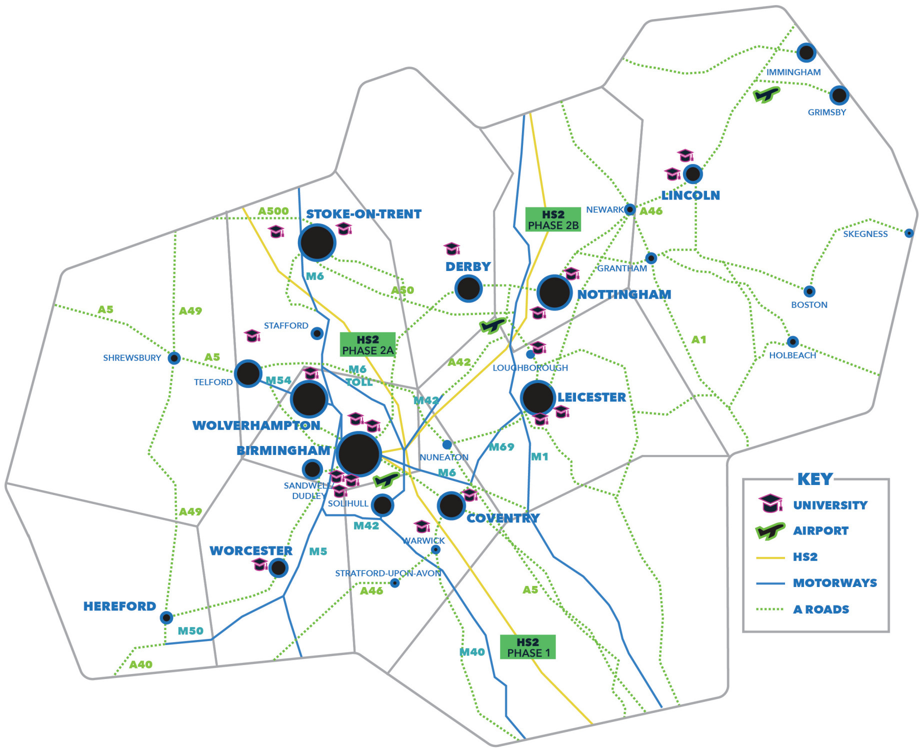


MIDLANDS ENGINE
ECONOMIC IMPACT OF COVID-19

Edition 2: 12 May 2020

MIDLANDS ENGINE
Economic Observatory

Introduction

Welcome to the second edition of the Midlands Engine Economic Impact of COVID 19. **This report is produced by the Midlands Engine Economic Observatory which is a partnership commissioned by the Midlands Engine including Black Country Consortium's Economic Intelligence Unit, Nottingham Trent University and WM REDI.**

This monitor aims to pull together information across regional partners to understand the impacts of Covid19 on the economy – at a sub national level, across the Midlands Engine geography. Where possible it will utilise all forms of quantitative and qualitative intelligence. However we urge caution in the use of the contents as this is an emerging situation. **The information will be drawn from a wide range of sources including the Midlands Engine Business Forum Members, Growth Hubs, Chambers, LEP's, ONS etc. The Midlands Engine gratefully acknowledges the input of many partners who have directly contributed data to inform this report.**

The report brings together data at the level of the regional economy, and allows the interpretation of macro issues and trends, which over time will help shape recovery interventions as well as support short term decision making. Over time the report will evolve to include LEP level interpretation and sector specific analysis.

Moving forward, the possible policy issues emerging will feature proportionately more, as the data set grows and there is a more robust body of evidence from which to draw.

We welcome any feedback on the content to ensure this report meets the needs of partners and welcome any additional intelligence. Please forward any feedback and intelligence to info@midlandsengine.org.

Contents	Number

Executive Summary

- **Globally the HIS 'Markit European Purchasing Mangers Index' data shows** the extent the public health crisis is having on the continent's manufacturing output with indices all below 35 including **Eurozone: 33.4, Italy: 31.1, Greek: 29.5, France: 31.5, Germany: 34.5, Spain: 30.8 and the UK at 32.6.**

- **Deloitte's Survey of Chief Financial Officers shows business confidence has seen its largest quarterly fall on record with CFOs expecting corporate revenues to drop 22% in 2020 vs pre-COVID-19 plans.** Revenues are expected to pick up in the second half of the year, with no quick snap back anticipated and the sharpest squeeze in credit conditions. Flexible working is anticipated to be the big winner from the crisis.

- **The highest proportion of jobs and enterprises across the Midlands Engine is the Business, Professional and Financial services sector at 19.2% and 31.1% respectively**. This is followed by Retail at 16.4% for jobs and 16.1% for enterprises. The Midlands Engine also has a higher percentage of jobs when compared to the England average in advanced manufacturing and engineering (12.6% vs 8.0%), energy and low carbon activities (2.4% vs 1.8%) and logistics and transport technologies (5.3% vs 4.9%). Aggregating the broad sector analysis from the Office for Budget Responsibility scenario and applying this to the 10 main sectors for the Midlands Engine suggests that the **Public sector (due to including education) and the Visitor Economy sector will be the sectors most impacted from the Coronavirus.**

- Digital exclusion is the inability to access online products or services or to use simple forms of digital technology. This disproportionately affects vulnerable people, low-income groups, the elderly and the more marginalised communities in our society. This creates a strong correlation between digital exclusion and social exclusion. **21 (32%) Local authorities within the Midlands Engine are in the most likely quintile when it comes to digital access exclusion.**

- National ONS business data is similar to the local survey findings, a quarter of businesses have **closed. Of those still open 58% say their turnover has been affected, a ¼ of these companies say this has reduced by more than 50%.** 26% of businesses have not applied for any government intervention scheme. Anxiety remains high but has slightly dropped, but remains higher for those with underlying health issues.

- It is **likely city centre housing developments will be hit by a contracting market** and demand for higher spec homes, with space for homeworking and outdoor space may rise as people review their situation in light of lockdown.

- Office space is likely to be reviewed by companies as they have shifted to homeworking and this has become the norm, as will how they use the space they already have. This may accelerate the changes already happening in offices. It may also change the requirements for flexible office spaces.

- **Retail space is likely to see a drop in demand as we see growth in online shopping** as a result of far more consumer experience, this will potentially also have a knock on effect for transport and personal vehicle use, which may disrupt the automotive industry but also improve the environment.

- **Universal Credit (UC) in the last fortnight of March 2020 is 7.3 times higher than the same period a year earlier**. There is a need for specific interventions to support recovery which include active labour market programmes (especially the young) and skills and training to support recovery, back to work schemes, planned withdrawal from job retention scheme and planning for the future.

Emerging Possible Policy Themes - Midlands Engine Economy

- Concerns remain about the operation and coverage of Government business support initiatives and particularly the situation of those businesses who, for a variety of reasons, appear to be 'falling through the cracks'. Notwithstanding these concerns, **business feedback suggests that HMRC administration of the Furlough scheme has been very effective;**

- Evidence of supply chain problems affecting a variety of businesses with some involved in global supply chains reporting increased costs for some components as a consequence; and

- More positively, intelligence from University interactions with businesses suggest that some have **identified new skills requirements that they are seeking to address as a consequence of having to adapt to operations under lockdown**, others are looking to use downtime as an opportunity to undertake CPD.

- **A significant issue not being addressed is the flexibility and duration of furloughing.** This is now becoming an immediate risk as is guidance on returning. Businesses would like the furlough to be extended or additional flexibility.

- **There also needs to be effective communications and guidance in place on how to bring people back from both an operational business need and personal mental health and wellbeing point of view.** This would inform how to safely lift restrictions and ensure they have a healthy working environment. Concerns have been expressed by companies about testing and whether they should be accessing it or leave supplies for NHS/social care, a business campaign could boost testing in the community. Similar with PPE if there is none for them what is the guidance, especially within social distancing restrictions, such as working with clients, transport implications and dealing with employees who express concern at returning, either on health or childcare issues.

