong, the degree of confidence was down on November's recent high, and was lower than the UK average standing at 70.3.

Exports

The West Midlands Export Climate Index increased from 51.9 in November to 52.6 in December. Economic growth was recorded in four out of the top five destinations for West Midlands exports.

The East Midlands Export Climate Index has increased from 49.9 in November to 51.2 in December. The improvement was supported by a substantial expansion in US business activity.

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, January 2021.

Brexit – what is new for the regions?

On 24 December 2020, the UK and EU agreed on a new Trade and Cooperation Agreement to govern the future trading and security relationship now that the UK has left the EU (IFG).

The Trade and Cooperation Agreement is made up of three pillars (IFG 2021a):

- "A free trade agreement covers the economic and social partnership, including transport, energy and mobility."
- "A framework for cooperation between law enforcement and judicial authorities across civil and criminal matters."
- "An overarching governance arrangement which will allow for cross-retaliation across different economic areas" (IFG 2021a)

The 1,200-page text was accompanied by some joint declarations and commitments including different degrees of cooperation or mutual recognition for manufacturing and trade in goods (IFG 2021b), for financial services (IFG 2021c), industrial subsidies and state aid (IFG 2021d), energy and climate change policies (IFG 2021e), law enforcement (IFG 2021f), participation in EU programmes (2021f,g), as well as an agreement on the exchange of intellectual property rights, data and classified information (IFG 2021h). Other areas of agreement relate to transport, mobility, fisheries and governance (IFG 2021a).

In terms of trade, there will be new arrangements for goods and services in which new rules of origin will be applied, relating to the amount of local content associated with producing a good. In order to avoid tariffs and quotas, many areas of manufacturing and food production and trade will benefit from cumulation agreements, whereby EU and UK production content can be combined to meet rules of origin thresholds, but these will differ between sectors, and not all products will be compliant (IGF 2021b). There will be a series of qualifications linked to each good, and the goods will qualify for being exempt or not from paying tariffs or be submitted to quotas. For example, electric vehicles will be tariff-free if they contain at least 40% originating content until the end of 2023 and at least 45% until the end of 2026. Similarly, geographical indications, the names used to define both the origin and the reputational quality of products, such as the Welsh lamb, will continue to be protected (IFG 2021b).

Source: Professor Raquel Ortega-Argiles, WMREDI

There are different degrees of alignment and agreement in each of the areas covered by the agreement. Where the UK and the EU may diverge over time on certain issues, such as on state aid or labour, social or environmental standards, there are provisions which allow for negotiation, in some cases for arbitration, and ultimately for retaliation, and these provisions differ sectorally or according to the issue.

Overall the UK and EU will still remain more aligned with each other on many of these issues than either the UK or the EU are with third-party countries. As such, while the agreement falls far short of Single Market membership, in general, it still represents a more comprehensive agreement than the EU has with other third-party countries.

Although the UK had initially wanted some areas to be covered by separate agreements, such as fisheries, energy and security, there will in future be just one agreement covering the future relationship between the UK and the EU. It will also be supplemented by both sides' unilateral decisions, including on financial services equivalence and data adequacy.

In terms of UK regions, the main issue concerns the medium- and long-run perspectives of business regarding the likelihood of the scale and the nature of any future divergence on standards regarding state aid or labour, social or environmental standards, and any areas where the future relations are still open to evolution, or changing circumstances. The UK regions which are most dependent on EU markets are also those which are also most exposed and vulnerable to these risks (Chen et al. 2018), especially if complex global value-chains connect them. If investors fear that future divergence is likely and potentially could also trigger retaliatory actions, then business confidence will be weakened in those sectors and regions. This effect appears more likely in regions which are the most dependent on EU markets. Indeed, the exposure of individual regions to Brexit means that the details of the final agreed deal would in reality have few implications for the impacts of Brexit for many sectors and places, implications which are primarily due to Brexit itself, and this is especially so for the weaker regions of the UK (Thissen et al. 2020).

The Geography of the COVID-19 Crisis in England

A study on [The Geography of the Covid-19 crisis in England]() presented a 'Health Index' showing health-related vulnerability at local authority area level. This measure captures the prevalence of risk factors for experiencing severe symptoms from COVID-19: and the share of people aged 50 or older, and the shares with certain pre-existing health conditions (coronary disease, hypertension and diabetes). The figure below indicates the position of local authorities in the Midlands Engine by quintile group in England, with a score of '5' indicating that a local area is positioned amongst the 20% most vulnerable in England.

A 'Families Index', measuring family vulnerability in the context of Covid-19, is presented below also. This is constructed using local area information on the number of children entitled to free school meals, the rate of referrals to children's services, and the number of children on child protection plans.

