MIDLANDS ENGINE

Observatory

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 13: FEBRUARY 2021

Executive Summary

- The headline West Midlands Business Activity Index decreased to 41.5 in January, from 54.5 in December. The headline East Midlands Business Activity Index registered at 43.4 in January, down from 51.3 in December. Companies reported the fall in business activity was due to COVID-19 restrictions and business closures that hindered output. This has led to the steepest contraction since May.
- The WM Future Activity Index registered at 77.5 in January – the third highest level across the UK regions - with optimism stemming from the COVID-19 vaccine programme and the prediction of reduction in infections. The East Midlands Future Business Activity was 66.6 in January.
- Centre for Cities state that in 2020 the UK encountered its deepest recession on record, which prompted warnings of a return to 1980s levels of unemployment. However, the current recession has differed greatly to previous recessions and as a result, it is expected that the UK will make a quick recovery.
- Researchers at Aston University state that the Brexit deal has failed to have any major effect on the exchange rate of the pound since January 1 2021.
- Quarter on Quarter (2019 Q2 to 2020 Q2) GDP analysis shows for the West Midlands region there was negative growth of 24.7% - the highest negative growth seen across all twelve regions. The East Midlands had second highest negative growth of 23.5%. Over the same period, for the UK there was negative growth of 20.7%.
- There were 406,185 claimants aged 16 years and over in the Midlands Engine area in January 2021 - a decrease of 2,645 claimants since December 2020. 81,240 of these were youth claimants (16-24 years old) - a decrease of 1,120 claimants since December 2020.
- Provisional figures shows the number of workers furloughed increased to 631,400 on the 31st January. In January, there were 14% of eligible employees on the scheme, in the Midlands Engine, while for the UK the take-up rate was 16%.
- Across the Midlands Engine area, 445,400 of the population were eligible for the third grant of the Self-Employment Income Support Scheme (SEISS) at the end of January. There were 287,600 claims made at a total value of £783m. The average value of a claim was £2,800 in the Midlands Engine which matches the UK value. The total take-up rate for the Midlands Engine in January was 65% matching the UK average.
- Midlands businesses in the most COVID affected sectors are pleading for government support to continue until lockdown is eased. There is particular concern about looming unemployment and insolvency crises once furlough and grant schemes come to an end.
- There are continued issues for businesses trading with Europe, with many suggesting currently it is much more difficult than previously. For example, according to MakeUK (Feb 2021), 8 in 10 manufacturers are experiencing some form of disruption to their supply chains (e.g. because of Rules of Origin, customs paperwork and material supply difficulties).
- A risk analysis matrix has found that three Midlands Engine sectors are considered as having a particularly high risk to challenges around EU Exit: advanced manufacturing & engineering, retail, and transport technologies & logistics. 5 more sectors have a 'medium' risk.
- The same three sectors, plus Cultural Economy, are all considered as having a particularly high risk to ongoing COVID-19 challenges. This is due to their exposure to lockdown closures and operating as normal given new rules and ways of working. Consumer sentiment however has remained relatively buoyant despite the pandemic and we anticipate that most sectors will return to growth in 2021, including hard-hit sectors like retail and hospitality as they recover from a low base in 2020.
- Positively there is evidence of businesses diversifying and successfully adopting to the digital age, and 24 Midlands companies being named in the Sunday Times HSBC International Track top 200.
- Businesses have also welcomed the relative certainty provided by the newly released roadmap for easing restrictions. It is imperative that this cautious opening up continues to be underpinned by government support for businesses in need.
- Centre for Cities recommends that the government should deliver on levelling up by: investing in skills, creating jobs, improving city centres, investing in transport, investing in innovation, and pressing ahead with devolution.

Emerging Policy Considerations

THEME	KEY CONCERNS
Jobs & Furlough	Regional business leaders are stressing that **the COVID support provided, while welcomed, is not enough** to help businesses to stay afloat and are calling for **further, urgent aid from Government** in order to avoid further job losses ahead of lockdowns being eased. • This is amid hearing that many firms locally are being **forced to consider making redundancies** in order to weather the economic climate. • The potential looming unemployment crisis may be beginning to show in the data and in widely reported stories (Jaguar Land Rover, GKN). • The looming unemployment situation may reveal itself by **the time the Job Retention (furlough) Scheme ends** at the end of April. There has been calls for the Furlough scheme to be extended until July 2021 to align with the recent easing of lockdown roadmap and vaccination programme. • More practically, SMEs are calling to receive **testing kits** from government and the need for clarity over where the tests can be conducted (office or home) and who would be responsible for reporting results. Amid **positive feedback in relation to the Kickstart scheme,** it is felt by many that this scheme is essential to the country's longer term COVID recovery strategy. Kickstart is supporting businesses to create positions that would not have been possible without the level of support and financial assistance of the programme.
Access to Finance & Cashflow	• There is inconsistent feedback on the effectiveness of the array of government COVID support grants and loans available to businesses. An increasing number of businesses are enquiring about the **availability of Additional Restrictions Grants from local authorities**, suggesting the availability across LEPs and local authorities is inconsistent. There is also broader concern about **business failure/closure within recipients of both CBILS and BBLS, and the effect on wider taxes to pay for this.** • Some Midlands businesses are reporting that, from their perspective, some LAs are not pushing grants and support out quickly enough and they are waiting with no indication of grant awards. • Even when firms are able to access finance, **Grants are often not covering basic utility bills** for SMEs. Suggestions for additional government policy to support business include: • To provide **additional grant support** for closed businesses with high overheads. • For non-business rates payers and businesses without commercial premises to access grant support. • Significantly impacted supply chain firms able to access support alongside those directly required to close and/or limit their activities. • **Directors of limited companies, the recently self-employed, charities** currently excluded from support to be able to access it. Some government support schemes have been particularly praised as being hugely helpful: furlough, business rates holiday, Kickstart, VAT deferral.
EU Exit	There are continued issues for businesses trading with Europe, with many suggesting currently it is much **more difficult than previously.** Problems differ by severity and across sectors (as shown in this Monitor's sector risk analysis). Major concurrent issues related to EU Exit across sectors include: • **Delays in transport times for exports** and increase in transit time for inbound goods. • **Decreased ease of flow** of essential components due to new **rules of origin, customs duties and paperwork and VAT** which has resulted in damaging production hold-ups and supply chain effects.
New Business Models	• Further evidence that businesses that traditionally rely on face-to-face activity are, where possible, transferring all or part of their **business model online.** • Business support organisations (e.g. Growth Hubs) have found success in operating engagement events online. It has enabled engagement not previously witnessed pre-COVID.
Start-ups	• Despite COVID and EU Exit, some Midlands areas have reported a healthy increase in business support enquiries related to **new start-up business and entrepreneurship.** • Birmingham has been named the UK's regional start-up capital for the seventh year in a row.
High Performers	• A host of the region's companies have been named in a list which ranks Britain's mid-market private companies with the fastest-growing international sales. The Sunday Times HSBC International Track 200 league table reveals that **24 companies are headquartered in the Midlands Engine.** • The businesses are: HydroGarden, Mirius, BJS Home Delivery, Stiltz, Mechatherm International, Gymshark, Grayson Thermal Systems, Thermoseal Group, BullionByPost, Westley Group, Grenade, Excool, M&E Global, Autosmart International, Flair Rugs, Fashion UK, Charles Bentley, Pyramid International, Rebound Returns, Scott & Newman, Evolution Foods, Busy Bees, Autosmart International, EU Automation and TopCashback. • The Midlands' top-ranked company (6th overall) is new entrant **BullionByPost**, based in Birmingham.

Sector Risk Analysis – EU Exit and COVID-19

Background

In order to more easily identify COVID and EU Exit associated risks across sectors, two risk matrices have been developed by the Black Country Consortium's Economic Intelligence Unit. They are intended to support more targeted local policy and decision making that mitigates specific industry issues, particularly challenges that Midlands Engine businesses, or the Midlands Engine economy, are disproportionately exposed.

The matrices' findings are based on a mix of quantitative data and qualitative insight from businesses across the region, taking advantage of the industry links and relationships with local trade bodies and business groups.

The final column provides an overall risk to each sector in both matrices. The RAG rating does not represent the fortunes or risks of all businesses in all sub-sectors where indicated, but rather provides a general overview of how much of a risk certain features are across sectors. Likewise, a green rating doesn't mean there is no risk at all, but relatively low compared to other sectors.

EU Exit Sector Risks

The first matrix assesses the current risks and challenges associated with EU Exit across sectors. It reflects the live and expected experience of Midlands Engine sectors following the UK-EU trade deal, distinguishing between potential "teething problems" (shorter-term issues that might be expected to wane over time) and "long-term structural change" (areas that are expected to be known long-term changes).

The table matrix below demonstrates the findings of the EU Exit sector risk analysis at the Midlands Engine level.

EU Exit Sector Risks – Midlands Engine	CURRENT, OR POTENTIAL "TEETHING PROBLEMS"						LONG-TERM STRUCTURAL CHANGE			
	VAT	Financial Equivalence	Travel	Customs Paperwork	Prof. Quals.	R. of Origin	Standards / Regulation	Data Sharing	Skills Shortages	Overall risk of reduced competitiveness
Advanced Manufacturing & Engineering										HIGH
Construction										MEDIUM
Retail										HIGH
Visitor Economy										MEDIUM
Business, Professional and Financial Services										MEDIUM
Energy & Low Carbon										LOW
Creative, Design and Digital										MEDIUM
Healthcare & Life Sciences										MEDIUM
Transport Technologies										HIGH
Public Sector inc. Education										LOW

- **Three Midlands Engine sectors** are considered as having a particularly **high risk** to challenges around EU Exit.
- **Advanced Manufacturing & Engineering**, largely due to **trade barriers** surfacing despite the UK-EU trade deal: impacts of Rules of Origin, VAT and additional customs paperwork in particular. This is especially relevant to the Midlands Engine economy given the size of our manufacturing sector and its reliance on EU trade.
- **Retail,** again largely due to non-tariff barriers experienced since January 1st 2021. **Rules of Origin** are particularly problematic for some suppliers, as reported nationally, and is leading to some businesses considering setting up entities in the EU. Long-term skills shortages are also a key risk for retailers, a key employer locally.
- **Transport Technologies & Logistics,** for a mix of both short-term and long-term reasons. Currently the sector is challenged by the new UK-EU trading rules on customs and paperwork, causing delays crossing borders and fulfilling orders effectively. Longer-term, the sector locally has already expressed concern about the impact of reduced access to labour from the EU in an industry that already has **skills shortages.**

Sector Risk Analysis – EU Exit and COVID-19

- Other sectors are significantly challenged by EU Exit changes potentially impacting on Midlands businesses and their competitiveness. For example, the **Cultural Economy** is assessed as having a medium risk, partly due to the damaging effect of additional travelling for work restrictions and its impact on cultural and entertainment tours and events in Europe. **Construction is also not immune** to trade changes and is likely to be adversely affected by changes to immigration rules. Furthermore, **Business, Professional and Financial Services will be affected in a range of ways given that services were generally left out of the trade deal.** While uncertainty around agreement in financial services will affect London mostly, it is a large and diverse employer in the Midlands too.

