MIDLANDS ENGINE OBSERVATORY

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 45: FEBRUARY 2024

Executive Summary

The February edition of the Midlands Engine Regional Economic Impact Monitor is published at a time of important economic measurements and announcements in the UK. **Consumer price inflation is unchanged at 4.0% and is forecast to fall throughout the rest of the first half of 2024 as energy prices continue to decrease**. However, ONS data confirms that the **UK was in a recession** in the second half of last year and forecasts predict GDP growth will remain sluggish in the short term. These are **mixed signs for the regional and national economy**, particularly related to the cost-of-living, cost-of-doing business and confidence in spending.

Despite recession fears, business optimism nationally remains high and is increasing, not only around revenue growth, but across the board.

- The **West Midlands Business Activity Index increased from 51.5 in December 2023 to 53.1 in January 2024,** the fastest increase since May 2023. Growth was linked to rising intakes of new orders and demand resilience.
- **The East Midlands Business Activity Index increased from 50.7 in December 2023 to 51.6 in January 2024,** the fastest rise in output since May 2022.

While locally, the Midlands economic growth prospects are dampened by poor performance:

- There were **274,555 claimants aged 16 years and over** in the Midlands Engine area in January 2024, an increase of 5,095 claimants (+1.9%, UK +1.7%) since the previous month.
- There were **52,240 claimants aged 16-24 years old** in the Midlands Engine area in January 2024 – an increase of 650 youth claimants since December 2023. This equated to an increase of 1.2%, with the UK increasing by 1.0%.
- **Recent trends of decreasing business deaths have been reversed** according to latest data from the ONS. **Business deaths were at 49,965 for 2023**, **an increase of 18.8% on the latest quarter, with the latest figures still elevated compared to 2017 levels**.
- **Business births were at an all-time low of 42,085** in the Midlands Engine in 2023. For both 2022 and 2023 the number of business deaths were above the number of business births in the Midlands Engine. This is echoed by research which reveals there is a **worrying trend of falling start-up rates in the UK over time**.

This edition of the monitor explores issues surrounding the **foundations of a good business environment**:

- A report by Resolution Foundation assesses how the **UK exposure to international trade has changed** over the past two decades. As the UK has become increasingly open, Britons now consume much more imported goods and services. **Total trade has increased from 53% of GDP in 2000 to 65% in 2023.**
- This is explored further in the State of Small Business Britain report which reveals **international trade has become increasingly challenging following Brexit** and the Covid-19 pandemic, with nearly one quarter of small firms viewing Brexit as a major business obstacle between 2018 and 2021.
- The Institute for the Future of Work highlights the changing trends in the UK's labour market and how the **adoption of new technology is transforming the workplace**. **The biggest changes observed in skills are in the technology sector, while across the board, 35% of vacancies in 2022 included at least one IT skill**.
- Research from Sage on the challenges facing SMEs in adopting new technology found that one in five businesses cited **poor infrastructure** as a contributing factor. **Unlocking the full benefits of technology within these firms could add an extra £232bn a year to the economic contribution of SMEs**. The lack of infrastructure means that over 350,000 businesses, employing 3.8m people and with a combined turnover of £666bn a year lack access to the right buildings and facilities for their businesses.
- New research pieces presented in this months monitor include the Food white paper which highlights the pivotal importance of the Midlands within the UK food system, as more than half of larger food and drink manufacturing companies (£100m+ turnover) and a fifth of agri-tech businesses in the UK are based in the Midlands.

A country characterised by **low growth and entrenched inequality means that increasing prosperity in an equitable manner is a key challenge** facing policymakers across the nation in upcoming years. This monitor covers a series of different work on inclusive growth across the UK:

- A report from HESA identifies 13 areas in the Midlands Engine which have; low productivity, the smallest proportion of residents with Level 4 qualifications or above, a relatively low stock of skilled workers, a net outflow of graduates and low school attainment.
- Joseph Rowntree Foundation research reveals **30.4% of all individuals in the UK were living in households with incomes below Minimum Income Standards** and cannot afford the goods and services the public agree people need to meet their material needs and to participate in society.
- Centre for Cities report into charitable giving suggests there is **unmet need in the Midlands**, with room for people to donate more to local causes.