The following table shows the Health Index and Families Index RAG rated across the Midlands Engine geography:

LA name	Health index	Families index
Nottingham	1	5
Derby	4	5
Rutland	4	1
Lincolnshire	5	2
Leicester	5	2
Nottinghamshire	4	3
Derbyshire	4	4
Leicestershire	3	1
Coventry	2	4
Stoke-on-Trent	2	5
Staffordshire	4	2
Dudley	3	4
Birmingham	5	4
Walsall	5	5
Warwickshire	3	2
Sandwell	4	5
Herefordshire	5	1
Shropshire	5	2
Wolverhampton	5	4
Solihull	5	3
Telford and Wrekin	4	4
Worcestershire	4	2

Source: Institute for Fiscal Studies

Across England, areas in the northern spine of England are more vulnerable than average along health and family dimensions: these include South Yorkshire, Derbyshire and Nottinghamshire, which have relatively older, more deprived populations. Other such areas are clustered in the West Midlands (particularly around Birmingham) and in the cities of the North West and North East.

Focusing on the Midlands Engine geography area, Walsall was in the fifth (i.e. most vulnerable) quartile of local areas in England on both the Health Index and Families Index.

Birmingham and Wolverhampton were in the fifth quartile on the Health Index and fourth on the Families Index. Derby and Sandwell were in the fifth quartile for the Families Index and fourth in the Health Index.

Nottingham was in the lowest quartile for the Health Index, however, was in the highest quartile for the Families Index. While in Herefordshire, this local authority was in the lowest quartile for the Families Index but was in the highest quartile for the Health Index.

The Institute of Fiscal Studies found that the types of trade-offs policymakers will face in easing lockdown will vary between different kinds of areas, but the existence of trade-offs largely will not. The trade-offs might be compounded as different dimensions of vulnerability come with different timescales; for example, health vulnerabilities might come to the fore in the next year, while it could take years or even decades for the full impact of children's vulnerability to school closures to be felt. Policymakers at different levels of government will have to coordinate to respond effectively to these different types of need. Different areas of vulnerability will fall within the remit of different levels of government, meaning that a joined-up approach will be necessary for effective policymaking. National policymakers should also be alert to differences in local needs when making policy in these areas.

UK Regional Economic Forecast England's regions, cities and towns

The following section summaries findings from [EY's most recent Regional Economic Forecast] report for the East Midlands and West Midlands regions:

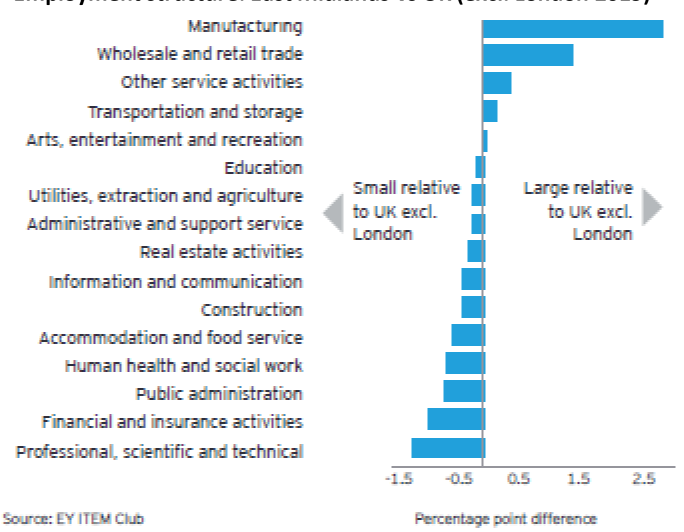
East Midlands

- The latest labour market data has been relatively weak for the East Midlands. Total workforce jobs remained broadly flat in in the 12 months to June 2020, the more timely LFS suggests a weakening picture for the region, with a 1.8% contraction reported in the quarter to September 2020 compared with a year earlier. This was accompanied by a rise in the unemployment rate to 4.9% of the population aged 16 and above.
- House prices in the East Midlands reported the fastest rate of growth in the 12 months to August 2020, rising by 3.6% and outpacing the UK (2.5%).
- GVA in the East Midlands is expected to remain broadly flat over the next four years, marginally behind the 0.1% growth forecast nationally. The outlook for employment is slightly weaker, with a 0.1% contraction expected, in line with the UK. Job losses in the region's sizeable manufacturing sector will offset growth in other sectors.