COVID-19 Sector Risks

The second matrix refers to the sector risks associated with the ongoing COVID-19 pandemic. Again, this aims to relate as much as possible to issues specific and most important to Midlands Engine businesses across sectors, and is the result of extensive consultation throughout the pandemic.

The table matrix below demonstrates the findings of the COVID-19 sector risk analysis at the Midlands Engine level.

Covid Sector Risks – Midlands Engine	Skills & Labour - % furlough in ME)	A2F – diff. between % of loans & economy proportion	Lockdown	Order Books	Insolvency & Debt	Social Distancing	Transition to New Business Models	Testing & Labour Supply	Digital / Home Working	Risk Management Capability	Overall Risk to Future Growth (inc. via EY forecasts)
Advanced Manufacturing & Engineering	12%	-1.3%									HIGH
Construction	14%	0.1%									MEDIUM
Retail	13%	-6.0%									HIGH
Cultural Economy	49%	-1.6%									HIGH
BPFS	12%	1.4%									LOW
Energy & Low Carbon	6%	-0.1%									MEDIUM
Creative, Design and Digital	9%	1.8%									MEDIUM
Healthcare & Life Sciences	3%	2.3%									LOW
Transport Technologies	8%	0.4%									HIGH
Public Sector inc. Education	2%	3.3%									LOW

- Four Midlands Engine sectors are considered as having a particularly **high risk** to ongoing COVID-19 challenges:
- **Advanced Manufacturing & Engineering,** because, while many businesses are still operational, many factors are damaging and mean manufacturers are not operating as normal. Manufacturers have received a **high proportion of access to finance loans** as a proportion of their size in the economy, while the sector is adversely affected by shifts towards home working, testing requirements and being in control of managing risks.
- **Retail,** unsurprisingly due to the affect of lockdown on the ability for shops to open. The **inability to operate** as normal has resulted in a high number of access to finance requirements in the sector, putting pressure on insolvency and debt. Additionally, the decline of physical shops is being accelerated by COVID.
- **Cultural Economy,** again largely due to the effects of lockdown on entertainment, leisure and travel activities. Like retail, this is putting **major pressure on the cashflow** of businesses in this sector locally, forcing them to access financial support in the form of grants / loans and very high levels of furloughing.
- **Transport Technologies & Logistics,** given its importance to the Midlands economy, and linkages with other high-risk sectors (retail and manufacturing). Also, according to EY, this sector is projected to decline up to 2023.
- **Construction** is assessed as having medium risk, though the sector is at a high risk in a number of specific areas. These include **social distancing and home working**, which are difficult to manage and increase costs, as well as insolvency & debt issues. **Energy & Low Carbon** has similar issues to a lesser extent.
- Three sectors – **BPFS, Healthcare & Life Sciences and the Public Sector –** are deemed to be of relatively low risk to COVID-19 impacts. However, this **does not mean they are immune** – many companies will still be struggling.

Global and National Outlook

Global

According to the BBC China has now become the EU's largest trading partner, overtaking the US in 2020. China bucked the wider trend as trade with most of Europe's major partners dipped due to COVID-19. The economic recovery later in the year fuelled demand for EU goods. This was worth $709bn (€586bn, £511bn) in 2020, compared with $671bn worth of imports and exports from the US. China's exports to Europe benefited from strong demand for medical equipment and electronics. In 2020, China was the main trading partner for the EU. This result was due to an increase of imports (+5.6%) and exports (+2.2%).

China has also overtaken the US as the world's top destination for foreign direct investment. New investments into America from overseas companies fell by almost half last year, leading to the loss of its number one status.

Nigeria's Ngozi Okonjo-Iweala was appointed the seventh Director General of the World Trade Organisation, making her the first women and first African to head the multilateral trade body. Okonjo-Iweala said a key priority for her would be to work with members to quickly address the economic and health consequences brought about by the COVID-19 pandemic.

A winter storm landed in the US which has severely disrupted business across the country. The New York Times highlights that large car factories, retail chains and the delivery services that people are deeply reliant on for basic necessities would suffer the most.

Because millions of people have been working from home during the pandemic, winter storms may not have quite the economic cost they once did. But the loss of power can sever the internet connections that people need to do their jobs. The storm has caused extensive delays across the vast package delivery networks that many people now rely on as shopping has shifted online. The winter storm prompted the United States Postal Service to close post offices, processing hubs and other facilities in Texas, Alabama and Mississippi, according to its website. This winter storm has caused massive disruption across the country, forcing businesses to close, at a time when the US economy is meant to be beginning its recovery, following the roll-out of the vaccine within the country.

National

Centre for Cities state that in 2020 the UK encountered its deepest recession on record, which prompted warnings of a return to 1980s levels of unemployment. However, the current recession has differed greatly to previous recessions. As a result, it is expected that the UK will make a quick recovery. Previous recessions have been led by exporting industries – for example manufacturing in the 1980s, and finance and manufacturing in 2008-2010. This has not been the case with the current recession. The huge falls in output have been led by customer facing local services, particularly in hospitality and entertainment. This changes how quickly the economy should be able to bounce back.

According to the BBC the Government is confident that its post-Brexit worst-case scenario of disruption from queues of thousands of lorries in Kent has now been avoided. Internal figures seen by the BBC show outbound roll-on roll-off lorry traffic for Great Britain for the month so far at 98% of February 2020 levels. Inbound traffic is at 99% of last year's levels. About 80-90% of laden lorries are arriving border-ready.

Bloomberg has highlighted that the City of London had little to celebrate after 6 weeks of separation from the EU. The financial district has officially lost its crown to Amsterdam as Europe's top place to buy stock and shares. Traders have shifted interest-rate swaps out of the U.K. capital. Relocations of bankers are set to continue in 2021.

Researchers at Aston University state that the Brexit deal has failed to have any major effect on the exchange rate of the pound since January 1 2021. The pound has held steady against the US dollar at US$1.36 and has strengthened slightly against the euro to €1.12. This was very much consistent with the modest expectations of the markets. According to the research centre UK in a Changing Europe, the effect of Brexit on the economy is expected to emerge slowly, but to be permanent. It estimates that UK's economy will shrink by a total 4.9% over 15 years. This is likely to add extra pressure on the pound, which has generally been weakening in recent years. The question is how quickly the effects of Brexit are likely to feed through. At the same time, Brexit has played a role in undermining international investors' belief in the UK as a beacon of stability and trustworthiness and hence in a prosperous future for the British economy. This too is likely to affect the currency over time.

Business Activity

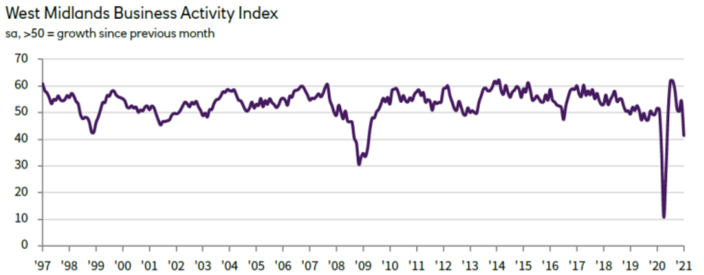
Purchasing Manager Index (PMI) Survey Analysis:

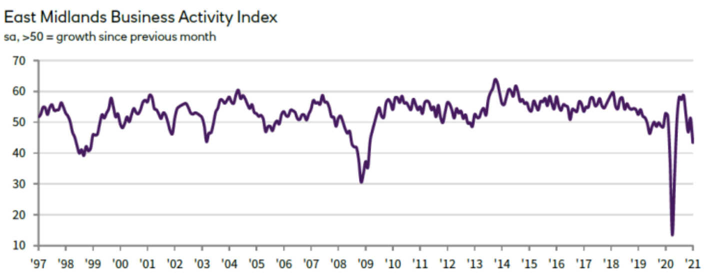
The headline West Midlands Business Activity Index decreased to 41.5 in January, from 54.5 in December.

The headline East Midlands Business Activity Index registered at 43.4 in January, down from 51.3 in December.

Companies reported the fall in business activity was due to COVID-19 restrictions and business closures that hindered output, which has led to the steepest contraction since May.

The overall UK Business Activity Index decreased to 41.2





Source: IHS Markit, NatWest PMI, February 2021

Out of the twelve UK regions, the West Midlands region ranked sixth and the East Midlands region was the fourth highest for the Business Activity Index.

Demand

The West Midlands New Business Index decreased from 52.3 in December to 45.9 in January. For the East Midlands the New Business Index decreased from 51.9 to 46.1 over the same period. The fall in sales across the regions was primarily due to the services economy.

Capacity

The West Midlands Employment Index declined from 48.8 in December to 45.7 in January. The Employment Index has stayed below the 50 mark for the last twelve months, with job shedding for both manufacturing and service sectors. The East Midlands Employment Index declined from 49.1 in December to 46.0 in January. The pace of job shredding was the fastest seen for three months.

The West Midlands Outstanding Business Index has decreased from 51.1 in December to 49.6 in January. The East Midlands Outstanding Business Index has decreased from 51.7 in December to 49.9 in January.

Prices

The West Midlands Input Prices Index decreased from 67.1 in December to 64.1 in January. Although a reading above 50 indicates the rate of inflation remained sharp and above its long-run average. The East Midlands Input Prices Index decreased from 62.6 in December to 60.8 in January.

The West Midlands Prices Charged Index increased from 54.2 in December to 54.8 in January. The East Midlands Prices Charged Index increased from 50.8 in December to 52.5 in January. The higher selling price was linked to a partial pass-through of greater cost burdens to companies.

Exports

The West Midlands Export Climate Index decreased slightly from 52.6 in December to 52.2 in January.

The East Midlands Export Climate Index increased slightly from 50.9 in December to 51.0 in January.

Outlook

The WM Future Activity Index registered at 77.5 in January with optimism stemming from the COVID-19 vaccine programme and the prediction of a reduction in infections.