1. Economic and Labour Market Impacts

Global and National News

Global

International Monetary Fund World Economic Outlook

The IMF has released its World Economic Outlook report for January 2024. **Global growth is projected at 3.1% in 2024 and 3.2% in 2025**, with the 2024 forecast 0.2 percentage point higher than that in the October 2023 World Economic Outlook (WEO) on account of greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as fiscal support in China. **The forecast for 2024–25 is below the historical (2000–19) average of 3.8%**, with elevated central bank policy rates to fight inflation, a withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth. **Inflation is falling faster than expected in most regions, in the midst of unwinding supply-side issues and restrictive monetary policy**. Global headline inflation is expected to fall to 5.8% in 2024 and to 4.4% in 2025, with the 2025 forecast revised down.

With disinflation and steady growth, the likelihood of a hard landing has receded, and risks to global growth are broadly balanced. On the upside, faster disinflation could lead to further easing of financial conditions. Looser fiscal policy than assumed in the projections could imply temporarily higher growth, but at the risk of a costlier adjustment later on. Stronger structural reform momentum could bolster productivity with positive cross-border spillovers. **On the downside, new commodity price spikes from geopolitical shocks - including continued attacks in the Red Sea - and supply disruptions or more persistent underlying inflation could prolong tight monetary conditions**. Deepening property sector woes, in China or elsewhere, a disruptive turn to tax hikes and spending cuts could also cause growth disappointments.

Policymakers' near-term challenge is to successfully manage the final descent of inflation to target calibrating monetary policy in response to underlying inflation dynamics and - where wage and price pressures are clearly dissipating - adjusting to a less restrictive stance. At the same time, in many cases, **with inflation declining and economies better able to absorb effects of fiscal tightening, a renewed focus on fiscal consolidation to rebuild budgetary capacity to deal with future shocks, raise revenue for new spending priorities, and curb the rise of public debt is needed**. Targeted and carefully sequenced structural reforms would reinforce productivity growth and debt sustainability and accelerate convergence toward higher income levels. More efficient multilateral coordination is needed for, among other things, debt resolution, to avoid debt distress and create space for necessary investments, as well as to mitigate the effects of climate change.

National

UK Trade

ONS's key findings were:

- The value of goods imports decreased by £2.6bn (+5.4%) in December 2023, primarily driven by decreased imports of fuels.
- The value of goods exports decreased by £0.7bn (2.2%) in December 2023 (lower exports to the EU).
- The total trade in goods and services deficit widened by £6.2bn to £14.9bn in Q4 (Oct to Dec) 2023, because of a large fall in exports of services.
- The trade in goods deficit widened by £1.4bn to £49.9bn in Q4 2023. The trade in services surplus is estimated to have narrowed by £4.8bn to £34.9bn.
- Total imports of goods and services fell slightly in 2023, while annual total exports rose by £36.8bn (+4.6%), which saw the total annual trade balance narrow by £36.7bn to a deficit of £53.0bn.

Consumer Price Inflation and Producer Price Inflation

ONS's latest figures show:

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 4.2% in the 12 months to January 2024 (same rate as Dec 2023). On a monthly basis, CPIH fell by 0.4%.
- The Consumer Prices Index (CPI) rose by 4.0% in the 12 months to January 2024 (same rate as Dec 2023). On a monthly basis, CPI fell by 0.6% in January 2024.
- Producer input prices fell by 3.3% in the year to January 2024, down from a revised fall of 2.1% in the year to December 2023.
- Producer output prices fell by 0.6% in the year to January 2024, down from a rise of 0.1% in the year to December 2023. On a monthly basis, producer input prices fell by 0.8% and output prices fell by 0.2%.

Input and output price levels remain substantially higher than their 2021 levels.

Retail Sales

CBI report that retail sales continued to fall in the year to February, now having declined for ten consecutive months. The latest decline was relatively modest, and the slowest fall seen so far in this period of contraction.

Sales were reported to be in line with the average for the time of year, after having dipped below seasonal norms in the four months prior, and orders placed on suppliers also fell at a slower pace. Significantly, internet retail sales also rose—while the growth was only marginal, it marked a rare instance of increase in the general period of decline over the last two years.

Headline sales and orders are set to fall at a somewhat faster pace next month, and sales are expected to dip back below average for the time of year. But in contrast, growth in interest sales is anticipated to pick up strongly.