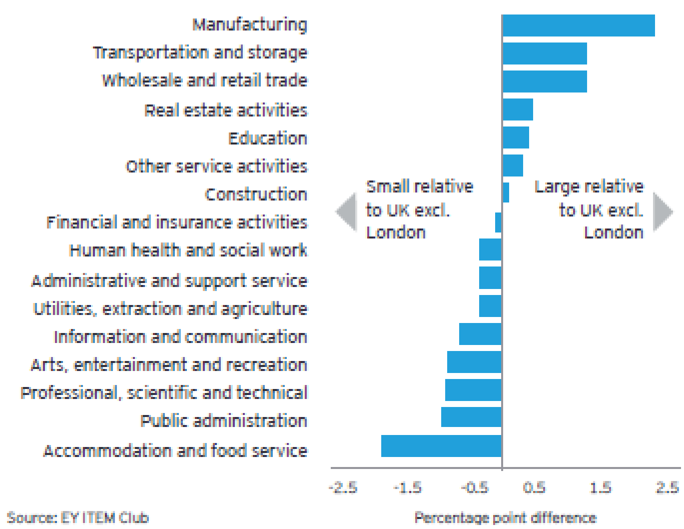
West Midlands

- The latest labour market data is also less favourable. Workforce jobs fell by 2.5% in the year to June 2020, the joint largest regional contraction reported alongside the South East. The more timely LFS supports this story of weak performance, with a contraction of 1.4% in the quarter to September 2020 compared with a year earlier. Over the same period, unemployment rose by 24,000, bringing the unemployment rate up to 4.9% of the population aged 16 and above, marginally above the UK (4.8%).
- While house prices in the West Midlands rose in the year to August 2020, their pace of growth (2.3%) lagged marginally behind that of the UK (2.5%).
- The GVA outlook for the West Midlands is among the weakest across the UK, with a 0.3% contraction expected between 2020 and 2023. The region's high reliance on manufacturing leaves its economy particularly exposed to Brexit related trade frictions.

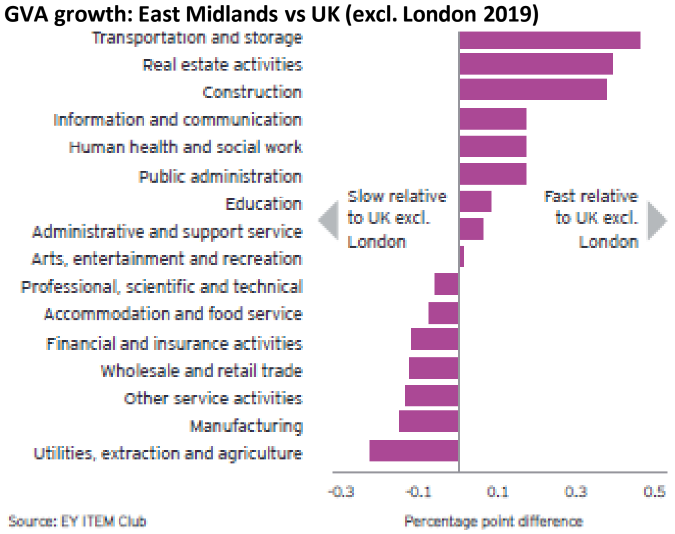
Employment structure: East Midlands vs UK (excl. London 2019)



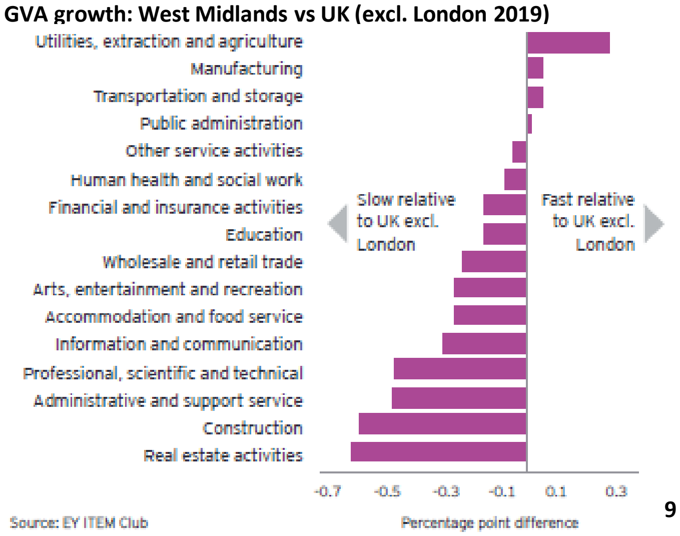
Employment structure: West Midlands vs UK (excl. London 2019)



GVA growth: East Midlands vs UK (excl. London 2019)



GVA growth: West Midlands vs UK (excl. London 2019)



UK Regional Economic Forecast England's regions, cities and towns

Only five regions will have economies larger than they had as 2019 came to an end, and of these, the change in the East Midlands will be extremely small. The regions with the greatest share of activity accounted for by ICT, professional and scientific services, and real estate are likely to grow faster than average while regions more reliant on manufacturing and hospitality will find the economy more challenging, helping to explain the forecast slower growth in the Midlands and Yorkshire and the Humber.