The East Midlands Future Business Activity was 66.6 in January. Companies remained upbeat for the upcoming year with optimism stemming from hopes of an end to COVID-19. However, Brexit and fears of the longevity of restrictions dampened positive sentiment.

Out of the twelve UK regions, the West Midlands had the third highest Future Activity Index, while the East Midlands had the third lowest in January 2021.

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, February 2021.

Gross Domestic Product

Recently released [ONS](#) figures on Regional GDP demonstrate the devastating impact of COVID-19 on local economies. All regions in the UK showed negative growth in Quarter 2 2020 when compared with the same quarter a year earlier. The West Midlands showed the largest negative growth of 24.7%, with the East Midlands the second highest negative growth of 23.5%. Over the same period, for the UK there was negative growth of 20.7%.

For Quarter 1 2020, in the West Midlands region there was negative growth of 4.7% and negative growth of 4.0% in the East Midlands. The UK had negative growth of 2.8% in the same quarter-on-quarter period.

Reflecting the full kicking-in of the pandemic, between Q1 and Q2 of 2020, the West Midlands had the largest negative growth of 21.0% of all UK regions. The East Midlands had the fifth lowest negative growth at 18.7%. For the UK there was negative growth of 18.8% in 2020 Q2.

Industries – Quarter on Quarter Analysis

Overall, there was a fall in GDP for all four sectors in 2020 Q2 from the previous quarter for the West Midlands region, with agriculture falling by 1.9%, services by 19.0%, production by 24.3% and construction by 38.8%.

There were also declines in GDP for all four sectors in 2020 Q2 from the previous quarter for the East Midlands region, with agriculture falling by 2.6%, services by 16.8%, production by 21.1% and construction by 35.0%.

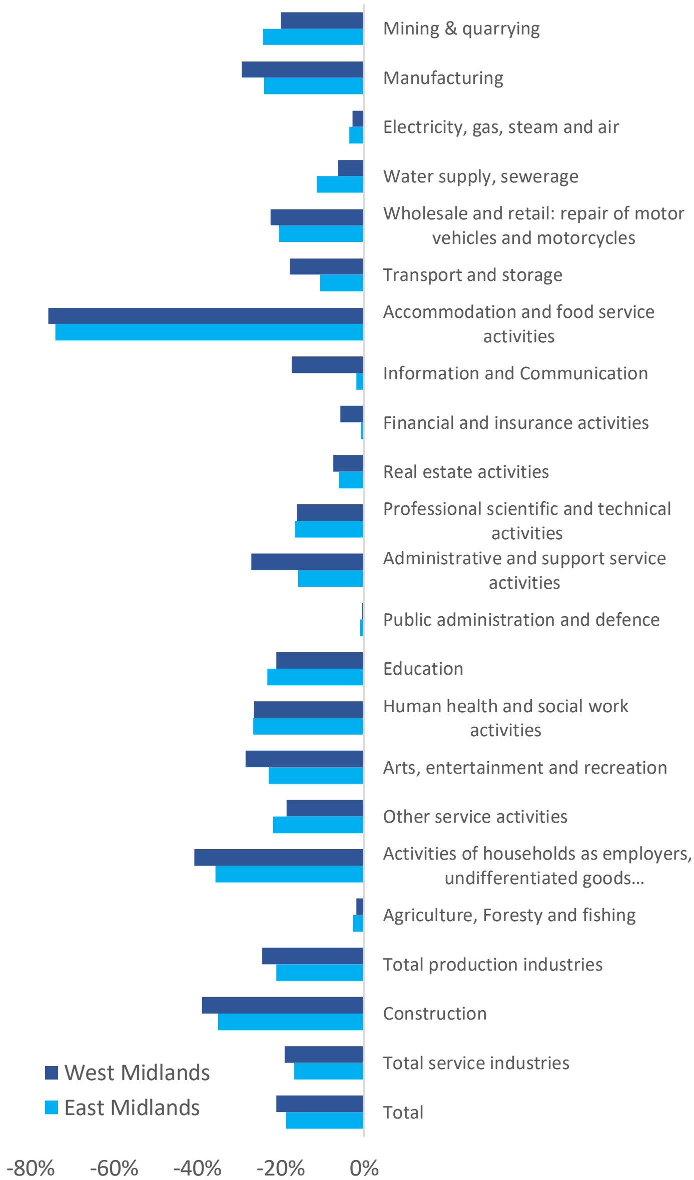
In the West Midlands, there was a fall in GDP in all the smaller 18 "industry" categories, with the smallest decline coming within public administration and defence (-0.4%).

There was a decline in GDP across all industries for the East Midlands. The smallest declines were financial and insurance activities (-0.7%).

The highest decline for the West Midlands was in the accommodation and food service activities (-75.7%) industry.

The highest decline across the East Midlands was also in accommodation and food service activities (-74.1%) industry.

The chart to the top right shows Quarter on Quarter change for GDP across all industries for the West Midlands and East Midlands regions, 2020 Q2:



Minding the Gap: Why has UK GDP fallen so sharply in the pandemic?

ONS have also published an [article](#) which looks at why UK GDP has fallen further than many other developed countries.

One reason, is how the output of public services is measured. ONS use a wide range of detailed data from government such as how many people have seen a GP, how many operations have taken place and the number of pupils receiving education. With schools closed and many non-urgent procedures delayed, this means a big fall in the output of UK public services during the early stages of the pandemic.

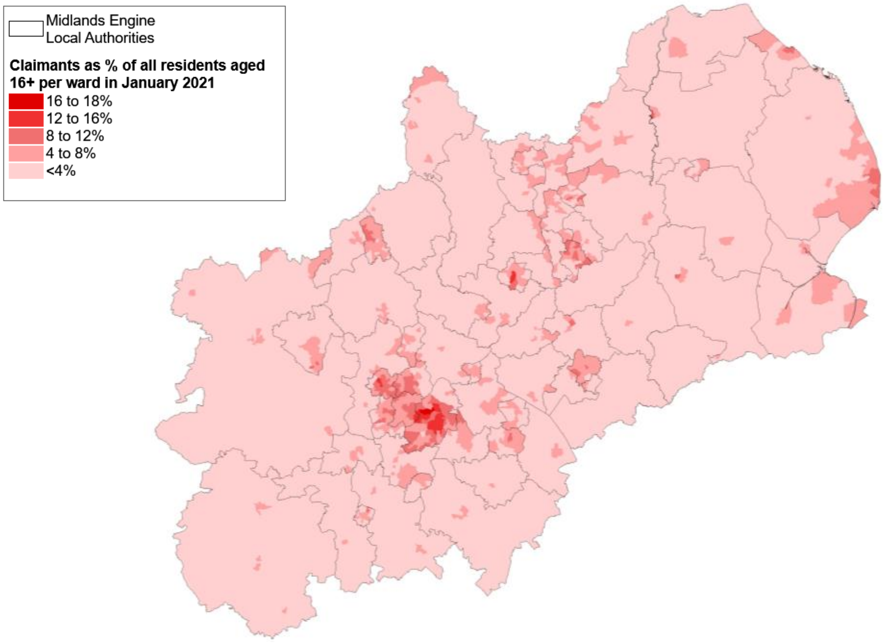
Another reason for the larger fall in UK GDP is that although the UK's lockdown restrictions were imposed later than in many other countries, they have generally been tighter and imposed for longer.

Claimants

There were 406,185 claimants aged 16 years and over in the Midlands Engine area in January 2021, a decrease of 2,645 claimants since December 2020. This equates to a decrease of 0.6% for the Midlands Engine area, whilst the UK decreased by 0.7%. There are 184,645 (+83.3%, UK +102.7%) 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 4.9% in January (UK 4.8%).

Claimants as Percentage of Residents Aged 16 Years and Over in January 2021:

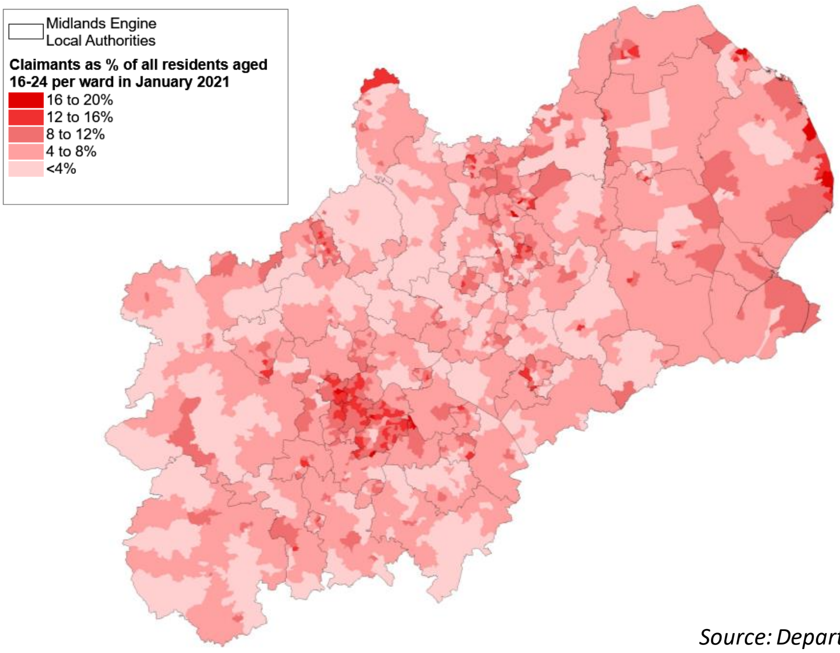


Out of the 1,511 wards within the Midlands Engine, 397 were at or above the UK average of 4.8% for the number of claimants as a percentage of the population aged 16 years and over in January 2021. The top three wards for the number of claimants as a percentage of the population were based in Birmingham, with Lozells the highest with 17.7%. This is followed by Handsworth at 17.5% and then Birchfield at 16.6%.

There were 81,240 youth claimants (16-24 years old) in the Midlands Engine area in January 2021 – a decrease of 1,120 claimants since December 2020. This equates to a decrease of 1.4% with the UK decreasing by 0.6%. Since March 2020 (44,195 claimants), the number of youth claimants has increased by 37,045 (+83.8% compared to +105.8% 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 7.0% in January (matching UK proportion).

Claimants as Percentage of Residents Aged 16 – 24 years old in January 2021:



Out of the 1,511 wards within the Midlands Engine, 602 were at or above the UK average of 7.0% for the number of claimants as a percentage of the population aged between 16 – 24 years old in January 2021. The top ward for the number of claimants as a percentage of the population was Winthorpe (East Lindsey) at 19.6%. This is followed by Ingoldmells at 17.6% and then Portland (Mansfield) at 17.4%.