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• The **UK slipped into a recession** at the end of last year after a poor performance from the dominant service sector pushed the economy into contraction, new figures show. Office for National Statistics (ONS) data has revealed that gross domestic product **(GDP) is estimated to have fallen by 0.3% in the three months to December 2023,** compared with the three months to September 2023. **On a quarterly basis, this gives two consecutive falls in GDP.** • Winter 2024 Economic Forecasts from the National Institute of Economic and Social Research (NIESR) **estimate that GDP growth will likely remain sluggish into the medium term** and that the United Kingdom was in **recession in the second half of 2023 while GDP grew by only 0.3% in 2023.** NISER expect **GDP to grow by 0.9% in 2024** and at a similar rate throughout the rest of the forecast. As a result, **living standards** – as measured by real household disposable income – are expected to **remain below pre-pandemic levels until 2027-28**. • Despite recession fears, business optimism nationally remains high and is increasing, not only around revenue growth, but across the board. **Grant Thornton's Business Outlook Tracker** finds that respondents' **confidence in their revenue growth expectations has jumped +21 percentage points compared to December, to 79%.** This is the highest level seen since August last year and is +8 percentage points higher than the rolling average. • The latest analysis from EY reveals **the cost of debt has increased**, on average, by 3 to 6 percentage points, potentially costing UK Plc an additional £25bn in refinancing by 2027.
Trading Conditions	• **The Consumer Prices Index** including owner occupiers' housing costs (CPIH) 12-month inflation rate was **4.2% in January 2024**, unchanged from 4.2% in December 2023. **The Consumer Prices Index (CPI)** rose by 4.0% in the 12 months to January 2024, the same rate as December 2023. • Although inflation was still **double the BoE's target**, analysts had expected an uptick to 4.2%, slightly above the Bank of England's estimate of 4.1%. The OECD said the **UK faces the highest rate of inflation in the G7 this year and next**. It forecast UK inflation would be 2.8% in 2024 and 2.4% in 2025, adding it expected the BoE to be in a position to lower interest rates in the third quarter of this year. • NIESR's measure of **underlying inflation**, which excludes 5% of the highest and lowest price changes to eliminate volatility and separate the signal from the 'noise', **fell to 4.9% in January from 5.5% in December**. At the same time, core CPI remained unchanged at 5.1% and services inflation rose marginally from 6.4% in December to 6.5% in January. **These measures indicate that underlying inflationary pressures remain elevated above the 2% target.** • A **relatively mild winter in Europe means stocks of gas have not been depleted by high demand for heating homes**, and this is expected to bring down household bills by around 15% when Ofgem recalculates its energy price cap in April. • As businesses patiently await the Chancellor's Budget next month, findings from the **British Chamber of Commerce Quarterly Economic Survey for Q4 2023 highlights the urgency for action at the Budget**. 43% of responding firms with a turnover of less than £85,000 say they are concerned about growing revenue beyond this specifically because of the requirement to pay VAT. Meanwhile, over a quarter of companies (26%) say they have changed plans to upgrade or open premises as a direct result of business rates. 38% of responding businesses say they are now paying more following the 2023 rates revaluation. • Positively, the number of **company insolvencies in January 2024 (1,769) has continued to fall since December 2023 (2,002),** as levels remain slightly higher than in the previous year (1,685 in January 2023) and continue to be well above pre-pandemic levels. **Total company failures for 2023 exceed 25,000 for the first time in 15 years and are at their highest level since the aftermath of the financial crisis in 2009.** • Furthermore, the **number of East and West Midlands start-ups hiked sharply last month,** according to new research from R3, up by 49.3% and 34.6% (respectively) since December. • However, along came with this a **significant rise in cashflow 'red flags'.** Levels of **debts owed by East Midlands businesses in liquidation in the region more than trebled** (246.4%), while **West Midlands numbers doubled** (115%) since last month. There are warnings that this could create **a "perfect economic storm".** • Furthermore, **almost one in five UK-listed companies issued profit warnings last year, more than at the peak of the financial crisis in 2008**, revealed in new analysis according to research from EY-Parthenon. • **ICAEW's Business Confidence Monitor (BCM)** puts confidence at 4.2 on the index for Q4 2023, up from 2.9 in Q3, but below the pre-pandemic average of 7.2 from 2010-19. **Customer demand issues, sales growth and high interest rates are likely to have kept optimism subdued, despite easing inflationary pressures**. • **ICAEW's latest BCM** also reveals that **domestic sales growth is continuing to slow**, standing at 3.6% year-on-year in Q4 and moving closer to the historical average of 3% (above). • The **Midlands experienced strong deal activity during 2023**, according to Experian Market IQ, despite a decline in volume. The M&A market in the Midlands was unable to match the "buoyant" volume reported in 2022. • **Dealroom** activity records 20 deals across the West Midlands in January 2024, with 6 across the East Midlands.
Labour Market	• The latest **KPMG and REC UK** Report on Jobs survey compiled by S&P Global showed a **weak picture for recruitment activity in the Midlands at the start of 2024.** Firms signalled a marked reduction in permanent placements, while temporary billings fell at the fastest pace since June 2020. **Recruitment freezes and cautiousness among clients weighed on permanent hiring**, while other firms mentioned muted demand for temporary staff. • **Wage growth came in above expectations** at the end of last year in a sign that a tight labour market might keep inflationary pressures elevated in 2024. **Annual wage growth** including bonuses averaged **5.8%** between October and December, while annual growth in regular earnings (excluding bonuses) was **6.2%** according to the ONS. • Early estimates for January 2024 indicate that the **number of payrolled employees rose by 1.4%** compared with January 2023, a rise of 413,000 employees. • As February welcomed **National Apprenticeship Week**, new research reveals that qualifications are no longer centre stage when hiring first-time jobseekers, with **employers favouring aptitude**.