England's regions: forecast GVA and employment change 2019–23 (annual %)

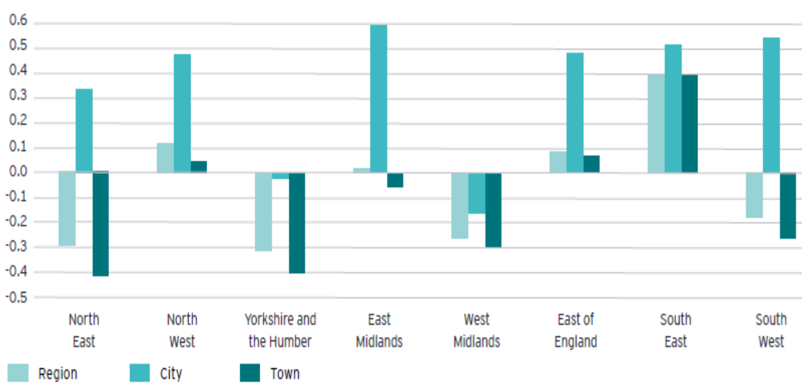
Source: EY, EY ITEM Club

Much has been made of the threat to cities from the changes in behaviour that took place during lockdown. While we expect that employment in certain sectors such as hospitality, retail and the arts in cities will be adversely impacted in future, the majority of activity in the largest cities is generated from high-end services and the public sector. Although activity may shift as people choose to work remotely more often, overall output and employment levels in these sectors are expected to be less at risk than in the contact intensive ones.

With growth forecast to be driven by high-end services that tend to be concentrated in cities, it is unsurprising that the outlook for levelling up is disappointing. Based on the current outlook, EY forecast that cities will grow faster than towns in every region of England up to 2023.

The outlook is even worse for employment in towns. We forecast that the South East will be the only region in England where employment will be higher in 2023 than it was at the end of 2019.

England's regions, cities and towns: forecast GVA 2019–23 (annual %)



Source: EY, EY ITEM Club

England's regions, cities and towns: forecast change in employment 2019–23 (annual %)

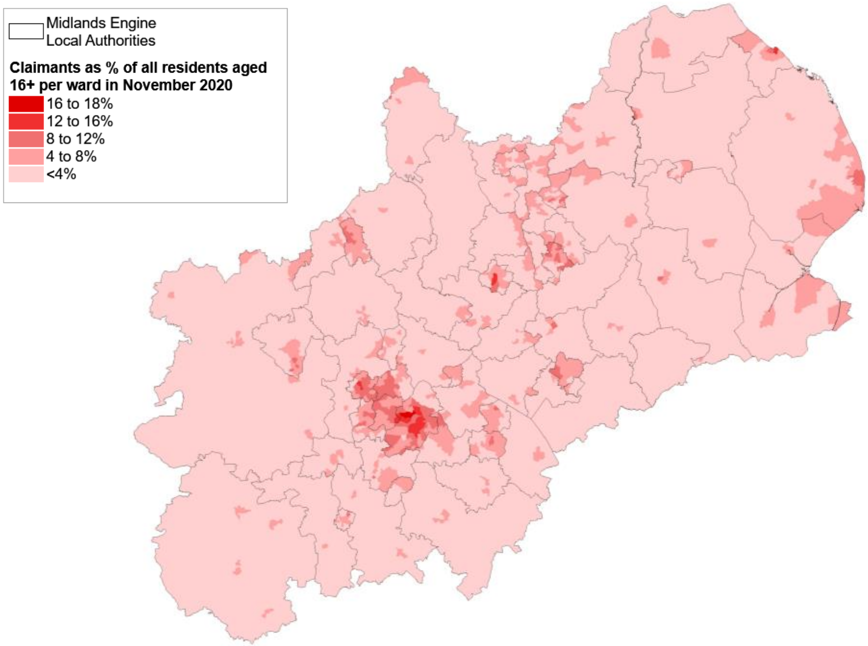
Source: EY, EY ITEM Club

Claimants

There were 416,085 claimants aged 16 years and over in the Midlands Engine area in November 2020, this is an increase of 6,950 claimants since October 2020. This equates to an increase of 1.7% for the Midlands Engine area while the UK increased by 2.6%. There are 194,545 (+87.8%, UK +107.4%) 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 November (UK 4.9%).