- The need for the Publication of performance tables for banks on implementation of CIBLS to allow us to understand issues and practices, similar to the published Local Authority data on grants.

Support for recovery:

- Businesses are needing more clarity about what form and shape the easing of lockdown will take. **This is needed for preparation, especially on social distancing measures and also how they will apply to the wider environment, transport infrastructure and bringing staff back to work.**

- There are **issues across the region with capacity to deliver some of the interventions/support** and this is slowing implementation and getting worse because of reduced capacity in the region and size of the workforce. Most staff are tied to dealing with immediate risk and future planning around social distancing is constrained by capacity.

- An initial review of past actions and activities has flagged up a number of policy areas to explore further:
  - governments have support for helping failing companies;
  - the importance of place approaches responding directly to need and encouraging risk in policy;
  - improving liquidity;
  - the use of mutual guarantee and peer-to-peer lending schemes to solve credit issues;
  - R&D credits can thwart wider R&D firm impacts in recession so needs wider business support;
  - the need for government to be an active entrepreneur in innovation;
  - workplace social distancing is an effective measure to reduce transmission.

- These point to the **need for task forces to develop interventions, supporting business to support each other**, including mutual guarantee society model, examination of RDA interventions suggests adapting interventions they already had and rapid response, worked well.

- Clarity over the future exit strategy continues to gather a pace, as businesses need to understand how they implement returning from lockdown. At the moment they are taking this into their own hands which risks problems should government advise be different. Key for businesses so they can plan their return to the market is development of programmes to:
  - understand how to reshape businesses to deal with recovery i.e. restrictions on international movement,
  - understand new markets and opportunities,
  - improve their use and application of technology to build on changes already established.
  - develop support to create opportunities for diversifying their income and de-risk their business and invest in long term R&D and technology implementation
  - guidance on supply chain resilience and re-shoring;
  - altering the way they work with international suppliers under the longer term social distancing rules and lack of trade missions.

Global and National Outlook

Global Outlook

During this crisis one of the worst effected industries is the Airline industry, but there are tentative signs that the industry is inching closer to securing the necessary bailouts they need. Among those declaring increased optimism is Deutsche Lufthansa AG which has reported they expect to finalise a package with the German government soon. Norwegian Air Shuttle ASA is also inching closer to a deal with bondholders that will would secure state loan guarantees.

April 'IHS Markit European PMI' data shows the extent the public health crisis is having on the continent's manufacturing output. Eurozone: 33.4, Italy: 31.1, Greek: 29.5, France: 31.5, Germany: 34.5, Spain: 30.8 and the UK:32.6.

Researchers at the University of Tokyo have suggested that the pandemic will not only destroy economic activity at the aggregate level, but will also significantly damage it at individual level through rising inequality and potent and lasting economic - shocks on low-income groups.

National Outlook

The Prime Minister has said the UK is now past the peak of its respective epidemic. The UK is due to set out plans to ease restrictions this week with a gradual sectoral and age-focused approach. This week the UK will also start free-trade talks with the U.S. as Brexit forges on despite the current crisis.

Business confidence in the UK has seen its largest quarterly fall on record according to Deloitte's latest CFO survey 104 CFOs participated in the latest survey, including CFOs of 43 FTSE 250 companies with:

- CFOs expecting corporate revenues to drop 22% in 2020 vs pre-COVID-19 plans
- Revenues expected to pick up in the second half of the year, with no quick snap back anticipated
- Financial leaders report sharpest squeeze in credit conditions
- Flexible working anticipated to be the big winner from the crisis

Key messages from a review of cross sector global and national issues highlighted by Ibis World, S&PGlobal, Mckinsey and Statista:

- Although expectation is a sharp drop in economic activity there is an expectation of a gradual recovery based on prolonged lockdowns globally. With income losses over 2 years with corporates seeing a 10-15% drop in revenue and banks incurring extra credit costs and risks. Deeper recession in EU for 2020 with 2 qtr recession, growth falling to 7.3% (S&P Global)

- Corporates are set to take the largest hits, with a hit on credit and more exposed industries, there were already record levels of credit rated 'B' and below and this may push default rates above 10%. Banks are not immune from the impacts and although generally have strong balances sheets post 2008 there will be impacts on underlying assets.

- Stricter and longer Covid-19 measures, higher debt leverage, tighter financing and re-emergence of trade tensions especially US/China disputes and EU/UK.

- Slump in consumer business, strained borrowing, missed loan payments and for banks higher nonperforming loans; longer lockdowns having a severe impact on household income.

- Credit conditions weakening across emerging markets with a slump in oil, trade and tourism and lockdown many will go into recession, increasing the expectation of a deeper global recession and social distancing halting most activities and severe shock to employment.

- Sharp economic contraction will result in significant declines in revenue and EBITDA for capital goods companies. The extent of the impact depends on the end market exposure.

- Countries with stricter lockdowns, more service-oriented economies, especially those dependent on tourism, and weaker fiscal support to suffer more. A bolder response at the EU level could help speed up the recovery across Europe.

Midlands Engine Sectoral Analysis

Jobs

Highlighted in blue in the following table shows the sectors where the Midlands Engine has a higher percentage of jobs when compared to the England average – this includes advanced manufacturing and engineering (12.6% vs 8.0%), the public sector including education (12.1% vs 12.9%), energy and low carbon activities (2.4% vs 1.8%) and logistics and transport technologies (5.3% vs 4.9%).

In order to determine which sectors are current most vulnerable we have applied the broad sector analysis from the Office for Budget Responsibility scenario[1] to the 10 main sectors for the Midlands Engine. The table also shows on a red- green shading scale which sectors will be potentially affected the most and how much that sector accounts for the overall total. This headline analysis suggests that the public sector (including education) and the visitor economy sector will be the sectors most impacted from the Coronavirus. Analysis suggests that the life science and healthcare may be the only sector that will be unscathed, but notably also one of main sectors that has took the brunt of the human impact from Coronavirus.

Sector	Midlands Engine Jobs	% of Total Midlands Engine Jobs	England Jobs	% of Total England Jobs
Advanced Manufacturing	554,665	12.6%	2,083,450	8.0%
Business, Professional & Financial Services	844,095	19.2%	5,962,000	22.9%
Construction	279,675	6.4%	1,832,000	7.1%
Visitor Economy	370,360	8.4%	2,569,000	9.9%
Creative, Digital & Design	120,540	2.7%	1,151,000	4.4%
Energy & Low Carbon Activities	106,225	2.4%	471,850	1.8%
Healthcare & Life Sciences	594,125	13.5%	3,306,000	12.7%
Public Sector	579,150	13.1%	3,342,000	12.9%
Retail	720,500	16.4%	3,983,000	15.3%
Transport Technologies & Logistics	234,855	5.3%	1,279,000	4.9%
Total	4,404,190		25,979,300	

Enterprises

Also highlighted in blue in the following table shows the sectors where Midlands Engine has a higher percentage of businesses when compared to the UK average – including retail (16.1% vs 14.3%), public sector – which includes education (2.1% vs 1.9%) and advanced manufacturing & engineering (6.9% vs 5.1%).