Source: Department for Work and Pensions, February 2021

Furloughed Workers

Figures released in February 2021 show the level of demand and application of furlough in the last year. Furlough in the UK peaked at 8.9 million workers on 8th May 2020, with the number of workers furloughed steadily dropping to 6.8 million on the 30th June. The number of workers furloughed continued to fall throughout July and August to 5.4 million and 3.8 million respectively, and then into September (falling further to 2.8 million) and October (2.4 million). However, the number of workers furloughed then increased throughout November, reaching 3.9 million, increasing again slightly throughout December to reach 4.0 million. The latest data shows that the number of UK workers furloughed continued to increase into 2021, and reached 4.7 million on 31st January.

In the Midlands Engine, there were 740,000 workers furloughed on the 31st July; this decreased to 533,900 on the 31st August to 392,200 in September and then to 316,400 on the 31st October. On the 30th November the number of workers furloughed increased to 532,900, this was followed by a small decrease to 529,800 on the 31st December. Provisional figures shows the number of workers furloughed increased to 631,400 on the 31st January. In January, there were 14% of eligible employees on the scheme, in the Midlands Engine, while for the UK the take-up rate was 16%.

There were 327,400 female workers furloughed and 303,900 male workers furloughed on the 31st January in the Midlands Engine area. The take up rate of males and females were 13.4% and 14.6% compared to 14.5% and 15.3% for the UK respectively.

The following table shows 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 summaries for July, September, November and January:

		At 31st July	At 30th September	At 30th November	At 31st January
Midlands Engine Summary	Female Furloughed Workers	369,100	196,400	279,100	327,400
	Female Take-Up-Rate	16%	9%	12%	15%
	Male Furloughed Workers	370,700	195,900	254,200	303,900
	Male Take-Up-Rate	16%	9%	11%	13%
	Total Furloughed Workers	740,000	392,200	532,900	631,400
	Total Take-Up-Rate	16%	9%	12%	14%
UK	Female Furloughed Workers	2,599,300	1,418,000	1,920,200	2,322,100
	Female Take-Up-Rate	17%	9%	13%	15%
	Male Furloughed Workers	2,463,900	1,346,800	1,793,300	2,176,600
	Male Take-Up-Rate	16%	9%	12%	15%
	Total Furloughed Workers	5,393,100	2,843,400	3,868,200	4,703,600
	Total Take-Up-Rate	18%	9%	13%	16%

Overall, the local authorities with the highest percentage of workers furloughed were Derbyshire Dales (17.8%), East Lindsey (17.2%) and Stratford-on-Avon (17.1%)

The local authority with the highest percentage of males furloughed was East Lindsey at 16.3%, followed by Birmingham (16.0%), and Stratford-on-Avon (15.5%).

The local authority with the highest percentage of female employments furloughed was Derbyshire Dales at 20.3%, followed by Rutland (20.0%) and Stratford-on-Avon (18.8%).

Source: HMRC, Coronavirus Job Retention Scheme statistics: February 2021
Please note, 1,486,900 individuals in the Midlands Engine area have been furloughed at some point, 631,400 remain furloughed as of 31st January 2021

Self-Employment Income Support Scheme

Local Analysis

Across the Midlands Engine area, 445,400 of the population were eligible for the third grant of the Self-Employment Income Support Scheme (SEISS) at the end of January. There were 287,600 claims made at a total value of £783m. The average value of a claim was £2,800 in the Midlands Engine which matches the UK value. The total take-up rate for the Midlands Engine in January was 65% matching the the UK average.

For the Midlands Engine area, the number of claims has decreased when compared to first grant (345,100) and the second grant (308,200), with the total values at £968m and £749.5m respectively. The average claim was £2,900 for the first grant, however this dropped to £2,500 for the second grant. The Midlands Engine total take-up rate has also decreased since the first grant (77%) and the second grant (69%).

Claims by Age and Gender – Regional

At the Midlands Engine regional geography, for the third grant of SEISS there was an overall total potential eligible population of 475,000 for the SEISS at the end of January, with a take up rate of 65% which is based on the total number of claims of 307,000. The total value of claims made was £845m with the average value of claims made at around £2,800.

The overall highest take-up rate by age for the regional Midlands Engine geography was for those aged 35–44 years old (73,500 claims, 107,000 eligible) at 69%. The overall take-up rate for males was 66% (220,600 claims, 332,100 eligible). The highest take-up for males was those aged 35-44 years old at 71% (52,400 claims, 73,300 eligible). The overall take-up rate for females was 60% (86,400 claims, 143,700 eligible). The highest take-up for females was those aged 25-34 years old at 64% (15,700 claims, 24,600 eligible).

Claims by Sector - Regional

The highest total value of claim made was in the construction industry at £356m. The highest take-up rate was in transportation and storage at 77%. **The following table shows a breakdown by broad industry across the regional Midlands Engine geography:**

	Total potentially eligible pop.	Total no. of claims made to 31/01/21	Total value of claims made to 31/01/21	Average value of claims made to date	Take-Up Rate
Accommodation and food service activities	12,300	7,500	£19,200,000	£2,600	61%
Administrative and support service activities	37,000	20,200	£40,300,000	£2,000	55%
Agriculture, forestry and fishing	15,700	4,700	£14,500,000	£3,100	30%
Arts, entertainment and recreation	10,100	6,900	£16,400,000	£2,400	68%
Construction	148,000	103,000	£355,900,000	£3,450	70%
Education	16,300	12,100	£28,100,000	£2,400	74%
Financial and insurance activities	2,800	1,600	£6,200,000	£2,900	57%
Human health and social work activities	21,500	10,700	£29,800,000	£2,800	50%
Information and communication	4,300	2,100	£6,400,000	£3,000	49%
Manufacturing	12,800	8,000	£23,000,000	£3,000	63%
Other service activities	35,100	28,400	£60,300,000	£2,100	81%
Professional, scientific and technical activities	21,900	11,900	£38,100,000	£3,200	54%
Public administration and defence; compulsory social security	800	500	£1,200,000	£2,600	63%
Real estate activities	2,000	1,000	£3,100,000	£3,100	50%
Transportation and storage	37,600	28,900	£56,900,000	£2,000	77%
Wholesale and retail trade; repair of motor vehicles and motorcycles	32,300	19,500	£51,200,000	£2,700	60%
Unknown and other	65,500	39,900	£94,500,000	£2,400	61%
All	475,000	307,000	£845,000,000	£2,800	65%

Please note figures will vary from the first section where the figures are based on the Midlands Engine 65 local authorities area. Claims by age, gender and sector are only available at a regional level and the East Midlands region and West Midlands region has been combined and used.

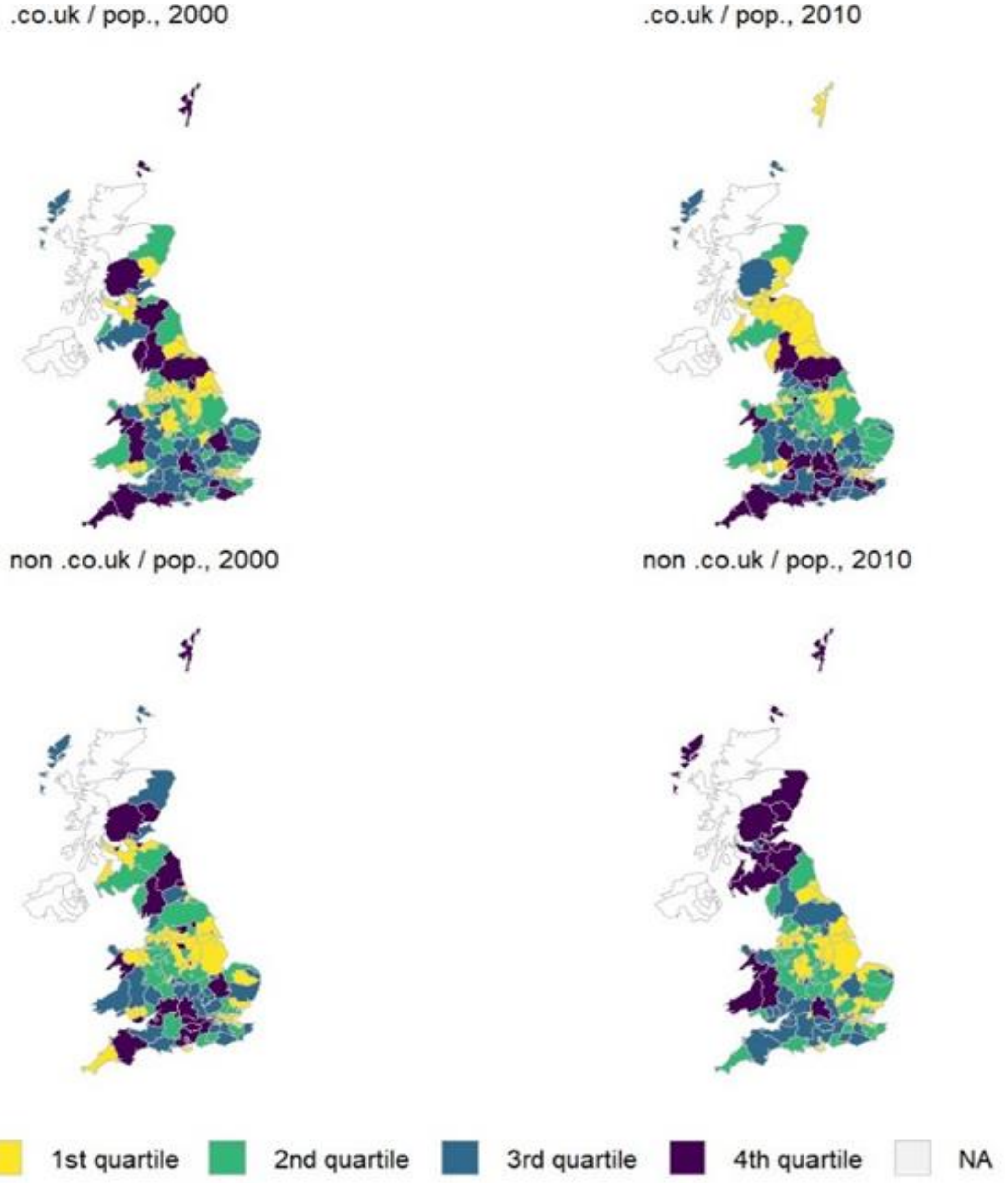
The figures are based on claims submitted for the third grant by 16:59pm on 31st January 2021. Source: HMRC, Self-Employment Income Support Scheme (SEISS) Statistics: February 2021

Harnessing the Digital Economy: The Role of Early Adoption of Digital Technologies

Early engagement with the digital economy can explain regional productivity differences for up to 16 years down the line. This means that the decision for the rollout of digital technologies can have significant economic impacts for many years and that typical evaluation timelines may underestimate the importance of these decisions.