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

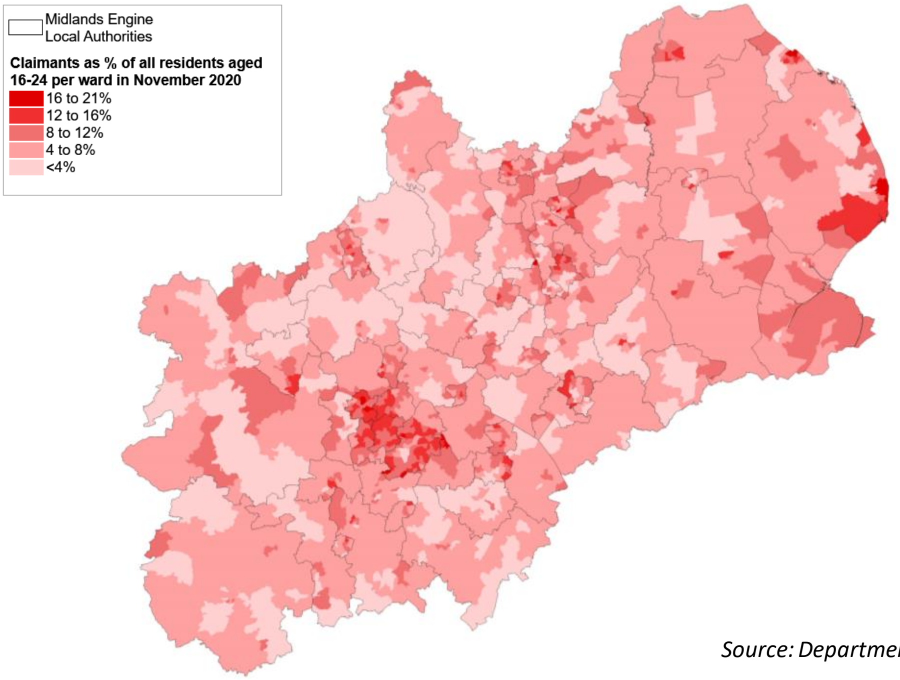


Out of the 1,511 wards within the Midlands Engine, 409 were at or above the UK average of 4.9% for the number of claimants as a percentage of the population aged 16 years and over in November 2020. The top three wards for the number of claimants as a percentage of the population were based in Birmingham, with Handsworth the highest with 18.0%. This is followed by Lozells at 17.9% and then Birchfield at 17.2%.

There were 84,850 youth claimants (16-24 years old) in the Midlands Engine area in November 2020 – a decrease of 230 claimants since October 2020. This equates to a decrease of 0.3% with the UK increasing by 0.6%. Since March 2020 (44,195 claimants), the number of youth claimants has increased by 40,655 (+92.0% compared to +112.9% for the UK).

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 7.3% in November (UK 7.3%).

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



Out of the 1,511 wards within the Midlands Engine, 610 were at or above the UK average of 7.3% for the number of claimants as a percentage of the population aged between 16 – 24 years old in November 2020. The top wards for the number of claimants as a percentage of the population was in Portland (Mansfield) at 20.9%. This is followed by Winthorpe (East Lindsey) at 19.6% and then East Park (Wolverhampton) at 18.1%.

Source: Department for Work and Pensions, December 2020

Furloughed Workers

The data in the following section does not include any impacts from the latest lockdown.

Figures released in December 2020 show since the peak of 8.9 million workers furloughed on 8th May in the UK, the number of workers furloughed steadily dropped to 6.8 million on the 30th June. The number of workers furloughed continued to fall throughout July and August to 5.4 million at 31st July and 3.8 million on 31st August. The number of workers furloughed also continued to reduce during September falling further to 2.8 million at 30th September and then to 2.4 million on the 31st October.

In the Midlands Engine there were 740,000 workers furloughed on the 31st July, this has decreased to 316,400 on the 31st October. In October, there were 7% of eligible employees on the scheme, in the Midlands Engine, while for the UK the take-up rate was 8%.

There were 159,100 female workers furloughed and 157,900 male workers furloughed on the 31st October in the Midlands Engine area. The take up rate of males and females were both 7% compared to 8% for the UK.

The following tables show a summary of the total number of workers furloughed split by gender for the Midlands Engine area and the UK as of the last day of the month between July and October:

		At 31st July	At 31st August	At 30th September	At 31st October
Midlands Engine Summary	Female Furloughed Workers	369,100	272,000	196,400	159,100
	Female Take-Up-Rate	16%	12%	9%	7%
	Male Furloughed Workers	370,700	261,200	195,900	157,900
	Male Take-Up-Rate	16%	11%	9%	7%
	Total Furloughed Workers	740,000	533,900	392,200	316,400
	Total Take-Up-Rate	16%	12%	9%	7%
UK	Female Furloughed Workers	2,599,300	1,920,900	1,418,000	1,188,300
	Female Take-Up-Rate	17%	13%	9%	8%
	Male Furloughed Workers	2,463,900	1,742,100	1,346,800	1,136,400
	Male Take-Up-Rate	16%	12%	9%	8%
	Total Furloughed Workers	5,393,100	3,810,900	2,843,400	2,399,600
	Total Take-Up-Rate	18%	13%	9%	8%

Overall, the local authorities within the Midlands Engine with the highest percentage of workers furloughed were Stratford-on-Avon (5,500 employments furloughed of the 60,500 eligible), Birmingham (40,000 employments furloughed of the 448,400 eligible), and Solihull (9,000 employments furloughed of the 98,400 eligible) with a take up rate of 9%.

The local authority with the highest percentage of males furloughed was Birmingham at 10% (22,200 furloughed of the 228,000 eligible) in the Midlands Engine.

The local authority with the highest percentage of female employments furloughed was Stratford-on-Avon at 10% (3,000 furloughed of 30,700 eligible) in the Midlands Engine.