Sector	Midlands Engine Enterprises	% of Total Midlands Engine Enterprises	UK Enterprises	% of Total UK Enterprises
Advanced Manufacturing	25,370	6.9%	137,355	5.1%
Business, Professional & Financial Services	114,640	31.1%	924,515	34.0%
Construction	51,485	14.0%	387,125	14.2%
Visitor Economy	28,185	7.6%	224,565	8.3%
Creative, Digital & Design	21,005	5.7%	226,210	8.3%
Energy & Low Carbon Activities	24,395	6.6%	164,195	6.0%
Healthcare & Life Sciences	14,885	4.0%	102,000	3.8%
Public Sector	7,840	2.1%	51,995	1.9%
Retail	59,400	16.1%	389,105	14.3%
Transport Technologies & Logistics	21,780	5.9%	111,360	4.1%
Total	368,985		2,718,425	

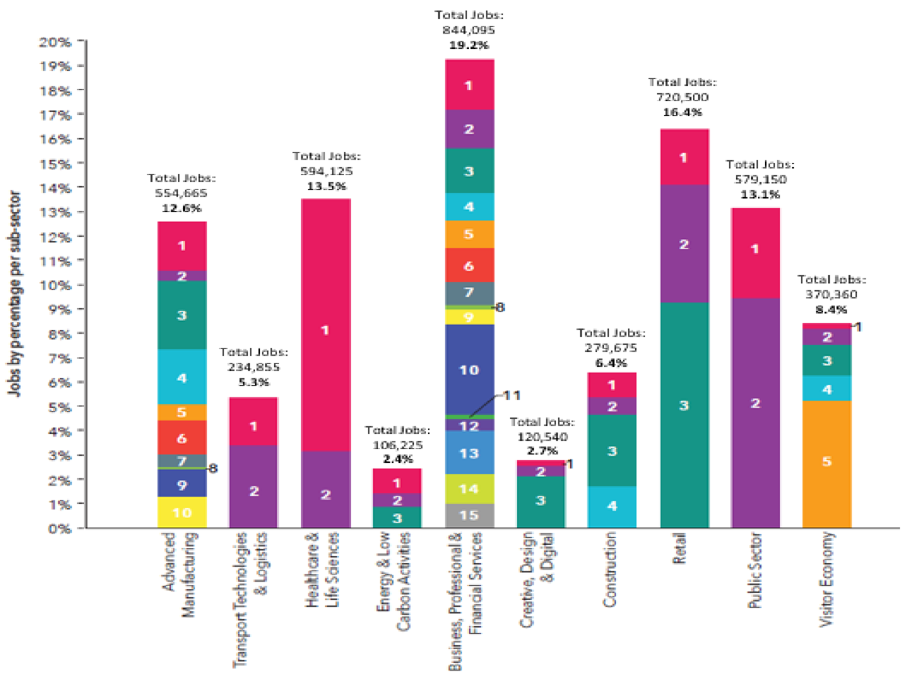
The Midland Engine Observatory is looking into the development of a robust place based methodology for assessing the vulnerability of the Midlands Engine economy. This will be reported in future monitors to help shape thinking on interventions and timing of interventions for particular areas.

[1]The scenario is based on an assumption of a three-month lockdown, followed by three months of partial restrictions in the transition to normality, shows a 35.1% reduction in GDP in Q2 2020 (April to June), following growth of 0.2% in Q1 2020, with a yearly contraction of the UK economy of 12.8%.

Sector Source: Business Register and Employment Survey, 2019 and UK Business Counts, 2019
Please note, business analysis is based on the number of units within the Midlands Engine as opposed to the number of enterprises.

Midlands Engine Sectoral Analysis

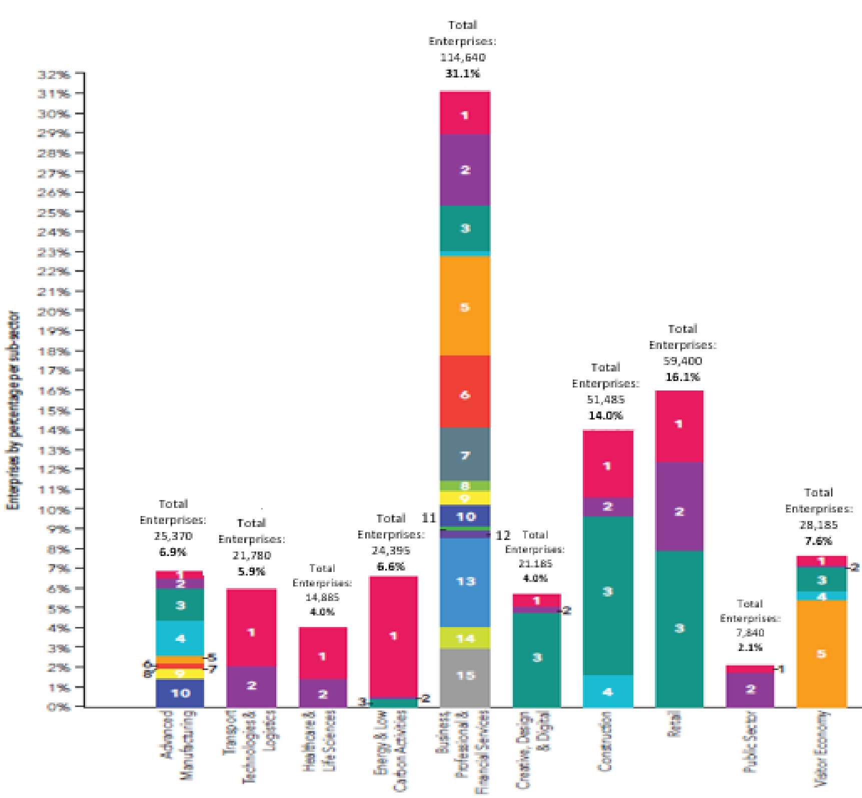
Sub Sector analysis shows that the highest percentage jobs for the Midlands Engine is in health care at 10.4% which is above the England average of 9.8%. The second highest percentage of sub sector jobs for the Midlands Engine is education at 9.4%, again above the England average of 8.9%. This is followed by retail trade at 9.2% which is slightly below the England average of 9.4%.



	Advanced Manufacturing	**554,325**	**12.6%**
1	Food and Drink Manufacturing	90,850	2.1%
2	Textiles & Clothing	18,485	0.4%
3	Materials	123,655	2.8%
4	Metals	99,190	2.3%
5	Electronics	28,770	0.7%
6	Automotive	62,295	1.4%
7	Aerospace	22,970	0.5%
8	Rail	2,655	0.1%
9	Other Machinery & Transport	49,360	1.1%
10	Other Manufacturing	56,095	1.3%
	Transport Technologies & Logistics	**234,855**	**5.3%**
1	Land, water and air transport	87,405	2.0%
2	Warehousing, transport support, postal and courier activities	147,450	3.3%
	Healthcare & Life Sciences	**594,125**	**13.5%**
1	Healthcare	456,950	10.4%
2	Social Work	137,175	3.1%
	Energy & Low Carbon Activities	**106,225**	**2.4%**
1	Agriculture and Agri-Tech	45,200	1.0%
2	Energy	25,260	0.6%
3	Water & Waste	35,765	0.8%
	Business, Proessional & Financial Services	**844,690**	**19.2%**
1	Financial Services	89,455	2.0%
2	Real estate activities, excluding imputed rental	69,775	1.6%
3	Legal and accounting activities	81,375	1.8%
4	Head office activities	49,245	1.1%
5	Management consultancy activities	49,350	1.1%
6	Architectural and engineering activities	61,625	1.4%
7	Other professional, scientific and technical activities	41,755	0.9%
8	Advertising and market research	8,860	0.2%
9	Rental and leasing activities	26,700	0.6%
10	HR & Recruitment	161,925	3.7%
11	Tourism services	9,500	0.2%
12	Security services	21,020	0.5%
13	Office administration and business support activities	77,400	1.8%
14	Membership organisations; repair of household goods	52,930	1.2%
15	Other personal service activities	43,775	1.0%
	Creative, Design & Digital	**120,540**	**2.7%**
1	Media & Publishing	9,815	0.2%
2	Telecommunications	18,470	0.4%
3	IT & Computer Services	92,255	2.1%
	Construction	**279,675**	**6.4%**
1	Construction of buildings	45,975	1.0%
2	Civil engineering	29,400	0.7%
3	Specialised construction activities	131,350	3.0%
4	Services to buildings and landscape activities	72,950	1.7%
	Retail	**720,500**	**16.4%**
1	Motor trades	102,100	2.3%
2	Wholesale trade	211,400	4.8%
3	Retail trade	407,000	9.2%
	Public Sector	**579,150**	**13.1%**
1	Public administration and defence	163,900	3.7%
2	Education	415,250	9.4%
	Visitor Economy	**370,360**	**8.4%**
1	Creative, arts and entertainment activities	10,100	0.2%
2	Other entertainment activities	28,755	0.7%
3	Sports	56,175	1.3%
4	Hotels & accommodation	46,080	1.0%
5	Restaurants & Pubs	229,250	5.2%