WM Redi have used a previously unexplored dataset provided by The British Library's UK Web Archive and the Internet Archive. Subset data contains UK-based webpages with postcodes and timestamps so for each year it can identified how many webpages were anchored in each NUTS3 region.

The data was mapped (after normalising by regional populations, separating business webpages ".co.uk" to non-business ones "non .co.uk" and splitting into four quartiles) for 2000 and 2010 shows the evolution of the engagement with the digital economy by region. **The maps below highlight the uneven regional footprint of the digital economy's intensity and suggest that any positive impact from digitisation is likely to follow a similarly uneven distribution.**



The findings have significant implications for policy across two aspects. The first is that policymakers need to be aware that the gradual rollout of digital technology affects regional productivity trajectories and hence is an active growth tool. The second is that the typical evaluation horizon of rollout programmes may underestimate the positive impact of these policies since they are unlikely to account for the long-term effects of such interventions. The full paper for this work can be found here.

Good Growth for Cities

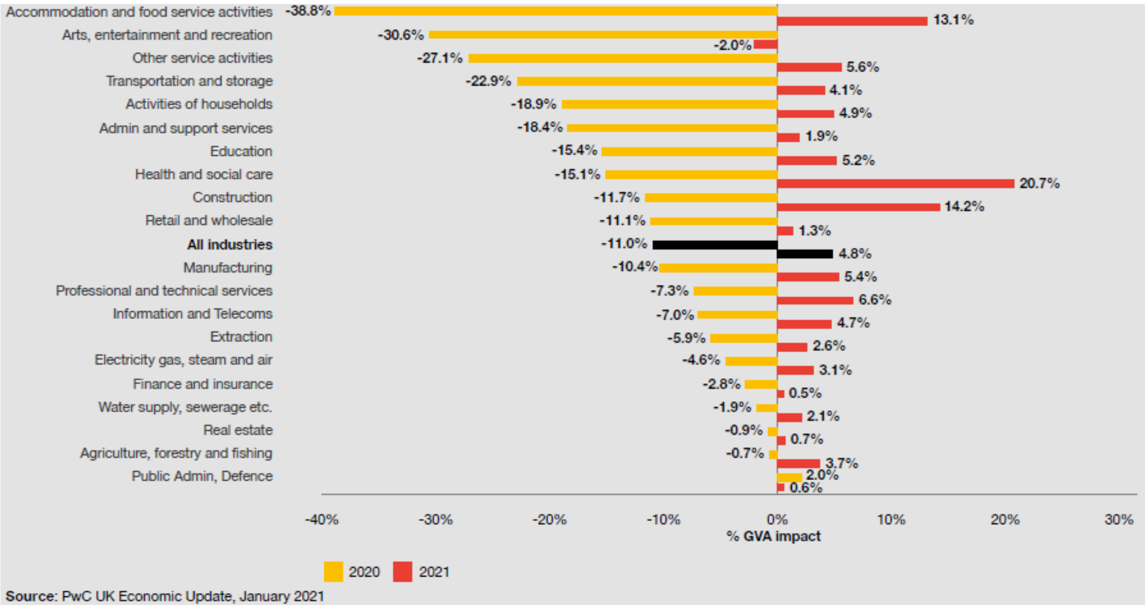
PWC developed the Good Growth Index based on the public's view of what economic success meant to them.

10 factors that matter most to the public:

1. Secure jobs
2. Adequate income levels
3. Good health (in order to work and earn a living)
4. Time with family/work-life balance
5. Affordable housing
6. High levels of entrepreneurship and new business start-ups
7. Good quality transport systems (road and rail in particular)
8. Having the skills and education needed to be in employment and earn a living
9. Protection of the environment (for example carbon emission reduction, preserving forests)
10. Fair distribution of income and wealth

Sectors such as hospitality and leisure, transport and food service industries have been most negatively impacted in GVA terms by the pandemic.

Figure: Projected GVA growth rate by industry sector under 'Quick recovery' scenario, % annual change in 2020 and 2021



Consumer sentiment has remained relatively buoyant despite the pandemic and we anticipate that most sectors will return to growth in 2021, including hard-hit sectors like retail and hospitality as they recover from a low base in 2020.

It is clear that cities will face very different challenges and opportunities as they recover from the economic impacts of COVID-19. The hardest hit cities in 2020 range geographically across England. Broadly, those cities that perform well in the Good Growth for Cities Index have been relatively less impacted by the pandemic than those that perform less well, although there are notable exceptions to this pattern, including Leicester.

Cities with the strongest GVA growth rates projected for 2021 are those that have been hardest hit in 2020.
This means that as sectors that have been most impacted by restrictions reopen, cities that have been most negatively affected due to their sectoral mix will see stronger recoveries back to pre-pandemic conditions. However, a return to pre-pandemic conditions will not necessarily instigate a sudden increase in economic activity in relatively low-performing cities and make these cities more prosperous than before the pandemic. Rather, we estimate that for these cities their economies in 2021 will be slightly smaller than their economies in 2018.

Source: pwc Good Growth for Cities, 2021

Good Growth for Cities

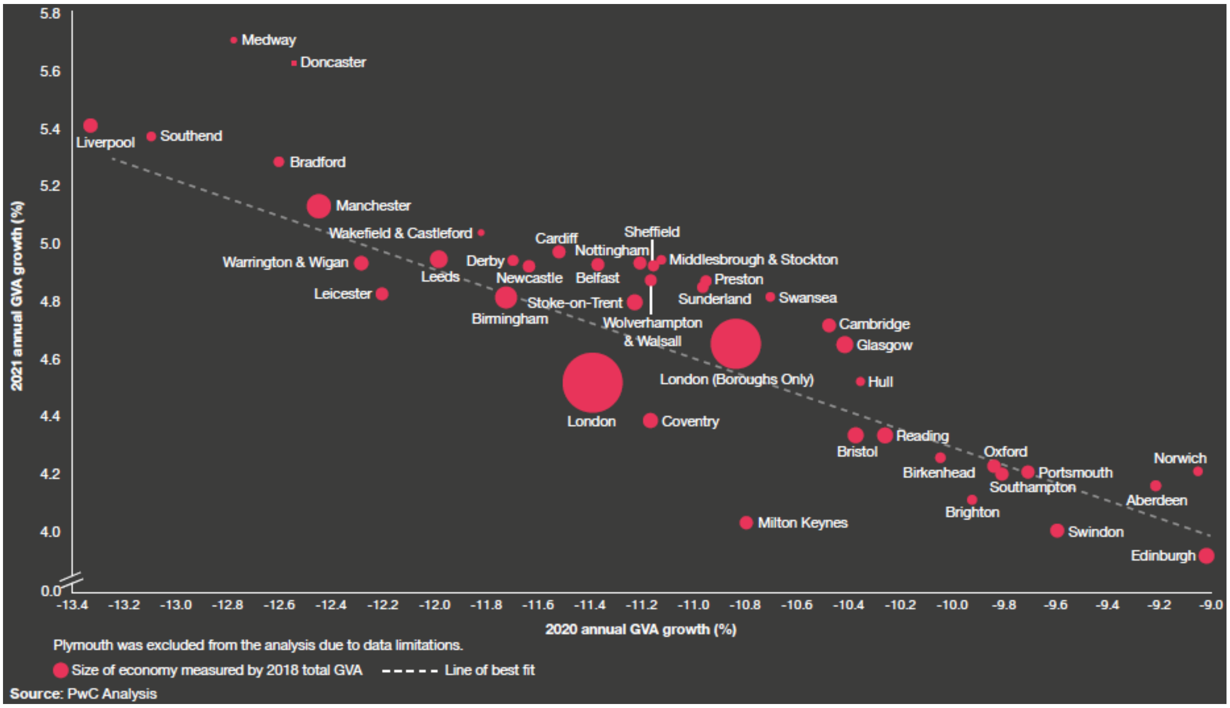
Figure: 2020 annual GVA growth rate (%) and Good Growth for Cities Index score

Plymouth was excluded from the analysis due to data limitations.

Source: PwC Analysis

City economies that have a higher reliance on hard-hit sectors, such as accommodation and food services, will face structural challenges in their recovery. The pandemic has also revealed new disparities. For example, areas with younger populations, greater numbers of ethnic minorities or higher proportions of lower income individuals may face much higher unemployment over the next year. A local and tailored approach will be needed to respond to the challenges and opportunities ahead.

Figure: 2020 and 2021 annual GVA growth rates



Source: pwc Good Growth for Cities, 2021

Good Growth for Cities

Good growth before the pandemic

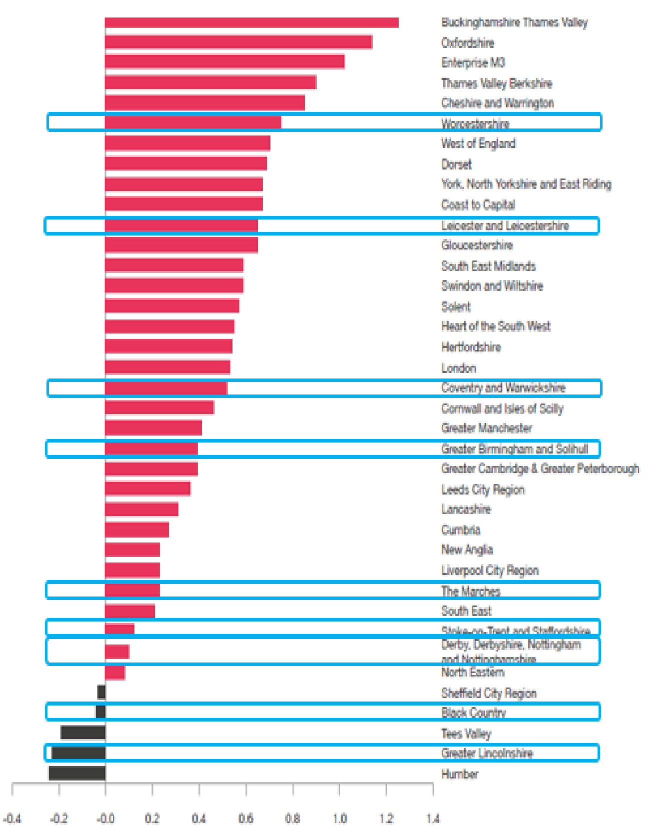
While few predicted what 2020 would have in store, there are some signs in the Good Growth for Cities Index of what has unravelled. Before the pandemic, the gap between those cities at the top of the index and those at the bottom had started to widen after many years of narrowing. The scores for the average skills levels of young people had started to decline, as had the scores for health. These are all trends that the pandemic has amplified and are challenges in delivering on the Government's commitment to 'levelling up'.