Business Activity

Business Activity Index

The **West Midlands Business Activity Index increased from 51.5 in December 2023 to 53.1 in January 2024,** the fastest increase since May 2023. Growth was linked to rising intakes of new orders and demand resilience.

The East Midlands Business Activity Index increased from 50.7 in December 2023 to 51.6 in January 2024, the fastest rise in output since May 2022.

The UK Business Activity Index increased from 52.1 in December 2023 to 52.9 in January 2024.

Out of the twelve UK regions, the West Midlands was the second highest and East Midlands was fifth highest for business activity in January 2024.

Business Activity Index:

Source: NatWest UK PMI, February 2024

Demand

The West Midlands New Business Index increased remained at 51.5 in January 2024. The East Midlands New Business Index increased from 48.5 in December 2023 to 48.8 in January 2024.

Business Capacity

The West Midlands Employment Index increased from 49.8 in December 2023 to 50.0 in January 2024. The East Midlands Employment Index decreased from 49.8 in December 2023 to 49.1 in January 2024.

The West Midlands Outstanding Business Index increased from 47.2 in December 2023 to 47.4 in January 2024. The East Midlands Outstanding Business Index increased from 47.2 in December 2023 to 48.7 in January 2024.

Prices

The West Midlands Input Prices Index increased from 58.1 in December 2023 to 59.9 in January 2024. The East Midlands Input Prices Index decreased from 63.1 in December 2023 to 61.6 in January 2024.

The West Midlands Prices Charged Index increased from 56.2 in December 2023 to 57.3 in January 2024. The East Midlands Prices Charged Index decreased from 57.1 in December 2023 to 54.8 in January 2024.

Outlook

The West Midlands Future Business Activity Index increased from 77.2 in December 2023 to 78.1 in January 2024. Optimism was linked to forecasts of demand growth, new project onboarding and publicity.

The East Midlands Future Activity Index increased from 63.9 in December 2023 to January 2024. Optimism was linked to hopes of stronger client demand and investment in new machinery / facilities.

Out of the twelve UK regions, the West Midlands was the highest and the East Midlands was sixth highest for the Future Business Activity Index in January 2024.

Future Business Activity Index:

Source: NatWest UK PMI, February 2024

Source: NatWest: UK PMI report for January 2024, released February 2024.

Labour Market and Job Postings

The latest labour market statistics show a **continued cooling down, with vacancies falling on the quarter for the 19th consecutive period**. Despite this, in the latest quarter, there was an increase in the employment rate, a decrease in the unemployment rate and a largely unchanged economic inactive rate. Through 2022 the growth rate of median pay continued to increase in line with pre-coronavirus trends. Since the start of 2023, this trend has continued, but with more volatility caused by some months showing much higher growth rates.

The latest job postings data shows that the **number of postings across the Midlands dropped 19.1% over the last six months to 869,633**. Despite employer demand narrowing, those seeking work - wanting a job, currently remains heightened (2.0 Interest Quotient).

Overall Demand and Interest for the Midlands:

The **advertised median salary across the Midlands has increased by 8.5%** year-on-year to £31,088 per year.