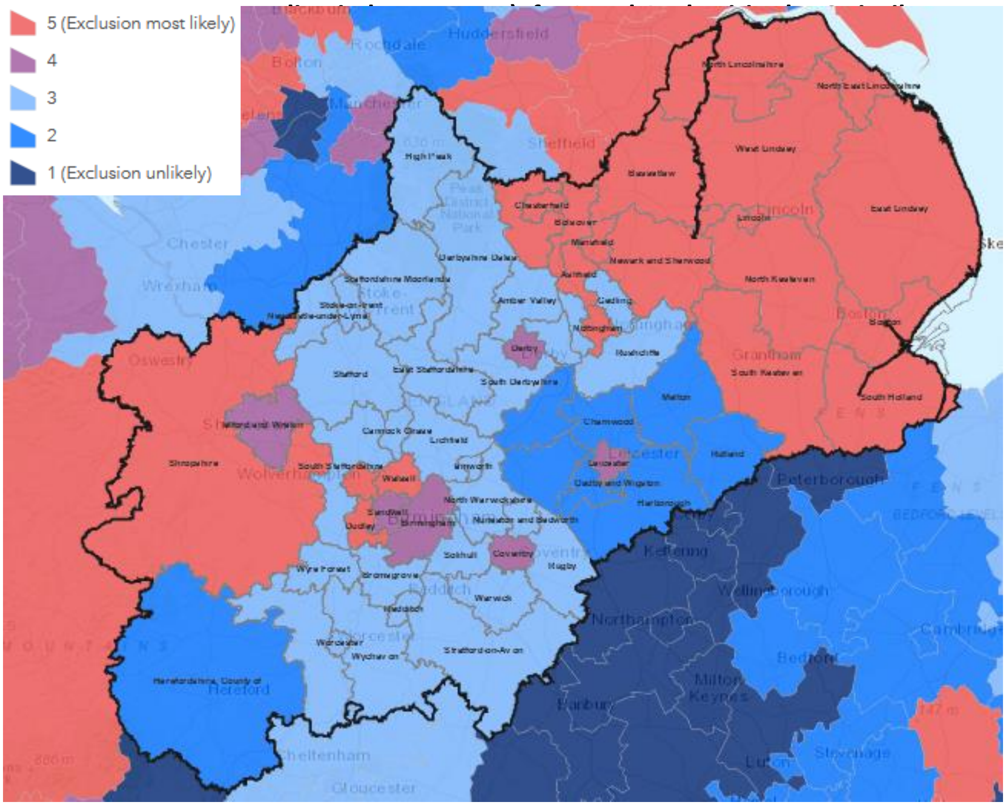
	Advanced Manufacturing	**25,245**	**6.8%**
1	Food and Drink Manufacturing	1,455	0.4%
2	Textiles & Clothing	1,850	0.5%
3	Materials	5,965	1.6%
4	Metals	6,740	1.8%
5	Electronics	1,330	0.4%
6	Automotive	800	0.2%
7	Aerospace	50	0.0%
8	Rail	25	0.0%
9	Other Machinery & Transport	1,965	0.5%
10	Other Manufacturing	5,065	1.4%
	Transport Technologies & Logistics	**21,780**	**5.9%**
1	Land, water and air transport	14,370	3.9%
2	Warehousing, transport support, postal and courier activities	7,410	2.0%
	Healthcare & Life Sciences	**14,885**	**4.0%**
1	Healthcare	9,915	2.7%
2	Social Work	4,970	1.3%
	Energy & Low Carbon Activities	**24,395**	**6.6%**
1	Agriculture and Agri-Tech	22,640	6.1%
2	Energy	425	0.1%
3	Water & Waste	1,330	0.4%
	Business, Proessional & Financial Services	**114,465**	**31.0%**
1	Financial Services	7,990	2.2%
2	Real estate activities, excluding imputed rental	13,325	3.6%
3	Legal and accounting activities	8,435	2.3%
4	Head office activities	1,025	0.3%
5	Management consultancy activities	18,330	5.0%
6	Architectural and engineering activities	13,405	3.6%
7	Other professional, scientific and technical activities	9,895	2.7%
8	Advertising and market research	1,995	0.5%
9	Rental and leasing activities	2,685	0.7%
10	HR & Recruitment	3,830	1.0%
11	Tourism services	885	0.2%
12	Security services	1,200	0.3%
13	Office administration and business support activities	16,660	4.5%
14	Membership organisations; repair of household goods	4,040	1.1%
15	Other personal service activities	10,765	2.9%
	Creative, Design & Digital	**21,005**	**5.7%**
1	Media & Publishing	2,475	0.7%
2	Telecommunications	1,115	0.3%
3	IT & Computer Services	17,415	4.7%
	Construction	**51,485**	**14.0%**
1	Construction of buildings	12,595	3.4%
2	Civil engineering	3,465	0.9%
3	Specialised construction activities	29,625	8.0%
4	Services to buildings and landscape activities	5,800	1.6%
	Retail	**59,400**	**16.1%**
1	Motor trades	13,700	3.7%
2	Wholesale trade	16,690	4.5%
3	Retail trade	29,010	7.9%
	Public Sector	**7,840**	**2.1%**
1	Public administration and defence	1,455	0.4%
2	Education	6,385	1.7%
	Visitor Economy	**28,185**	**7.6%**
1	Creative, arts and entertainment activities	1,970	0.5%
2	Other entertainment activities	300	0.1%
3	Sports	4,435	1.2%
4	Hotels & accommodation	1,705	0.5%
5	Restaurants & Pubs	19,775	5.4%

Sub Sector analysis shows that the highest percentage of enterprises in the Midlands Engine area is in specialised construction activities at 8.0% which is slightly above the UK average (7.9%). This is followed by retail trade at 7.9%, again above the UK average (7.7%).