Source: HMRC, Coronavirus Job Retention Scheme statistics: December 2020
Please note, 1,486,900 individuals in the Midlands Engine area have been furloughed at some point, 316,400 remain furloughed as of 31st October 2020

Make UK – Building Agility in Manufacturing

MakeUK's Executive Survey 2021 – 'Building Agility in Manufacturing' reports that fears over the impact of the UK's new trading relationship with the EU and the attractiveness of the UK for both investment and talent are clouding the outlook for manufacturers in 2021. While many are investing in an effort to boost productivity and build agility and are confident about the prospects for their own companies and UK manufacturing as a whole, they are not so confident about the prospects of either the global or UK economies in 2021.

A third of companies believe the investment prospects for UK businesses will decrease having left the EU with just 18% of companies believing they will increase. In addition, just over a quarter of companies believe exports to the EU will fall with just 16% believing they will increase.

Furthermore, a third also believe the UK's ability to attract international talent will decrease with just 11% believing the UK will be a more attractive destination outside the EU. This potentially puts at risk the ambition of the Government's new immigration system which is specifically designed to encourage the best talent to come to the UK.

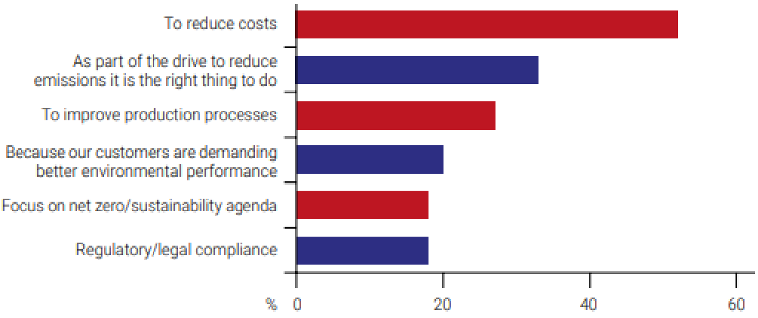
The survey also shows that customs delays are seen as the biggest risk to companies (47%) while the increased costs of regulation is reported as the biggest risk by just under forty per cent (39%). Over one in 10 companies (14%) also believe a relocation of a major customer out of the UK is their biggest risk.

To prepare for the challenges in 2021 manufacturers are building resilience by:

- Investing in people
- New products
- Markets and
- Technology.

Two fifths of companies are looking to invest in green technologies in an effort to reduce emissions and acknowledging that it is the right thing to do for future generations. And a further 44% of manufacturers are planning on investing in training, to help to boost productivity.

Why companies are planning to invest in green technologies/energy efficiency measures in 2021



Source: Make UK / PwC survey, November 2020

The outlook for the industry is more positive than that of the wider economy

The survey reports that just under half (48%) expect conditions within their industry to either moderately or significantly improve. Interestingly, of those that selected either moderate or significant improvements, more businesses feel confident about conditions in their industry than those that do about conditions in the UK economy (29%) or the global economy (33%). This is not a surprising result, as it is common for businesses to report some level of over-confidence in their own industry when assessing market conditions. On the other hand, businesses may believe conditions in the UK economy are worse than in the global economy because of the media's representation of the UK's performance relative to its peers. Regardless, those views are not unfounded, as UK GDP is expected to contract on the whole by 11.3% while the global economy is only expected to contract by 4.2% in 2020.

When asked about what changes manufacturers expect in 2021 relative to 2020, interestingly, most (54%) expect to see a moderate or significant improvement in productivity.

44% of manufacturers are expecting to moderately or significantly increase the number of their permanent staff in 2021. The latest survey data indicates that a large share of manufacturers are looking to invest more in training in 2021 too. Access to talent will be a key topic of discussion for many manufacturers in 2021, especially as the pool of talent available to businesses will change because of the UK's departure from the EU. As a result, the increased difficulties in acquiring skills will make retaining existing workers even more important or else manufacturers, particularly those that are specialists, risk losing those skills for good..

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 - EMC

Feedback from Chamber members is identifying concerns about the operation of post-Brexit trading arrangements. Some of this is attributed to a lack of knowledge of the relevant regulations on the part of exporters and their clients within the EU. However, delays and disruption are being experienced by experienced exporters well used to dealing with these issues.

Increased costs of export certification and the people needed to deal with export documentation are being identified by many exporters. There are concerns that these costs will have a disproportionate impact on small scale exporters.

Containerised freight shipment costs are said to have risen in recent weeks. There are concerns that international sea freight operators are allocating capacity away from the UK and towards other countries.

Adjustments are also being cited by firms using air and road freight. Some firms have shifted their custom away from road haulage toward air – due to the perception that this is more resilient and less prone to delays in border crossing.

The pandemic continues to affect many businesses as is to be expected. However considerable variation is evident between and within sectors.

Retail has been hard-hit by the latest lockdown measures, though some out of town retail is said to have fared better than the sector more widely over the Christmas period. Shopping behaviour is said to have changed. 'Dwell time' in stores is said to have declined over this period.