Salary Trends for the Midlands:

Sectors Hiring in the Midlands:

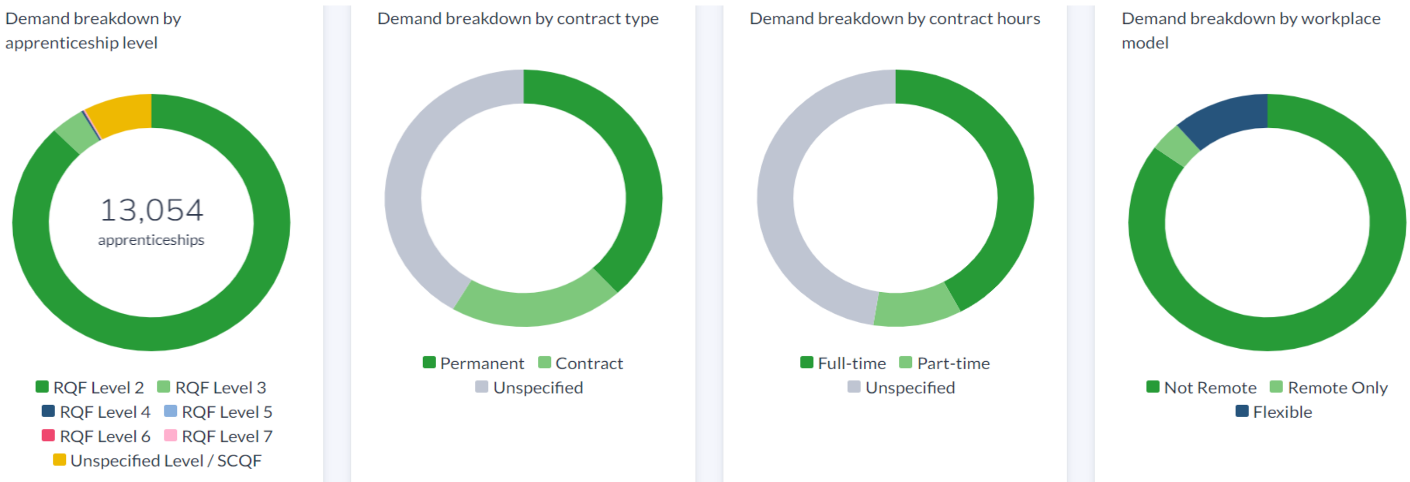
Job posting demand was greatest for roles in engineering, teaching and hospitality & catering. These sectors accounted for 30.9% of all job postings in the last six months.

Source: Adzuna Limited Job Posting Intelligence, Accessed Feb 2024. The Interest Quotient uses jobseeker data to quantify the level of interest in particular roles.

Minimum Requested Education

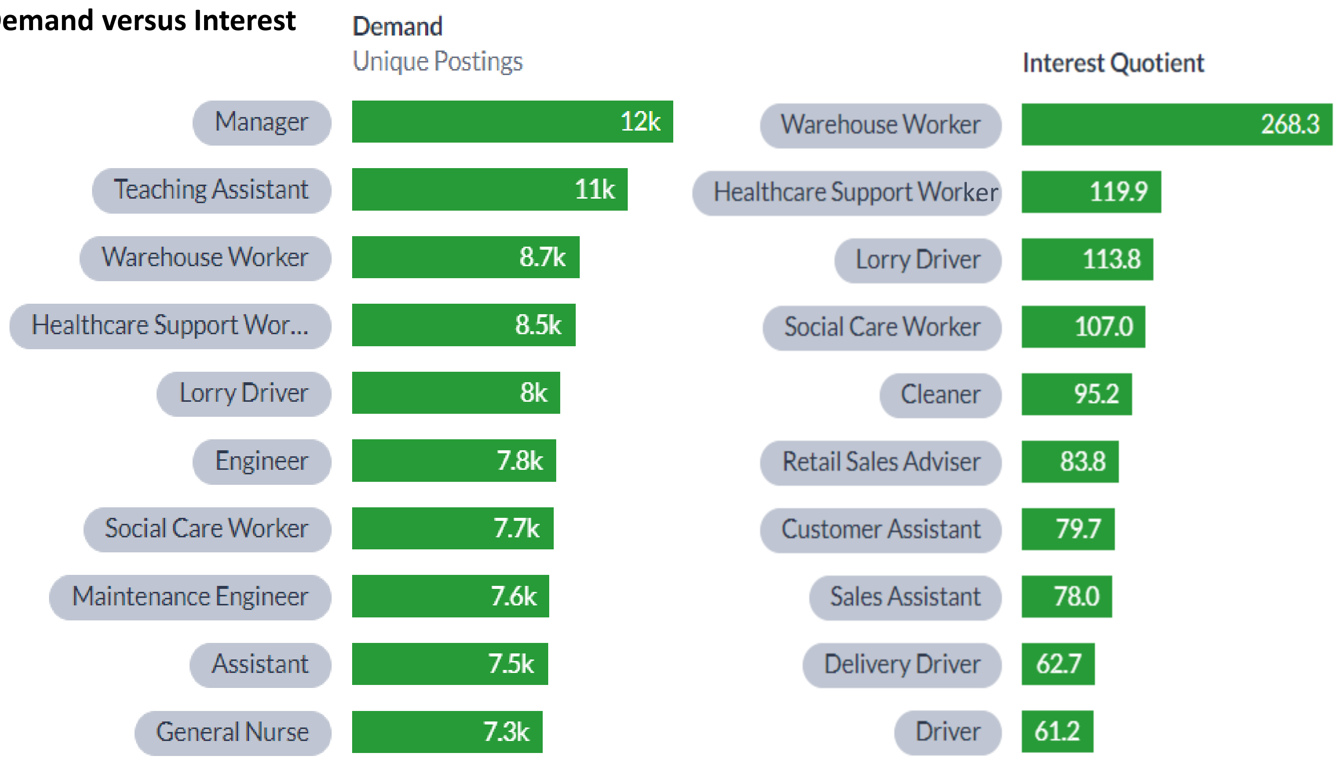
In terms of requested education, 35.2% of all postings across the Midlands Engine are level 1,2, and 3, generally lower-level positions. One in five or 21.0% are level 4 and 5 and the rest 43.7% are degree level and above.