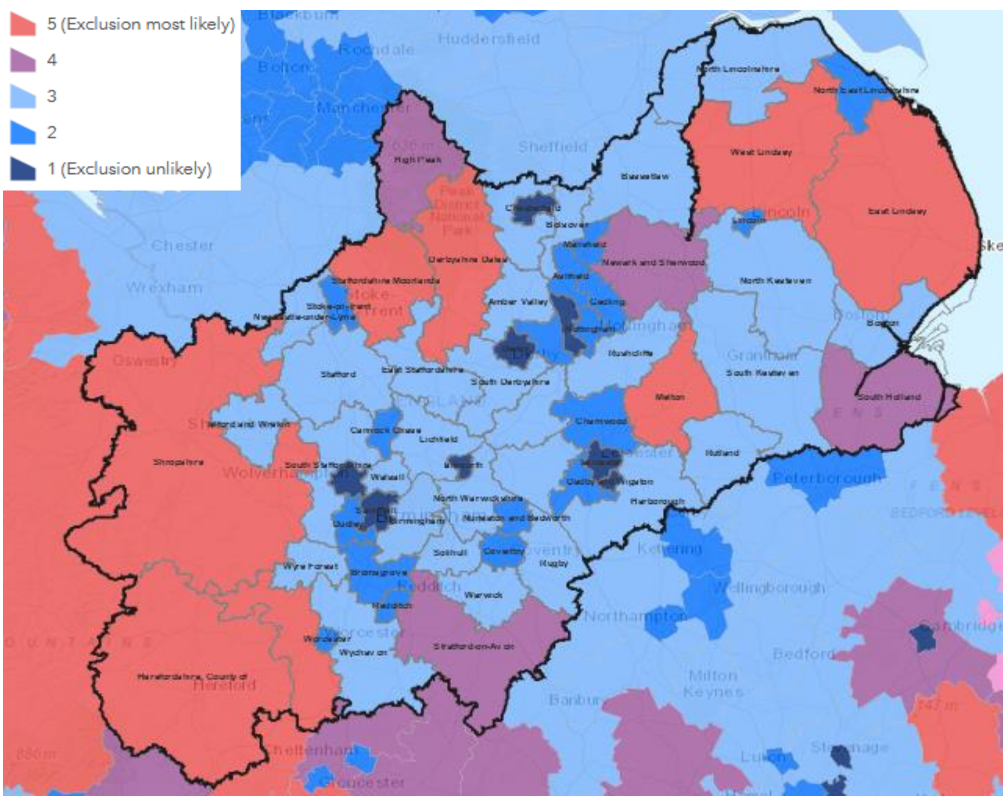
Digital Exclusion across the Midland Engine

Digital exclusion is the inability to access online products or services or to use simple forms of digital technology. This disproportionately affects vulnerable people, low-income groups, the elderly and the more marginalised communities in our society. This creates a strong correlation between digital exclusion and social exclusion.



21 Local authorities (32%) across the Midlands Engine are in the most likely quintile when it comes to digital access exclusion

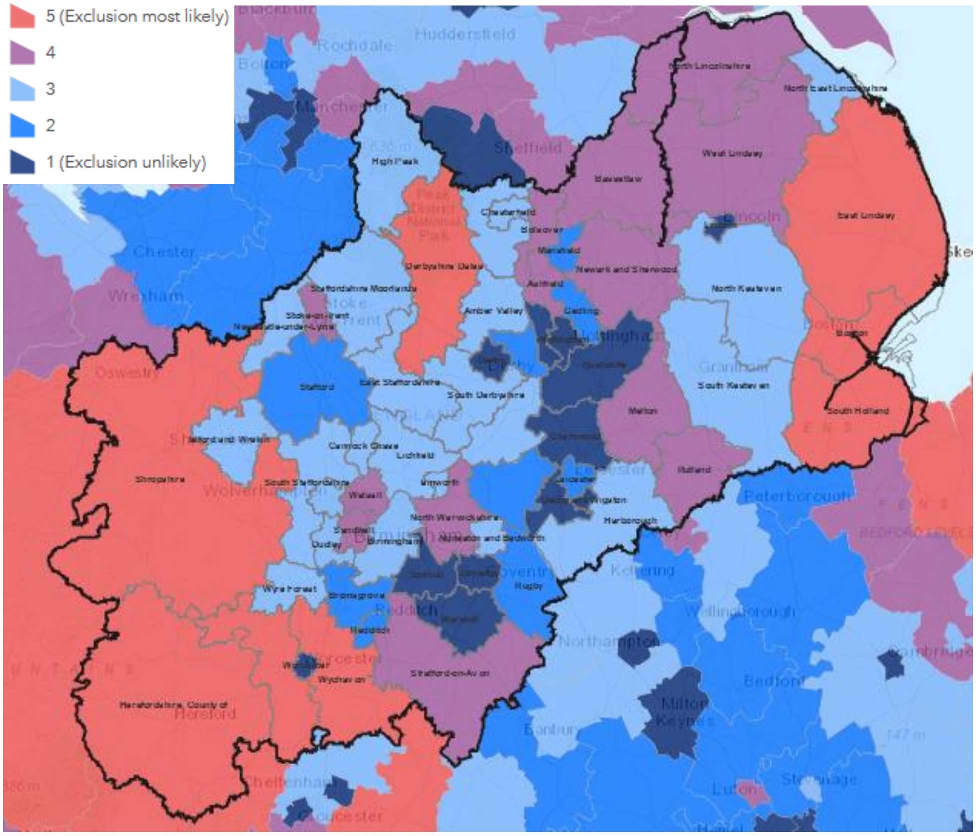
Infrastructure (broadband speed & 4G mobile data availability) for Local Authorities by Quintile



8 Local authorities (12%) across the Midlands Engine are in the most likely quintile when it comes to digital infrastructure exclusion.

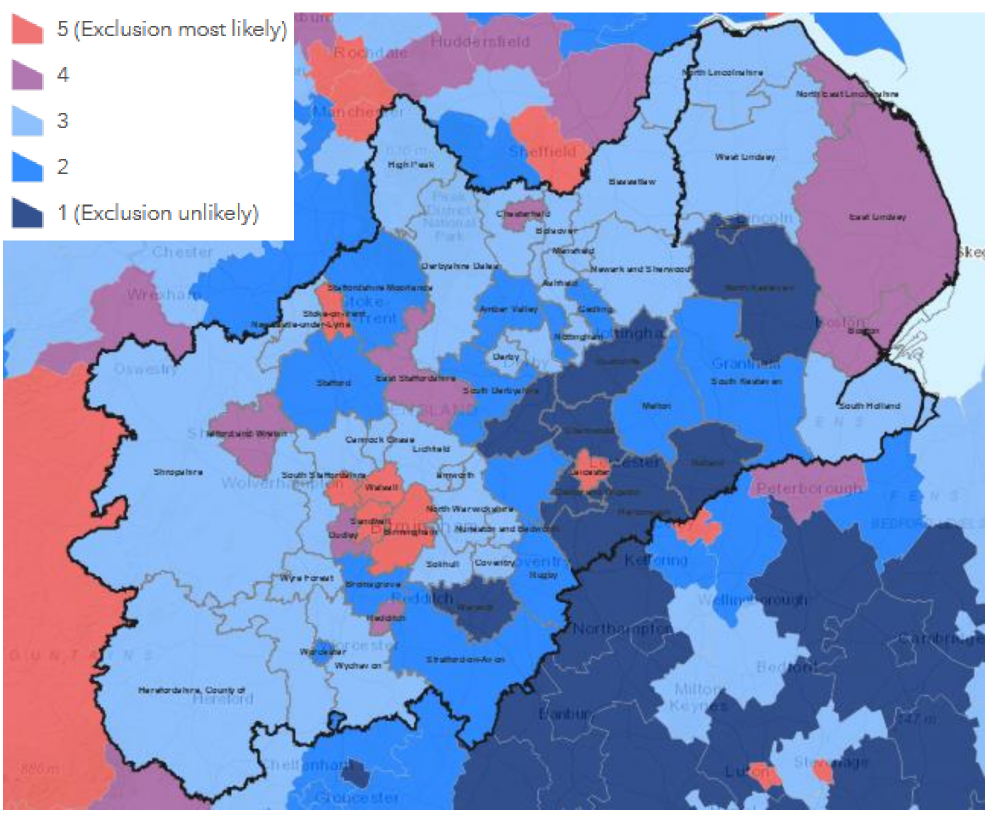
Digital Exclusion across the Midland Engine

Basic digital skills for Local Authorities by Quintile



8 Local authorities (12%) across the Midlands Engine are in the most likely quintile when it comes to basic digital skills exclusion

Use of basic digital skills for Local Authorities by Quintile



6 Local authorities (9%) across the Midlands Engine are in the most likely quintile when it comes to the use of basic digital skills exclusion