In the recruitment sector, agencies are reporting a move towards partnerships between businesses. Workers are reported to be reluctant to move between companies in the present circumstances. Demand for staff is said to be strongest in IT.

Manufacturing - Make UK

Just under a third of manufacturers are said to be operating at full capacity.

When asked about the most important issues or concerns facing business, four in five cite concerns about future orders and demand levels. More than half cite changes to import/export arrangements since Brexit.

Post Brexit trading arrangements with EU countries are causing problems for many involved in import/export and international supply chains. Around half of manufacturers have experienced some related disruption to supply chains. This is despite the levels of stockpiling that took place in December and that has reduced international freight volumes early in January. Concern has been voiced about the impact of the perceived 'hassle' associated with buying from British exporters will have on demand from customers in other European nations. Manufacturers are reported as having less capacity to cope with disruption to supply chains having depleted financial reserves as a result of coping with the Pandemic.

Around a third of firms operating in the Midlands suggest that school closures linked to the national lockdown have affected staff attendance.

Use of Furlough continues – but at relatively low levels within most manufacturers providing feedback to Make UK.

Many manufacturers indicate that they have cancelled face to face training delivery. If this persists, it could impact on future capability/labour productivity.

Small Business – FSB

During November and December, small businesses continued to experience severe disruption to their operations and their trade, due to the uncertainties and constant changes around Coronavirus restrictions and potential outcomes of the UK/EU trade negotiations.

In addition, although the Tier system did allow less impacted areas to operate more freely within their own confines, for some small businesses this was of little benefit.

For example tourism and leisure businesses in lower Tier areas were still compromised as they were encircled by areas in higher Tiers - from where they would normally derive most of their supplies and custom. This was most acutely felt in areas on/close to the Welsh border, where radically different rules and restrictions could apply.

Naturally some of these issues have been superseded following the lockdown in England and the devolved nations. That said, the issues of confused communication, last minute changes to previously stated policy and the lack of forewarning have remained unwelcome features that exacerbate already challenging business conditions.

In addition, the latest rounds of financial support for affected businesses have been far less generous than those that went before. FSB continue to lobby Government to argue for more generous support, commensurate with the scale of the challenges facing businesses. For example, in late December FSB wrote to the Chancellor, seeking a commitment to maintain existing support schemes for as long as the business disruption continues, and calling for five specific national support measures:

- Small Business Cash Grants – a second round of one-off grants of £10,000 through the Small Business Grant Fund (SBGF), plus targeted grants of up to £25,000 for small firms in the retail, hospitality and leisure sectors and new help for the supply chain, administered through the business rates system in England.
- Revenue Loss Scheme– a German-style scheme to reimburse small businesses for the financial impact of a significant loss in custom, whereby the government would cover a percentage of lost revenue compared to the same time last year.
- Help for more recently self-employed – an extension of the Self-Employed Income Support Scheme at the end of January 2021 after the final date for self-assessment tax returns, to include the use of a 2019/20 tax return in time to qualify for the SEISS fourth Grant. This would help around 300,000 newer self-employed people who were left out of previous SEISS rounds.
- Emergency loans extension – greater financing ability for those who have used their allocations through Bounce Bank Loans, extending the period before repayments begin, and a student loans approach for debt repayment which means that loans are only paid when the company is profitable and can afford to do so.
- Directors Income Support Scheme – a taxable grant for directors of limited companies calculated at 80% of three months average monthly trading profits, paid out in a single instalment and capped at £7,500. This would mirror the existing framework offered by the Self-Employed Income Support Scheme (SEISS), avoiding the issues around dividends.

On a positive note, there was welcome news in the form of:

- the announcement of an EU-UK trade deal. FSB have been lobbying Government for many months, in favour of a deal that enables tariff-free, frictionless trade with the EU, so this is a positive development. We continue to call for tangible, targeted support for small exporters - including £3,000 transition vouchers that small firms can spend on the training and advice required to navigate a new trading relationship with our biggest export market
- DWP announcing its backing for the FSB/Addecco gateway, which so far has seen more than 700 small firms come forward to offer work placements. The Secretary of State for Work and Pensions, Thérèse Coffey MP, welcomed the opening of this important gateway, commenting that it would help small employers and sole traders ‘to create new, life-changing opportunities for young people’.

In addition, FSB has teamed up with eBay to support up to 1,000 eligible small businesses to offer young people at risk of long-term unemployment a six-month work placement. The initiative is part of eBay’s commitment to supporting UK small businesses and sole traders to survive and thrive, and the platform will provide up to 1,000 businesses who successfully participate in the scheme with £500 in eBay seller credits. eBay will also offer training to successful participants to improve their e-commerce and digital skills.

Farming – NFU

In common with other sectors, Farmers are said to be better placed to cope with lockdown and the requirements of COVID-19-safe operation than was the case at the time of the first national lockdown in March. Seasonal influences may also be relevant in that demand for PPE in the sector are said to be lower in the winter months.