The economic impact of the COVID-19 pandemic is very different in its nature to the 2008 global financial crisis. For example, capital remains plentiful but paused, unlike the global financial crisis after which it receded dramatically. Addressing structural issues – such as improving local skills, encouraging new business development and addressing local environmental challenges – have provided a greater source of good growth since 2006-07 than traditional economic measures. The short-term focus in a downturn is often on protecting jobs and maintaining income levels, but policy-makers should ensure that they are also building the foundations for long-term recovery.

Figure: Good Growth in Combined Authorities, 2016-18 and 2017-19

Figure: Good Growth for Cities Index (2017-19)

Figure: Good growth scores across LEP areas, 2017-19



Source: pwc Good Growth for Cities, 2021

COVID-19 Impacts on Cities

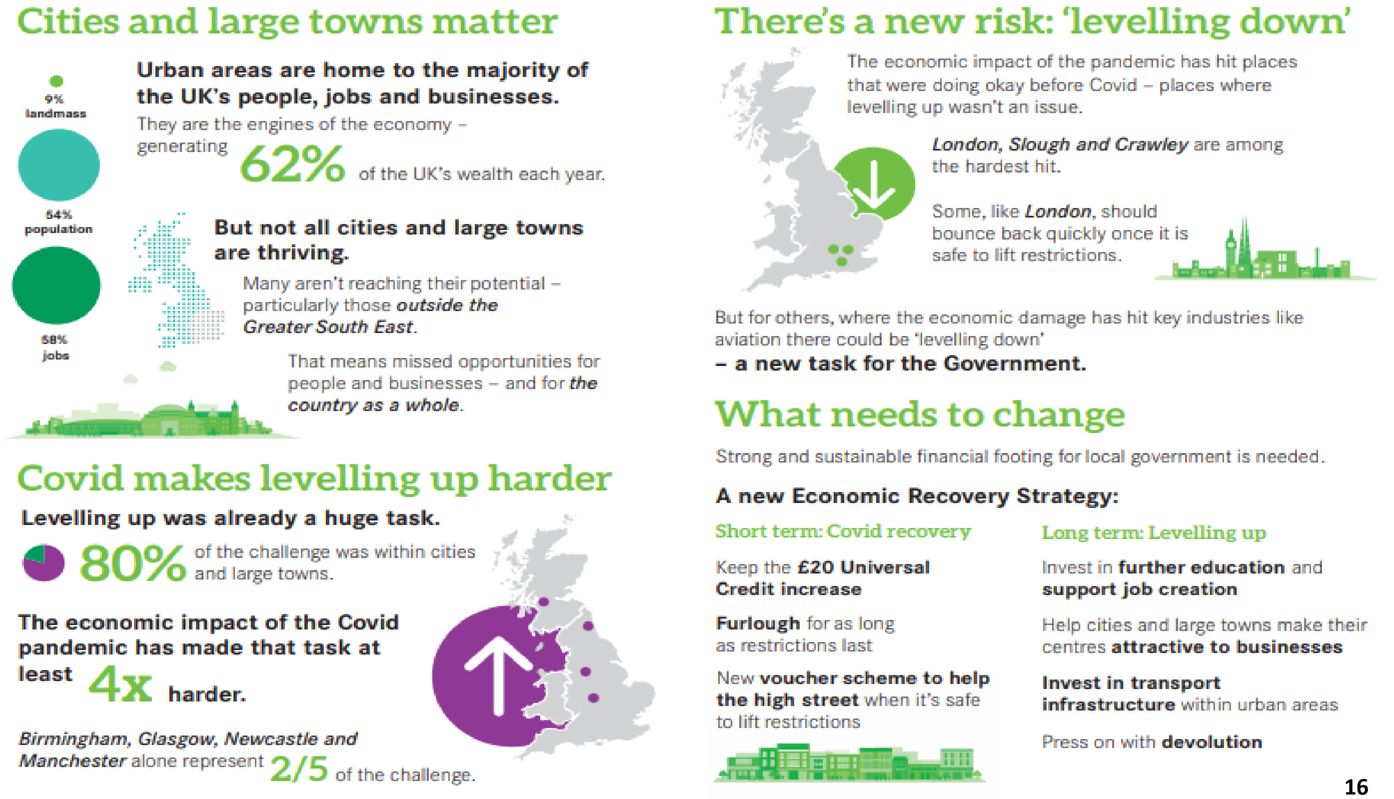
[Centre for Cities](#) reflects on the implications of COVID-19 for cities in the UK. They consider how it has affected urban life, whether the resulting changes in behaviour will persist and lead to the demise of big cities, and what policy support is required to help big cities to achieve the government's levelling-up goal.

Centre for Cities looks at how much harder COVID-19 has made the levelling-up challenge, and suggest government therefore needs to increase its efforts on levelling-up. They propose government should support places to recover from COVID-19 by:

- **boosting Universal Credit:** making permanent the temporary £20 uplift to Universal Credit and consider increasing it to be in line with other welfare states in Europe.
- **supporting workers until social restrictions are lifted:** continuing to offer the current furlough scheme to workers.
- **supporting people who have lost their job to retrain:** extending the initiative and offer free courses to anyone who has lost their job in the past year, even those who already have A-level or equivalent qualifications.
- **consider a spend out to help out voucher:** consider whether additional support is needed to encourage people to go out and spend.

Centre for Cities recommends that the government should deliver on levelling up by:

- **investing in skills:** boosting investment in further education and set out how it will stimulate take-up among adults
- **creating jobs:** supporting the creation of more jobs in sectors of high demand such as social care and education, which are spread across the country.
- **improving city centres:** by creating a City Centre Productivity Fund for places to access.
- **investing in transport:** This will require both investment from national government and action from local government, such as the introduction of congestion charges in city centres.
- **investing in innovation:** Set out how Government will increase spending on R&D outside of Greater South East
- **pressing ahead with devolution:** hand powers related to economic growth to local areas and give them the opportunity to raise their own taxes.



International Evidence on Levelling Up

A report co-authored by the [Industrial Strategy Council] (ISC) and City-REDI researcher, Abigail Taylor, was published examining international evidence on what it takes to "level up" places.

The report analyses experiences in four international case study areas (Estonia, San Antonio, Greater Lille, and the Ruhr region) that have achieved success in levelling up local economies and closing the gap with their national economy over previous decades.

Based on an evidence review of the academic literature, policy documents and analysis of economic data, as well as interviews with relevant academic experts and policy officials, the research explores what can be learned from how each of these places design and implement place-based policies.

The report identifies six key foundations for levelling up:

1. Scale and longevity of investments
2. Collaboration
3. Being an attractive place to live
4. Investment in universities and innovation
5. Investment in transport and digital infrastructure
6. Skills and future sectors

More details on each foundation can be seen in the diagram below:

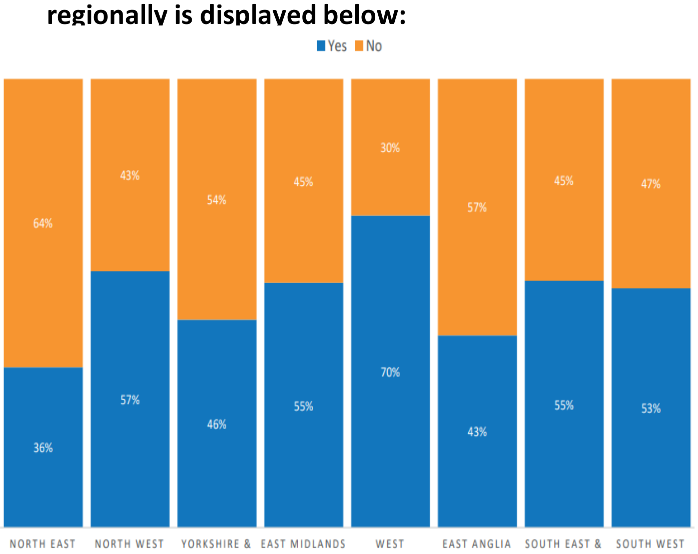
SCALE AND LONGEVITY OF INVESTMENTS	COLLABORATION	ATTRACTIVE PLACE TO LIVE	UNIVERSITIES AND INNOVATION	TRANSPORT AND DIGITAL INFRASTRUCTURE	SKILLS AND FUTURE SECTORS
Sustained and large-scale public investment that led to an increase in private investment. Economic policy direction has remained constant regardless of local or national election results.	Constructive relationships between central and local government, businesses and residents have allowed identification of needed interventions and effective implementation.	Culture and tourism have played a key role in levelling-up not only through direct revenue, but also by re-shaping the image of places. High living standards and affordability can attract skilled residents.	Collaboration between places and universities can improve policy and drive local economic growth. Universities attract federal and private-sector funding and drive innovation.	Evidence suggests that investing in transport and digital infrastructure can attract new investment and provide new employment opportunities.	Successful places built on their past strengths and focus on continual sectoral adaptation to build for the future. The success of these places was linked to investing in skills and re-training of the existing workforce.
Examples					
Estonia	**Greater Lille**	**San Antonio**	**Ruhr Region**	**Greater Lille**	**Ruhr Region**
Received approximately €100 billion in business, infrastructure and human capital EU funding (2010-2019). Digital specialisation has been the main sectoral focus for over 20 years.	Strong regional leaders have been particularly important in securing flagship projects for the area such as the Eurostar train station despite the additional costs to the French government.	The city has become a major tourist destination with around 30 million visitors each year, and its recreational improvements attracted young professionals.	The establishment of universities contributed to an increase in SMEs. The region is now the most dense German region in terms of the number of students and professors.	Eurostar supported Lille to position itself as a strategic link between London, Paris, Brussels and Germany, attracting new investment. The underground increased internal connectivity.	Moved away from unprofitable coal mining and now is home to some of the largest clean energy corporations.