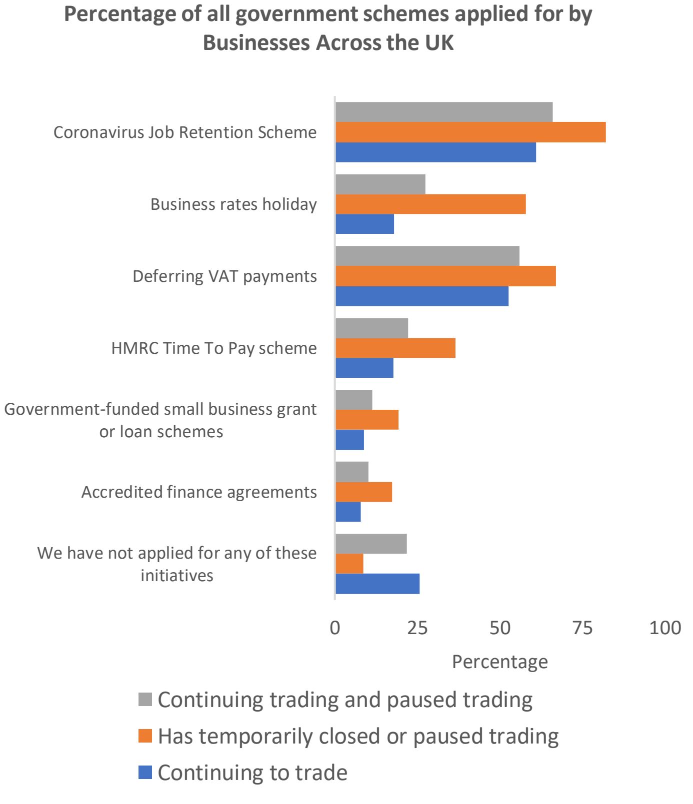
ONS Weekly Release

On the 30th April 2020 the ONS published the weekly publication containing data about the condition of the UK society and economy and the impact of the COVID-19 pandemic. The statistics are experimental and have been devised to provide timely information, with publication of final survey results currently expected to take place fortnightly with initial findings released in-between. There is currently no regional breakdown available.

Business Impact

Based on an update of the new weekly survey of businesses which is statistically representative at the national level (sample 17,623 and a response rate of 29%):

- 24% have temporary closed of paused
- 58% continue to report that turnover is affected and levels vary from up to 20% decrease (14%), between 20 – 50% decrease (20%) and decreases over 50% (245). 30% said turnover was unaffected only 3% reported an increase
- 43% expect turnover to stay the same, 32% expect it to decrease and 13% substantially decrease.
- 61% of businesses still open have applied for the job retention scheme and 82% of those who have closed.
- 26% have not applied for any government support



Wider Social Impacts on People

24% of adults say the virus is affecting their household income (a slight drop on last survey). This is the most common concern (68% stating it), 23% are using savings to cover living costs and 9.5% are borrowing to meet costs. 85% expect the economic conditions to get worse.

84% of adults support current measures in place and 84% have not left their home other than for permitted reasons. Working from home has slightly decreased to 45%. The mean anxiety score continues to decrease, and general impact on well-being has decreased. However for those with specific health issues this has increased.

Indicators of wellbeing, 3rd – 13th April and 9th – 20th April

Indicator	Group	9th -20th April	3rd- 13th April
Wellbeing is being affected	All adults	45.8%	49.9%
	70 years and over	38.2%	45.5%
	Underlying health	57.7%	55.6%
Mean anxiety score	All adults	4.2	4.9
	70 years and over	4.2	5
	Underlying health	4.9	5.4
Percentage with high anxiety (score 6-10)	All adults	35.7%	46.4%
	70 years and over	34.6%	49.8%
	Underlying health	45.7%	56.6%
Feeling lonely often/always	All adults	3.8%	5.8%
	70 years and over	3.5%	3.6%
	Underlying health	8.9%	7.3%
Feeling lonely some of the time	All adults	16.7%	20.5%
	70 years and over	13.9%	10.9%
	Underlying health	22.1%	20.4%

85% of key workers are worried about the effect on their life (slightly above the 82% for all adults). 64% of key workers reported home schools and have not sent their children to school, citing alternative care and concern for the wellbeing of children.

Source: ONS, Coronavirus, the UK economy and society, faster indicators:

East Midlands Business Intelligence

This report draws on contributions from the **East Midlands Chamber, Make UK, the NFU and Universities across the region (sourced from Midlands Innovation and Midlands Enterprise Universities networks).** Scope of coverage will be extended for future iterations of this Midlands wide report.

Overview of EM Business Intelligence :

The **British Chambers of Commerce's national Coronavirus Business Impact Tracker** found that 76% of respondents had furloughed staff in the week the scheme went live. This was up from 71% the previous week and 66% the week before that. However, 49% of firms reported they had submitted a coronavirus job retention scheme claim via the online portal with ease, which would tally with local sentiment we are picking up about the efficiency of the system.

Of the businesses we engaged locally with EMC last week, 57% indicated that they had furloughed staff, with almost three quarters (71%) of these businesses having furloughed 50% or more of their workforces.

Finally, the Chamber report clear sentiment from businesses on the ground that urgent guidance and information is needed about how Government plans to ease lockdown restrictions and restart the economy. Prime Minister Boris Johnson's pledge to unveil these plans, in detail, in the coming days was welcome. The planning and communication of a carefully phased approach to lifting lockdown must begin as soon as it is safe to do so, in order to ensure businesses can begin to rebuild the economy and contribute to a recovery that is swift and sustainable.

A local business survey undertaken by the D2N2 Growth Hub (16th April-1st May) reports 98% of local businesses responding have been affected by Covid-19, 73% have furloughed staff and 7% made staff redundant. 85% of these firms report decreased sales/bookings, 63% report cash flow problems, 38% have staff in isolation. Around 40% report some level of supply chain problem. 81% of respondents suggest that financial support will be most helpful for their business.

Specific business issues identified:

Concerns remain about the operation and coverage of Government support programmes. These concerns relate to ambiguity or inflexibility in relation to eligibility criteria and the administration of some schemes. Also gaps in coverage – particularly those who are 'newly self-employed'. General concerns are being raised about the delay in payments for self-employed people who are eligible. Administration of Furlough scheme by HMRC has been identified as particularly effective by some businesses – notwithstanding previously reported concern about the inflexibility of the scheme. The actual administration of this scheme appears to be working well.

Some firms involved in global supply chains are reporting increased costs for some components.

There are reports of manufacturers cutting R&D expenditure substantially or completely in some sectors. This must raise concerns about potential impacts on future competitiveness/productivity.

Sectoral Perspectives/Case Studies

Farming –
The main impact has been the loss of demand from the foodservice sector with the closure of cafes, pubs and restaurants. The foodservice sector not only brings volume demand for agricultural commodities, but also adds additional value to food products that isn't achieved through the high volume, low margin model of the retail supply chains.

While retail demand for food has increased due to consumers eating more meals at home, this isn't sufficient in either volume or value terms to offset the loss of demand due to closures in the foodservice sector. Switching supply for foodservice to retail is not always straightforward. Barriers exist that can stop this happening easily and these include logistics, equipment, packaging, specification, private standards and commercial obligations. This means that even if there is increased demand in retail, a switch may not be possible or timely.

The sector is extremely diverse, and impacts vary considerably depending on the nature of particular farms and the mix of activity within the individual farm business:

Producers of 'ornamentals' face particular challenges due to a collapse in consumer demand/the closure of garden centres due to requirements for social distancing. In the absence of demand, product cannot simply be put into storage for sale later. Large volumes of product will become waste and represent considerable losses to the businesses concerned.