Types of Roles



Latest data shows 13,054 live apprenticeship postings, with the vast majority (90.8%) at level 2 and 3 providing a pathway for young people. Where contract type is specified, the vast majority of roles are permanent and full-time. Of these roles 84.8% are advertised as 'not remote', 3.8% 'remote only' and 11.4% 'flexible'.

Demand versus Interest



Analysis of the roles people most want (Interest Quotient) and the roles advertised (Demand), shows some synergy with four of the top 10 most viewed positions also in the top 10 most posted. However, the tables also suggest a mismatch between skills levels with the roles people want mainly being lower-level skills positions whereas the roles most posted are generally higher-level roles like 'manager', 'engineer' and 'general nurse'.

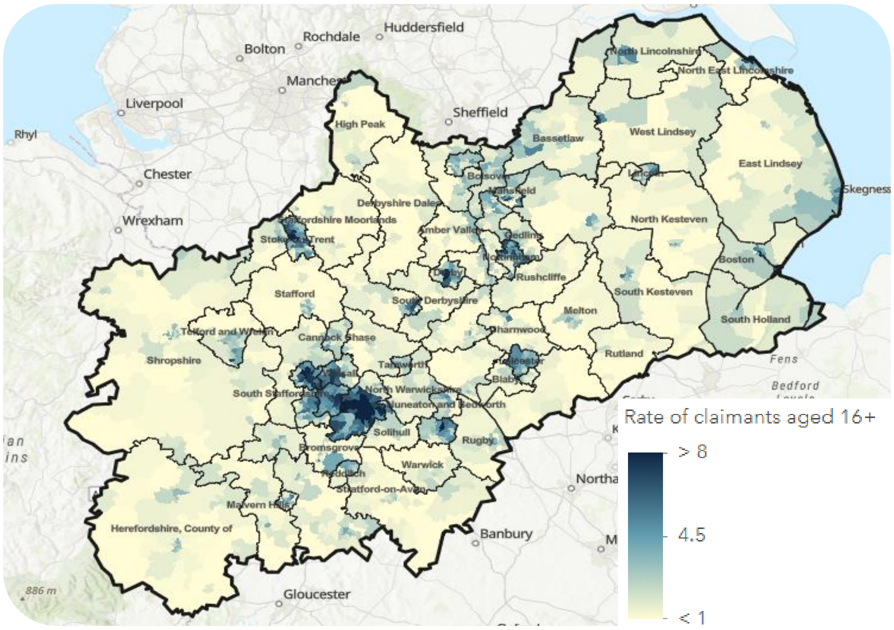
Source: Adzuna Limited Job Posting Intelligence, Accessed Feb 2024.

Labour Market Impacts: Claimants

There were **274,555 claimants aged 16 years and over** in the Midlands Engine area in January 2024, an increase of 5,095 claimants (+1.9%, UK +1.7%) since the previous month. **There are 53,015 more claimants (+23.9%, UK +23.8%) when compared to March 2020**. East Lindsey and North East Lincolnshire have lower levels of claimants now than in March 2020 (-450 and -210 respectively).

The number of claimants as a percentage of residents aged 16 years and over was 3.3% in the Midlands Engine and 2.9% for the UK in January 2024.