Make UK – Manufacturing Monitor

The [Make UK Manufacturing Monitor](#) was released on 8th February. Key national points include:

People

- 44.3% of manufacturers have no staff currently on furlough, slightly lower than the previous 50.8% indicating an overall increase in furloughed employees amongst manufacturers. This is down to the implementation of the third national lockdown. 37.8% of manufacturers have furloughed 1-10% of their staff. 7.6% have furloughed 11-25%, 6.5% have furloughed 26-50%, and 1.1% have furloughed 51-75% of staff. 2.7% of firms have furloughed over 75% of their workforce. However the majority of firms have either no staff, or a very small proportion of their staff, furloughed indicating a relatively low take up of the scheme.
- 52.5% of manufacturers have already made redundancies due to COVID-19. The majority (32.8%) have cut 1-10% of their workforce indicating that many businesses are making small cuts in order to remain operational.
- 6.5% of manufacturers are still planning to make further redundancies over the next 6 months, the lowest share of firms to say so since this survey's inception. Therefore, those employees that remain on furlough are likely to be highly skilled professionals who will still be needed once the economy's gears are running again. 27.2% of manufacturers have still not ruled out making further cuts. In terms of what proportion of staff are at risk of losing their jobs, the majority of manufacturers indicated redundancies would take place closer to the lower tail of 1-10%. **The distribution of redundancies completed regionally is displayed below:**



Production and Capacity

- Between 35.6% and 36.6% of manufacturers have seen a fall in sales and orders respectively over the last two weeks. However, the share of firms that sit within the "no change" bracket has increased to 53.9% (from 43.8%) for sales and 52.5% (from 41%) for orders highlighting that securing a thin deal with the European Union (EU) has not necessarily resulted in an improvement in trade.
- The majority of manufacturers have seen falls of between 11-25% (21.1% and 19.9% for sales and orders respectively). This is similar to the results of the previous Manufacturing Monitor survey. Across both sales and orders, only 13.7% of firms have reported declines of over 26% in the last two weeks.
- 25.4% of manufacturers are currently operating at their full pre-pandemic levels. A further 42.2% have achieved 75-99% of their pre-pandemic operating levels (up from 35%). Summarising the bottom 75% of the distribution reports 32.4% of manufacturers are still operating at somewhere between 1% and 75% of their pre-pandemic levels.

Future expectations and Government support

- 61.7 % of manufacturers now believe it will take less than 12 months to return to normal trading conditions, with 36.7% opting for a 6-12 month expectation.
- The survey asked Make UK members again what Government measures should be prioritised to support UK manufacturing. The top three priorities includes: Waiving business rate bills and reducing the cost of business rates (56.8%), extending the Job Retention Scheme (JRS) beyond April 2021 (47.5%) and increasing investment allowances on capital expenditure (45.4%).
- Although the sector is more optimistic about a return to normal business they believe that they will still need access to the JRS post the current expiration. This is likely motivated by the concern that the current lockdown will not be the last and, for as long as the economy is closed, businesses will need a solution to deal with the high cost of labour (which is generally the largest variable cost on a business's account). Cutting employment related costs such as NICs was also selected as a preferred option for many firms (43.7%).

ONS - Business Impact of the Coronavirus

Final results from [Wave 23 of the Business Impact of Coronavirus Survey (BICS).](#)

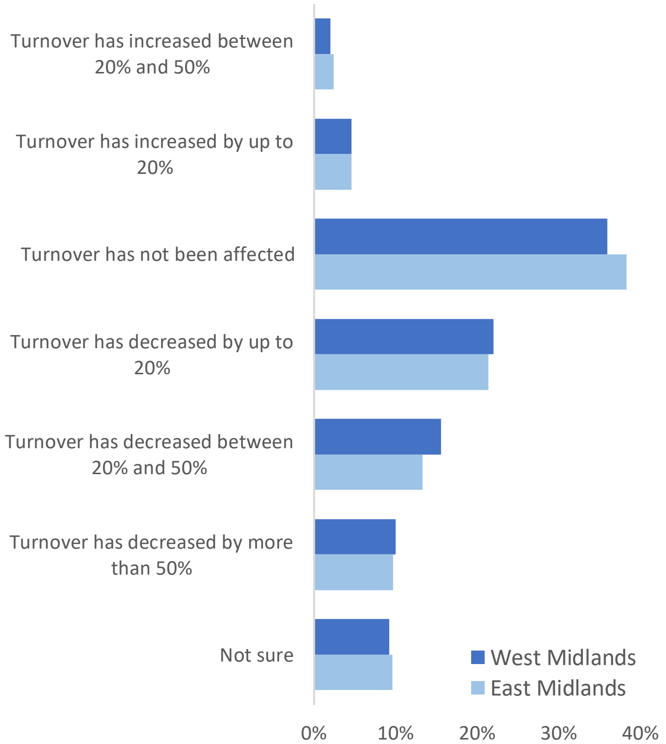
In the West Midlands there was a response rate of 24.8% and in the East Midlands a response rate of 25.8% where businesses have a presence in the region. There was a response rate of 24.7% (WM) and 27.3% (EM) where businesses are headquartered in the region. The following data is based on the period between 25th January to 7th February 2021. 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

For the East Midlands and West Midlands figures show that fewer than 1% of businesses have permanently ceased trading, while 88.4% of West Midlands businesses and 88.3% of East Midlands businesses have continued to trade. 11.2% of West Midlands businesses and 11.0% of East Midlands businesses have temporarily closed or temporarily paused.

47.6% of trading businesses in the West Midlands and 44.4% 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:



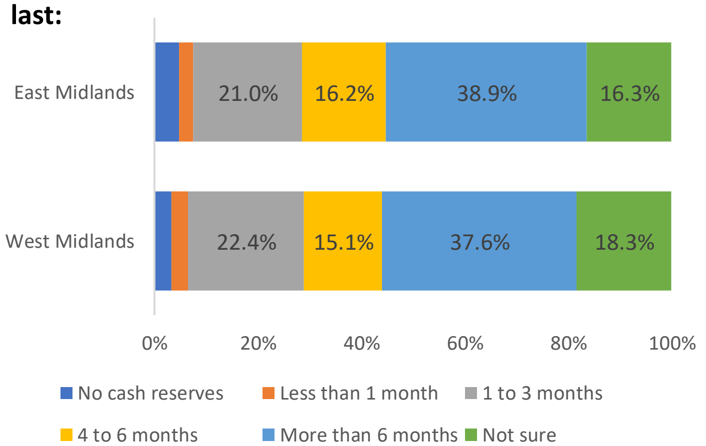
Profits

Businesses were asked in the last weeks if the Coronavirus had affected profits when compared with normal expectations for the time of year. 46.3% of businesses in the West Midlands and 42.3% of East Midlands businesses reported profits had decreased by at least 20%.

Cash Flow

3.3% of West Midlands businesses and 4.7% of East Midlands businesses have no cash reserves.

The following chart shows for West Midlands and East midlands businesses how long their cash reserves would last:



International Trading

7.5% of West Midlands and 7.3% of East Midlands businesses continuing to export found that within the last two weeks they had not been able to export. While 4.2% of business in the West Midlands and less than 3.6% of East Midlands businesses had not been able to import within the last two weeks.

35.0% of exporting businesses in the West Midlands, and 32.1% for the East Midlands reported their businesses were still exporting but less than normal. Of those businesses who continued to trade and import, 29.9% in the West Midlands and 30.0% in the East Midlands were importing less than normal.

43.3% of West Midlands businesses and 46.6% of East Midlands businesses who were exporting reported that they had not been affected and 50.1% of West Midlands importers and 49.7% of East Midlands importers said that importing had not been affected.

1.2% of businesses in the West Midlands and 1.1% for the East Midlands are exporting more than normal. The figures for importing more than usual are 2.5% for the West Midlands and 1.3% for the East Midlands.

Source: ONS, Business Impact of Coronavirus Survey

ONS - Business Impact of the Coronavirus

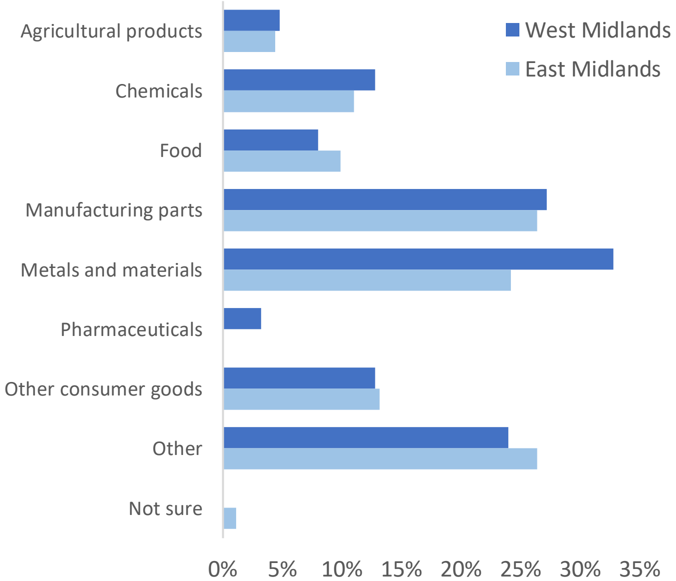
Capital Expenditure

5.2% of businesses in the West Midlands and 6.3% of East Midlands businesses reported capital expenditure was higher than normal. 34.9% of West Midlands businesses and 37.4% of East Midlands businesses reported capital expenditure had not been affected. 29.9% of West Midlands businesses and 25.4% of East Midlands businesses reported capital expenditure was lower than normal. 7.6% of West Midlands businesses and 8.3% of East Midlands businesses reported expenditure had stopped.

Stockpiling

4.9% of West Midlands businesses and 3.8% of East Midlands businesses reported they were stockpiling goods or material from UK suppliers. 7.1% (WM) and 5.7% (EM) were stockpiling from EU suppliers. 3.1% (WM) and 1.8% (EM) were stockpiling from non-EU suppliers.

The following chart shows what goods or materials West Midlands and East Midlands businesses were stockpiling:



Insolvency

1.8% of responding West Midlands businesses and 1.5% of East Midlands businesses reported they were at severe risk from insolvency. 14.0% of West Midlands businesses and 14.1% of East Midlands businesses reported they were at moderate risk. 49.7% of West Midlands businesses and 49.5% of East Midlands businesses reported a low risk of insolvency. 23.0% of West Midlands and 25.0% of East Midlands businesses reported no risk.

44.7% of West Midlands businesses and 42.0% of East Midlands businesses reported that the risk of insolvency had increased due to COVID-19.