Egg producers are doing better than most due to the surge in demand linked to the rise of home baking. In contrast poultry meat suppliers are suffering as a result of the closure of many mass-catering outlets that sell chicken based (fast) food.]] Coronavirus has caused some severe market disturbance in the dairy sector. The massive shift from food service to retail has created a huge divide in the sector. The businesses serving retail have seen unprecedented demand, whilst those supplying food service have seen their entire market decimated overnight. The supply chain is too complex to simply redirect all product from food service to retail to match the pace of change. While some milk is being redirected, it is unlikely that the uplift in retail will make up for the loss of food service.

Those exporting dairy products have also encountered issues. Although borders are still open, there are significant delays and logistics issues being experienced around the world as well as drop in demand. There are many reports of product being stuck in ports or on lorries which given the perishable nature of dairy means that it may not reach its final destination.

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Many firms will be unable to take advantage of furlough due to ongoing requirements of livestock husbandry/cultivation that cannot be varied in line with fluctuations in demand.

Manufacturing (Make UK report) –

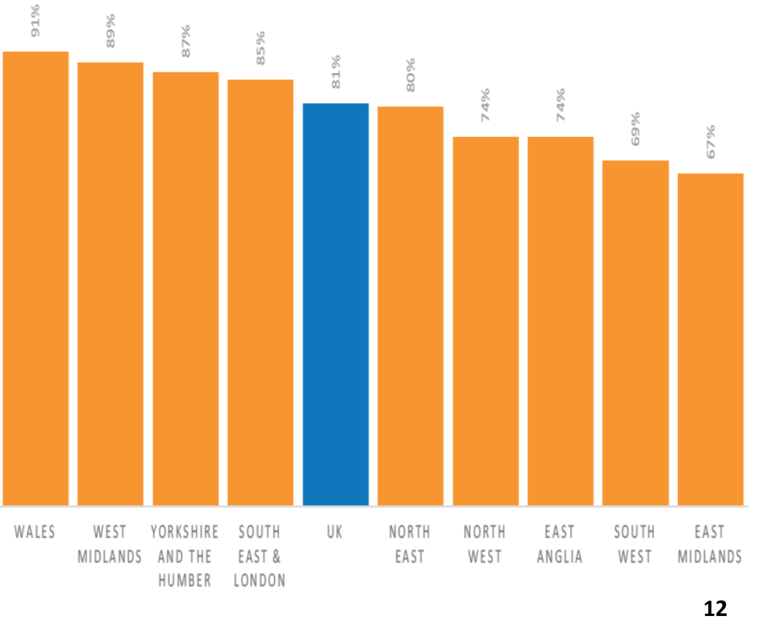
- Over three quarters of companies have seen a decrease in sales
- Four fifths of companies have seen a decrease in orders
- One in five companies have seen their orders fall by more than half
- One in five companies have furloughed up to a quarter of staff, 15% by up to half
- A third of companies will wait to see an increase in orders before taking staff off furlough

Concerns about automotive sector have been well documented – motor manufacturers reporting a fall in sales of 97% in April. As a key regional strength identified by the Midlands Engine IER, prospects for the sector remain a major concern.

Concerns are now being cited about the civil aerospace manufacturing as a consequence of widely reported problems faced by the airlines – prospects for defence related manufacturing is seen as more robust.

There is evidence that having moved swiftly to furlough, some manufacturing employers are starting to consider redundancies as they plan for long term recovery and a possible future easing of the lockdown and the prospect of operating under conditions of social distancing.

Manufacturers have experienced a significant decline in orders, the following chart shows the percentage of companies citing decreases in orders by region



University engagement with business –
Business intelligence based on University contacts with business through a variety of funded support programmes and activities is broadly consistent with the picture presented from other business sources:

- Cancellation of a large volume of current orders by customers
- significant drops in turnover
- The cancellation of or reduction in volumes of orders due to fears that the industry/sector is at risk
- Current business cash flow problems

Businesses are adapting to the new circumstances and in some instances have diversified their offer and re-purposed their production lines to new markets and in support of the efforts to deal with some of the impacts of COVID-19 in particular for the NHS.
There is also some evidence of a renewed focus on skills development for a variety of reasons:

- Employees wanting to make the best use of downtime by doing some CPD
- Employers recognising that that it is something that they should be encouraging staff to do – for their own personal wellbeing to do something as well as the opportunity for them to get staff to upskill for future benefit
- The need to manage CV-19 related change has made them realise that they have a skills gap they need to fill to survive (particularly skills around leadership, decision making, problem solving, finance, marketing, managing supply chains….)
- Recognition that in they will need to change their organisation in terms of strategy, diversify, adopt new processes / ways of working to meet new guidelines etc. which means that we are seeing increased requirement for support in strategic & business planning.
- The ability to share knowledge across their peer network is invaluable and we are seeing increased interest / demand in online networking / chatrooms, but more bite-size and at different times to previously.

Professional Services -
Anecdotal evidence is emerging to suggest that businesses who have previously invested in platforms that support remote/cloud-based working are adapting well to the new working environment.

West Midlands Business Intelligence

West Midlands

This information is a collation of the qualitative intelligence shared regional stakeholders

Financial support

- The challenge of dealing with banks remains an issue, as is take up and speed of decision. And Bounce Back loans seem to be working better but some banks only giving to their own clients (and as all banks aren't approved this is an issue). CIBLS regionally similar numbers across growth hubs say, 23% had attempted to access, 55% no plans to apply. Reasons for that 43% had the cash, 34% need clarity on lockdown and 10% didn't think they met the criteria to apply.
- Impact on sole traders and sole directors, is still an issue
- Levels of unemployment are now a serious concern to local areas, Coventry &Warwickshire at 106k and could go to 250k according to IFS. For this area they also account for 66% of tourism employment in the region and are therefore at high risk of employment issues.
- SMEs are continuing to use cash reserves
- Cash flow remains and issue. There will be no cash for investment for recovery and any associated costs. This is an important issue for getting supply chains in place, changing business models, seeking advice or managing debt going forward.
- 87% of manufacturers remain operational and WM will be worst hit of all English regions. Even subsectors which have made gains are operating at 80% capacity. Only 1/5th have taken advantage of furloughing.
- Local Authority implementation of grants is now catching up and complaints have dropped significantly. With Birmingham processing and refunding 70% of rates. This however as a significant impact on local government finances
- Credit still a significant issue with a lack of confidence in the supply chain which needs addressing otherwise supply will grind to a halt
- Concern amongst business that the current set of policy interventions, especially furlough ,is just moving the issue further out rather than resolving
- There are major concerns now with the ceramics industry in the region as manufacturing is hit and export markets.
- Universities are of concern in the region and their associated supply chains

Furloughing

The furlough process is going very well. However the 'all or nothing' nature of furloughing continues to prove problematic now as companies turn to looking at recovery they need greater assurance on the length and depth of the scheme to know whether they have the capacity to reopen. Manufacturing especially has made little use of this due to lack of flexibility in the system its not appropriate for their business models. Their flexibility and certainty over the scheme is vital to recovery plans.

Recovery

Businesses still require guidance on recovery. However, businesses are starting to put plans in place in the absence of guidance.

- Lockdown information and timescales
- Businesses looking at social distancing plans but what are the local plans on open spaces and transport?
- How to safely lift restrictions and ensure they have a healthy working environment. Concerns have been expressed about testing kits and whether they should be accessing them or leave supplies for NHS/social care. Similarly how do they and should they access PPE and if not what is the guidance.
- How to reopen their business within social distancing restrictions
- How to reshape businesses to deal with restrictions on international movement, understand new markets and opportunities, improve their use and application of technology to build on changes already established. This is a great opportunity to build on the catalyst already started and increase future resilience
- How to develop opportunities for diversifying their income and de-risk their business and invest in R&D
- Supply chain resilience and re-shoring as well as altering the way they work with international suppliers under the longer term social distancing rules and lack of trade missions. Investment in tech based relationship development, opportunity under this accelerated lock down environment.
- Issue that we are getting through this, to then hit Brexit and then hit emissions changes in 2021, creating a constant set of hurdles for the industry.