Claimants as a Percentage of Residents Aged 16 Years and Over in January 2024:



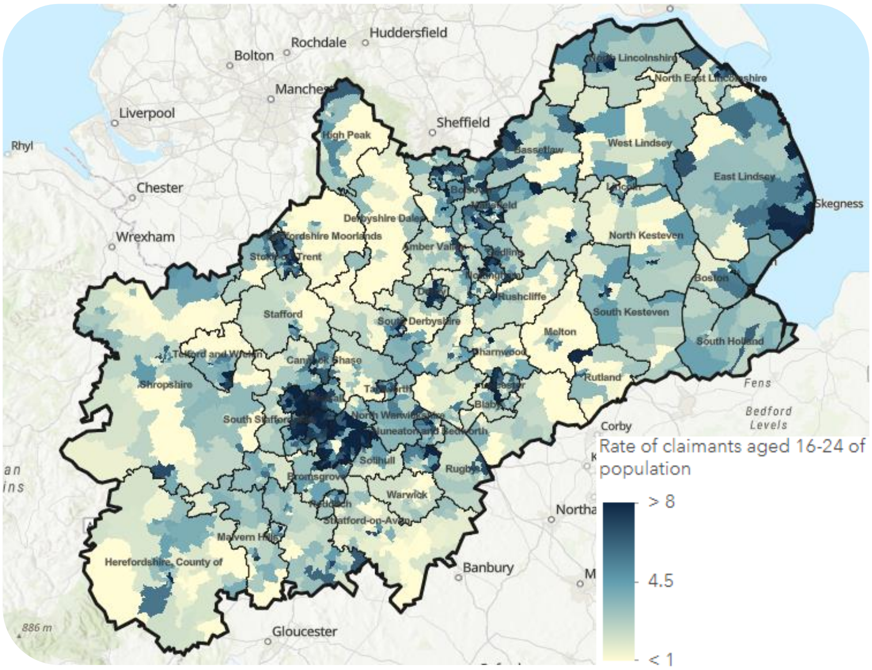
Out of the 1,511 wards within the Midlands Engine, 440 were at or above the UK average of 2.9% for the number of claimants as a percentage of the population aged 16 years and over in January 2024.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, with Lozells and Handsworth joint highest at 16.2%. This was followed by Aston at 15.2% and then Birchfield at 14.9%. In contrast, the lowest proportion was in Keele (Newcastle-Under-Lyme) at 0.2%.

There were **52,240 claimants aged 16-24 years old** in the Midlands Engine area in January 2024 – an increase of 650 youth claimants since December 2023. This equated to an increase of 1.2%, with the UK increasing by 1.0%. Since March 2020, **the number of youth claimants has increased by 9,045** (+20.5%, UK +16.0%). Notably, 10 local authorities were lower than March 2020 levels and a further 3 were the same level.

The number of claimants as a percentage of residents aged between 16-24 years old was 4.7% in the Midlands Engine and 4.0% for the UK in January 2024.

Claimants as a Percentage of Residents Aged 16-24 Years in January 2024:



Out of the 1,511 wards within the Midlands Engine, 615 were at or above the UK average of 4.0% for the number of claimants as a percentage of the population aged 16–24 years and over in January 2024.

The ward with the highest number of claimants as a percentage of the population was Portland (Mansfield) at 16.8%. This was followed by Handsworth (Birmingham) at 16.7% and Joiner's Square (Stoke-on-Trent) at 14.9%. In contrast, within the Midlands Engine there were 101 wards with no youth claimants in January 2024.

An interactive version can be found [here](#).

Source: ONS/ Department for Work and Pensions, February 2024.

Old Skills, New Skills – What is Changing in the UK Labour Market?

The Institute for the Future of Work released a report highlighting the changing trends in the UK's labour market and how the **adoption of new technology is transforming the workplace**. Work is undergoing significant transformations in terms of how it is organised, what tasks are performed and what skills are essential for success. Without the right mix of skills, economies cannot respond and adapt, nor take advantage of new advances in technology that will help to improve productivity. Understanding skills, and the changes in skills demand, is thus a cross-cutting issue encompassing questions around economic policy, industrial strategy, education and the changing role of universities, as well as the deeper purpose of work.

Emerging and Disappearing Skills

New skills that have emerged since 2016 reflects both the importance of new technologies and the **shifting priorities** in jobs. Skills like ethical hacking, design thinking, deep learning, virtual learning environments, sustainable development, systems thinking, and artificial intelligence are ones that require good knowledge of digital technologies to do well, but they also have an ethical component. Conversely, many other skills have declined in relevance for employers during this period. These include skills such as internet marketing call recording, recruitment advertising, phone sales and academic writing. Ethical considerations seemed to be much less prevalent in 2016 than in 2022. Analysis of IT skills shows that Cybersecurity, Data Science, AI and Cloud Solutions are emerging as new skills. **This reflects the industry's response to increasingly complex technological challenges and opportunities that come with the rapid development of AI applications**. Conversely, many of the old skills in IT are in the subcategories of Software and Microsoft Development Tools, Databases and Operating Systems, where new and alternative tools have become more prevalent, reducing demand for older technologies.