Also like other sectors, concerns about post-Brexit trading arrangements remain. Similarly, concerns are being voiced within the sector about the impact that the UK's new immigration system will have on the availability of seasonal labour later in the year.

Universities Business Engagement Feedback

- Notwithstanding the challenging business environment, some firms are finding opportunities to develop new goods and services – often responding to needs resulting from the pandemic such as hygiene and the management of socially distanced/COVID-19-safe workplaces.

- Companies have transitioned better than expected from office to home working and the output and productivity from employees hasn't dropped, in fact it has increased in some cases.

- Significant changes are being seen in law placements within legal firms. Most have pulled all activity due to COVID 19. The feedback from firms is that they are seeing a lot of mergers and significant redundancies, most firms have stopped recruitment. Alternative placement options for the students to consider are being sought, such as business, compliance, audit related roles in both corporate and public sector organisations such as councils.

- One of the key skills most in demand from organisations resulting from COVID 19, is around IT and Digital Skills. NTU have looked to reduce the skills gap by utilising the Digital Marketing Academy which launched in October in collaboration with University of Nottingham.

- This year employers continue to close their graduate roles early due to large volumes of application. Students are advised to apply early.

- Employers are being supportive to all students on placement working from home, making sure they have all the necessary equipment to do their job. Many students have reported being given a choice of whether to work from home or be in the office.

- Overall, many companies have halted non-essential expenditure. Evidence suggests that most businesses engaged with universities are not engaging in large scale redundancies – though this is not likely to be representative of the wider business population. Some businesses are using the current crisis as an opportunity to restructure and strategize. As a result of restructuring, where redundancies have occurred, new posts have been opened – though redundancies outnumber new posts overall. Some indicate that Brexit is of greater concern than COVID-19.

Local Business Intelligence

THEME	KEY CONCERNS
Advanced Manufacturing & Engineering	**UK Transition** • Some signs of EU Exit related problems surfacing that are likely to disproportionately affect manufacturing. For example, new rules of origin document requirements and VAT changes. **Sales** • Car sales have slumped as the automotive sector has been hit by Brexit and the pandemic. A big rise in sales of electric cars was a bright spot for car manufacturers amid a major fall in sales. **Output** • Output dropped 12% in 2020 and growth forecasts for 2021 have been slashed, particularly for exports. **Employment** • Manufacturing GDP is expected to be 11.3% down and unemployment expected to rise from 3.8% in 2019 to 4.8% in 2020.
Business, Professional & Financial Services	**Housing Market** • Reports from businesses linked to the housing market suggest problems may be brewing where house buyers, especially those involved in a chain, are at risk of redundancy, furlough and/or having mortgage offers expire or withdrawn. This may potentially lead to chains collapsing with more serious impact on the overall market.
Retail	**Funding** • The British Independent Retailers Association (BIRA) has raised concerns that the Treasury's funding package will not be enough to sustain retailers. BIRA is also calling on the Government to make shops selling baby goods 'essential'. • Businesses desperate to access discretionary funding, particularly those in supply chain to retail/hospitality/exhibitions who have received no support. **Lockdown** • Approximately 25,000 non-essential shops are closed due to current restrictions. • Lockdown led to retail's worst annual sales performance on record in 2020, and lost 180,000 jobs
Visitor Economy	**Grants** • Small number of initial enquiries from businesses looking for more information regarding the latest government grants for Retail, Hospitality & Leisure. • Questions, however, do surround the viability of some pubs and restaurants that may already have been destined to fail prior to the COVID-19 pandemic and whether the money should be more carefully allocated to those that are more likely to succeed. • Businesses desperate to access discretionary funding, particularly those in supply chain to retail/hospitality/exhibitions who have received no support. **Lockdown** • A Government suggestion of new coronavirus restrictions banning alcohol from being sold with any other takeaway service offered by pubs and restaurants have led to a number of regional pubs expressing concerned that this could lead to permanent closures. The Chairman of CAMRA said "the Chancellor's one-off grant support of up to £9,000 for hospitality businesses was "welcome" but added: "It is nowhere near enough to cover the haemorrhaging costs for pubs and breweries." **Jobs** • 20% of jobs nationally lost in 2020 in hospitality, and long-team concerns about access to EU labour.
Transport and Logistics	**UK-EU Transition** • New customs checks and paperwork could reduce flow at ports by 60-80%.
Creative	**Demand** • Oxford Economics predict a £77bn turnover loss over the course of 2020 compared to 2019 (-31%). • This is expected to translate into a GVA shortfall of £29bn in 2020 compared to 2019 (-26%). **UK-EU Transition** • British musicians (and other entertainers) are no longer guaranteed visa-free travel and may need additional work permits to play in some countries. • There is also a wider concern around access to ideas/talent to and from Europe as well as the UK's withdrawal from the Creative Europe funding agency.

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MIDLANDS ENGINE Observatory

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