Property Market Insight

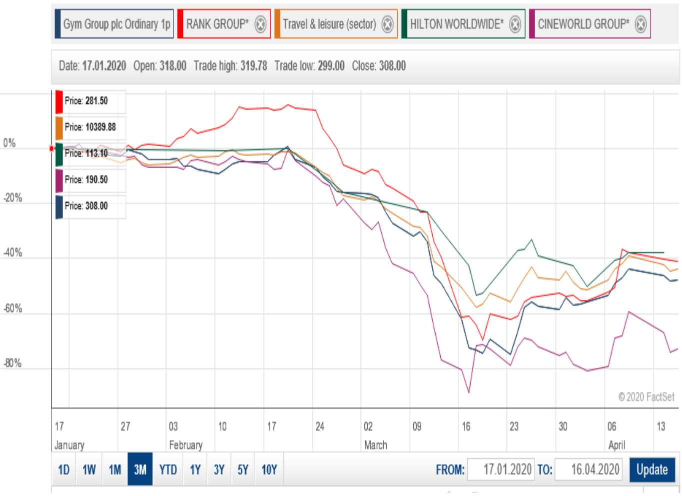
Property Market Analysis

All analysts agree there is a downturn in the real estate market. Land prices are likely to see the largest falls, with a larger impact on standing stock. City centre apartments will see falling demand, from owner occupiers and foreign investors causing some schemes to stall but potential for domestic private rented sector investment to soften the prices drops. The general housing market could see a drop in demand. City Centre developments are likely to stall. “Stay at home” measures may cause people to re-evaluate what makes a good home. Demand may increase for apartments with contact free exercise i.e. leisure space; increase the value of balconies and reduce the market for shared living/co-living spaces. The design and requirements for homes in the future may change with demand with increase in home working requirements.

The value of the larger companies is indicated by their share price over the last 3 years.
Source: Harvey Lansdown (16/04/20) / Stock Market

The pandemic has forced many consumers to experience shopping via the internet, for many they may not go back, this will affect the retail market. This may increase the current 20% share, however we are already top of the EU league for online shopping. Consumer demand for leisure may be higher as restrictions lift, however there may still be social distancing restrictions. In this environment small new operations may benefit, without the greater financial burdens and could provide a more exciting and vibrant leisure/retail offer building on the local and independent move already underway.

A review of current stock market prices indicate the loss in value of some major companies comparing the last 3 months:



Live stock market information taken from Harvey Landsdown website 20/04/2020.

Many companies and organisations have carried out a live test of home working, and for many this has been successful and popular with staff and implementation of technology which many have taken months to implement has been done within days. This will have an impact on how organisations plan business needs and the space they require. Open plan offices under social distancing may also impact on the space requirements and the use of space. How work space is configured may change relative to home environments. However those in small or shared accommodation expectations may have found the lockdown, difficult in terms of childcare, working and living environment. As a result HMOs may need reviewing or the regulations on standards of build may need to take account of outside space, amenities and working space.

Serviced offices and providers of co-working space may benefit. On one hand, companies may opt for more flexible office space, growing and contracting according to demand. On the other hand, companies may opt for home working but maintain a much smaller permanent office base under a traditional lease.

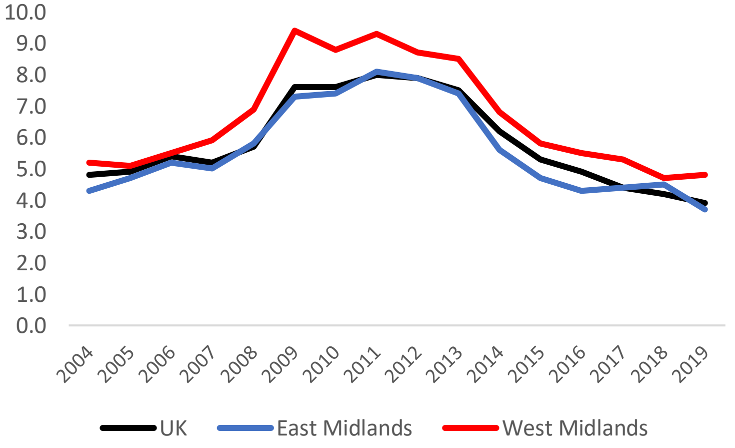
That would give them a strong company identity and control of environment critical when staff need to come together. Both outcomes will have a detrimental impact on the office sector and reduce demand. Locations will be impacted to differing degrees.

Skills and Labour Market Intervention

Data suggests that the COVID-19 pandemic has hit the UK at a time when the labour market is tight. At the end of 2019 unemployment rates were well below those recorded in the Great Recession - but the trend of declining unemployment had begun to reverse. Indeed, Bell and Blanchflower (2020) dispute that the UK had a tight labour market at the onset of the pandemic, highlighting that the underemployment rate (measured as the number of part-time workers who say they want fulltime jobs) was still above pre-recession levels in 2019.

In the West Midlands the unemployment rate remains higher than the national average, and in the Great Recession regional unemployment peaked before the UK, while in the East Midlands the unemployment rate tracked relatively closely to the UK average.

Unemployment rate (%) in the East Midlands, West Midlands and UK, 2004-2019



To date the level of claims and the speed of their increase is unprecedented, with almost one million new claims for Universal Credit (UC) in the last fortnight of March 2020. 7.3 times higher than the same period a year earlier.

Policy will need to address higher levels of unemployment over a longer period than has been the case in recent years. Moreover, as in previous recessions young people are expected to find themselves particularly hard hit, with analysis by the Institute for Fiscal Studies showing that employees aged under 25 years were about two and a half times as likely to work in a sector that is now shut down as other employees (Joyce and Xu, 2020). In their analysis of the labour market impacts of COVID-19 the Institute for Employment Studies (Wilson et al., 2020) and the Learning and Work Institute (Evans and Dromey, 2020) each identified five priorities for action, while analyses by the Resolution Foundation (Hughes et al., 2020) point in a similar direction.

1. Investment in new active labour market programmes for those out of work – including:
- rapid employment of the newly unemployed
- preventing long-term unemployment – through investment in employment support
- specialist support for the long-term unemployed / disadvantaged

2. Refocusing skills and training to support recovery – including through:
- pre-employment training
- advice and guidance
- matching those out of work to short- and long-term jobs growth areas
- local partnership working

3. An integrated coherent offer to support young people – by bringing together youth employment, training, skills and welfare support in order to avoid a ‘pandemic generation’ of young people scarred with poorer education, earnings and skills prospects resulting from sustained periods of unemployment (as has been evident in previous recessions [Clarke, 2019]), especially given that evidence suggests that in the light of changes in the youth labour market and at times of uncertainty, employers take fewer risks on young people with less experience than their older peers..

4. Preparation for an ***orderly withdrawal from the Job Retention Scheme***

5. A ***partnership-based ‘Back to Work’ campaign*** – using existing local partnership arrangements and reflecting the fact that local government and LEPs need to play an important role in recovery, including in ensuring that policies are joined up at local level.

6. Planning for the future – to achieve high quality more productive employment with improved opportunity and security (as highlighted in the Taylor Review of Modern Working Practices)

Produced by:

Contributions by:
Black Country Consortium – Economic Intelligence Team
Rebecca Riley – WM REDI
William Rossiter and Konstantinos Karagounis – Nottingham Trent University

For any queries please contact:

Professor Delma Dwight
Delma_Dwight@blackcountryconsortium.co.uk

Rebecca Riley
R.L.Riley@@bham.ac.uk

William Rossiter
William.Rossiter@ntu.ac.uk