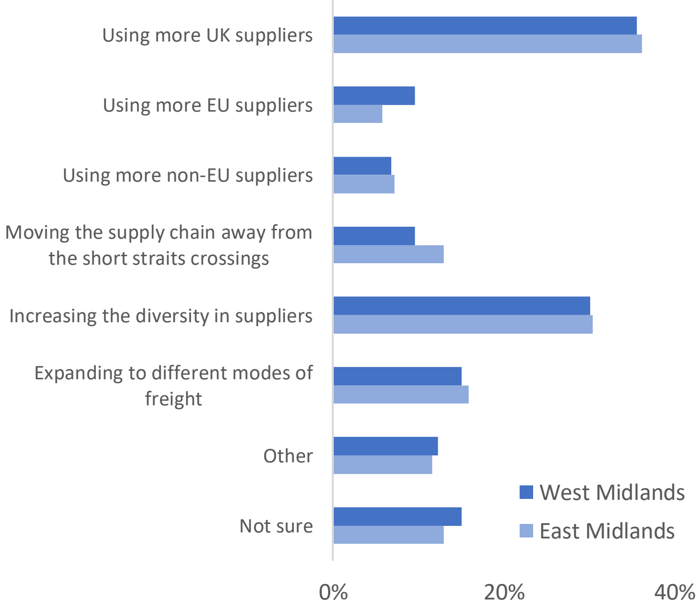
Expected Redundancies

8.8% of West Midlands businesses and 6.9% of East Midlands businesses expected redundancies to happen within the next three months. 10.9% of West Midlands businesses and 14.5% of East Midlands businesses expected redundancies to occur within the next two weeks. 14.5% of West Midlands businesses and 19.7% of East Midlands businesses expect redundancies between two weeks and one month. 64.5% of West Midlands businesses and 55.3% of East Midlands businesses expected redundancies between one and three months. 13.6% of West Midlands businesses and 14.6% of East Midlands businesses were unsure when redundancies would occur.

Supply Chains

Businesses were asked if they had made changes to supply chains due to the end of the EU transition period. 6.5% of responding West Midlands businesses and 6.8% of East Midlands businesses reported they had. Where businesses stated they had made changes, 35.6% of West Midlands businesses and 36.2% of East Midlands businesses reported they were using more UK suppliers.

The following chart shows where West Midlands businesses and East Midlands businesses had reported they had made changes to supply chain, what the change was:



Source: ONS, Business Impact of Coronavirus Survey

Local Business Intelligence

This section draws on contributions from the East Midlands Chamber, Make UK, the NFU, 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.

Additionally:

- Housing market remains buoyant
- Hospitality need VAT / rates / furlough scheme to survive – difficult to have a successful year despite this swell of support
- Manufacturers who continued uninterrupted through the early months of COVID are performing well and outpacing competitors who did pause production
- More claims from employees with those less than 2 years' service – issues of pressures from employers / perceived discrimination issues of fairness.

Manufacturing - Make UK

Manufacturers report a degree of cautious optimism following publication of the Government's 'road map' for easing lockdown restrictions. This is seen as positive from a planning perspective.

Make UK report that it is imperative that there is no return to lockdown – or 'yo-yo' in and out of lockdown - over the coming months. Better to proceed slowly and avoid this risk.

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.

The transactions costs associated with high frequency, low value exports are reported to be a significant problem.

Manufacturers are reporting evidence of intensified competition from EU based competitors seeking to capitalise on the increased costs and complexities of trading with UK based firms to increase their market share at the expense of UK producers.

There are growing indications that there will be some form of structural re-alignment of supply chains and related business models in the wake of Brexit.

A number of manufacturers in the Midlands that 'pivoted' to make PPE in response to the national crisis are concerned that having made this investment – ongoing PPE orders from the UK Government may not now be sufficient to maintain this domestic capacity. It has been suggested that new stocks of PPE will not be needed until April 2022.

Small Business – FSB

During the reporting period, the Federation of Small Businesses has continued to feed in research-based and anecdotal evidence to local economic recovery groups, regarding the impact of the volatile economic climate on Midlands-based small businesses.

As previously reported, there are few hard and fast trends emerging, with different businesses experiencing different challenges and opportunities almost irrespective of sector. That said, there are some consistencies:

- FSB research suggests that around 1 in 5 small firms have been left out of support measures.
- Around 1 in 3 feel that business rates have increased already in past 3 years, 1 in 10 say significantly; rising rates have meant business owners have reduced profits (50%+), reduced investment (17%) increased prices (14%), or reduced staff numbers (14%); if rates were reduced, 33% say they'd be likely to take on more staff, and 25% an apprentice.
- Supply chains have been hit disproportionately hard, with rising costs and many only entitled to around 10% of support grants (as they don't fit neatly into criteria). Smaller firms further down supply chains – many of which sell to retail, leisure and hospitality businesses – are not benefiting from rates relief or cash grants. They are being overwhelmed by costs and are often at the sharp end of a worsening late payment crisis.
- Substantial difficulties are being faced by firms adapting to the new customs processes, sizeable obstacles to moving goods through the Dover-Calais route and the shortage of informed advice from both government and specialist advisors alongside.

Overall the position for many small businesses remains extremely precarious. Mounting levels of debt, reported difficulties with banks (particularly regarding opening of new accounts and the impact of loans on credit ratings), payments falling due and continued uncertainty about when restrictions will be lifted are just a few of the challenges they face. This is consistent with the latest 'Small Business Index' quarterly survey (which highlighted severely depressed confidence levels and 40,000 small businesses in the Midlands at risk of collapse, as reported in the January Monitor), data released by ONS in February showed that in 2020 there was a 9.9% drop in UK gross domestic product (GDP).

This prompted FSB to reiterate its calls for more effective, more efficient and more generous business support measures to be mobilised alongside an unashamedly pro-business and pro-growth Budget.

The FSB state that enhanced support is needed now, particularly by those that have had little or no support to date, most notably Directors and the newly self-employed who have suffered a torrid eleven months.

The FSB welcomes the Government's confirmation of a £20million SME Brexit support fund. This follows months of campaigning by FSB for small exporters/importers to be offered 'Transition Vouchers', whereby they could procure the specialist technical advice and support necessary to navigate the complexities of the new trade arrangements with the EU. This fund will make a difference and help small businesses to continue to trade with the EU, which is all the more important given the difficulties they face due to the COVID-19 pandemic.

Looking forward and turning to cross border trade in services, the FSB, in common with other business organisations, has stressed the importance of Government making good on the deal's provision for mutual recognition of professional qualifications, data adequacy and continued cooperation with the EU on financial services.

Farming – NFU

In common with other sectors, Farmers have coped with lockdown and the requirements of COVID-safe operation better 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.

The sector is anticipating positive impacts associated with the phased re-opening of hospitality and tourism in line with the Government 'road map'. The former will benefit farmers supplying the hospitality/catering sector; the latter will benefit the many farm businesses that have diversified into tourism – particularly the 'staycation' market.

Like other sectors, concerns about post-Brexit trading arrangements remain. Costs of health certification are a particular issue for some exporters of food and livestock.

Local Business Intelligence

SECTOR	KEY CONCERNS
Advanced Manufacturing & Engineering **Logistics & Transport**	The UK-EU transition and COVID-19 impacts continue to have a dual disruption on business and trade. For example, a concern has been raised by manufacturing firms (including automotive tier 1 suppliers) around **access to the supply of materials** from Asia (Thailand, Taiwan and Japan). This is largely down to the global **"container crisis".** • The impacts are extra cost: as a result of needing to satisfy just-in-time contracts, more companies are having to ship components by air, which costs a lot more. • Small consignments are really delayed, such as from 24hr delivery to 2-3 weeks, as the relationship between manufacturers and logistics / freight forwarder becomes more important than ever. • Companies are also witnessing price rises for materials such as steel, copper, nickel and brass **EU Exit** • A number of businesses have expressed their concern in the **decreased ease of flow of essential components** (due to extra paperwork etc), which has resulted in damaging production hold-ups. • There is uncertainty around **Rules of Origin** and fear that this will add time and costs and time to exporting processes. The rules are currently unclear, including differences across countries and the status of product warranties. It can also be very difficult to determine origin for some products. • According to MakeUK (Feb 2021), **8 in 10 manufacturers are experiencing some form of disruption to their supply chains** (although not all of these are EU-UK related). • Freight forwarders locally are **setting up businesses in France and Ireland** to support easier trade with European customers.
Business, Professional & Financial Services	**Demand** • The **number of deals completed in the Midlands last year fell to its lowest level since 2014**, according to new figures, while their values slumped by almost **60 per cent.** • Experian has said transaction numbers dropped from 989 to 825 in 2020, a fall of 17 per cent. **Security** • 80% of Midlands business owners and directors think their company is **more exposed to fraud** since the emergence of COVID-19. • There was a dramatic drop in the volume and value of fraud cases coming to courts in the Midlands in 2020, as measures introduced in response to the COVID-19 pandemic led to the closure and postponement of many court operations.
Retail	**EU Exit** • The UK fashion industry has written an open letter to the Prime Minister calling for urgent support, claiming that post-Brexit trade restrictions threaten its survival. More than 400 leading figures have signed the letter, which claims that the **fashion industry has "been disregarded in this deal".** One of the primary concerns outlined in the letter is the lack of frictionless trade now that the UK has left the customs union and the bloc's single market, something that has already resulted in several firms relocating to the EU.
Cultural Economy	**Re-opening** • The top three things that the sector is asking for : - a **clear roadmap for re-opening**, like with many industries, it doesn't just switch on and it takes months and months to plan, rehearse for production companies if you are bringing performances into a venue. - **The extension of the furlough scheme** if facilities are unable to re-open. - A **public confidence campaign**, how do we encourage audiences and people back into venues, our galleries, our museums and visitor attractions. • There is ongoing concerns about growth potential post-COVID for hospitality and accommodation in particular. This is in the context of **worsening long-term debt issues.** **Lockdown** • Pubs and restaurants have generally welcomed the government's new lockdown easing roadmap, but have pleaded for support to continue as restrictions are reduced. Also, it should be remembered that not all pubs & restaurants have outdoor seating and will therefore stay closed for some time.
Creative, Design & Digital	• There has been a **large shift to digital and online activity** as a result of the pandemic with businesses looking to diversify and adapt. • Tech start-ups and scaleups in the West Midlands **raised a record £390m in funding in 2020**, almost three times more than 2019's previous record of £132m.
Aviation	**Re-opening** • Business leaders are calling for a **detailed recovery plan to help the aviation industry** out of the COVID-19 crisis after stricter quarantine measures were announced and future roadmap revealed.

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