Highest Skill Turnover

Analysis in the report shows that the **highest skill turnover** is seen in Protective Service professionals, followed by Science, Engineering, Technology professionals and associates. Whereas, the **slowest changes** are observed among Teaching professionals, Textiles, Printing and other skilled trades and Transport operators. In terms of specific occupations, the **fastest-changing** occupations between 2016-2022 include computer system and equipment installers, electrical trades professionals, aerospace engineers and design occupations. A more detailed analysis reveals that these jobs are increasingly demanding **specialised skills** in areas like cybersecurity and network security, electrical and computer engineering, circuitry, data analysis and UI/UX design. In terms of **common skills**, these jobs are increasingly requiring critical thinking skills and initiative and leadership skills. On the other hand, among the **slowest-changing** occupations we observe teaching professionals, elementary construction workers, elementary trade occupations and machine operatives.

Fast growing core skills:

Skills
Software Engineering
Data Analysis
Solutions Focused
Python (Programming Language)
Architectural Design
Strategy Execution
Hospitality
Communications
Computer Programming
Problem Solving

This considers individual skills with more than 2,000 mentions in both years analysed.

Technology skills

The biggest changes observed in skills are in the technology sector. Technology skills are defined as skills belonging to two thematic categories, namely Analysis and Information Technology. These skills are the ones that are needed to work with the most modern digital technologies, and as such attract more interest than any others. Across the board, **35% of vacancies in 2022 included at least one IT skill and 23% at least one analysis skill**. Among the most popular IT skills we have 'Computer Literacy', 'Computer Programming', 'SQL' and 'Databases'. In Analysis, we have 'Analytics', 'Data Analysis', 'Forecasting' and 'Business Intelligence'. Technology skills related to the development and adoption of AI systems and applications are becoming increasingly important.

Occupations with the fastest increase in demand for new tech skills:

Occupation (4-digit SOC code level)
Cyber security professionals
Programmers and software development professionals
IT business analysts, architects and systems designers
IT quality and testing professionals
Security system installers and repairers
Directors in consultancy services
IT managers
Data analysts
Architects
Photographers, audio-visual and broadcasting equipment operations

Source: Analysis of data provided by Adzuna Intelligence

Conclusions

The rapidly evolving skills landscape presents challenges for businesses, policymakers, and education and training providers that are seeking to bridge the gap between skill supply and demand. The findings of this report support the need for policies that encourage continuous learning and skills development, particularly in technology related areas. For this to happen, it is important to **review educational programmes to equip future workers with the most relevant skills, but also to provide ongoing support for adults and transitioning workers to update their skillsets.**

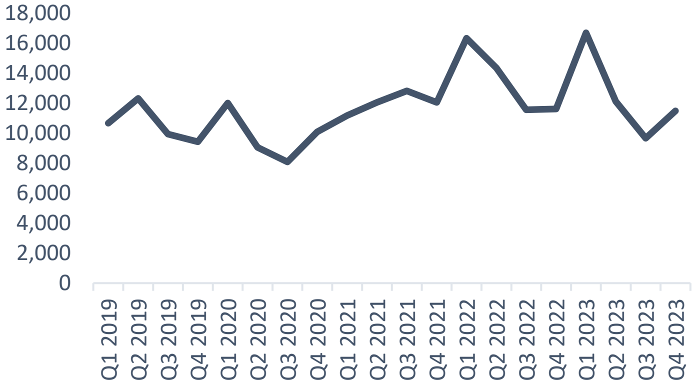
2. Business Environment

Business Births and Deaths in the Midlands

[Experimental low-level geographic analysis on business births and deaths released by the ONS in February 2024](#) highlights, that **business deaths were at 49,965 for 2023**. An **annual decrease of 7.2%** (-3,885) which reflected national trends (-11.0%). However, when comparing back annually to 2017, **the latest figures are still elevated**.

As the following chart shows, for the Midlands Engine area, there was a **second peak of quarterly business deaths** in Q1 2023 (+43.7%), this was followed by two consecutive decreases (-27.4% and -20.3%). However, the **latest quarter analysis shows an increase of 18.8%** (above the national increase of 8.0%).

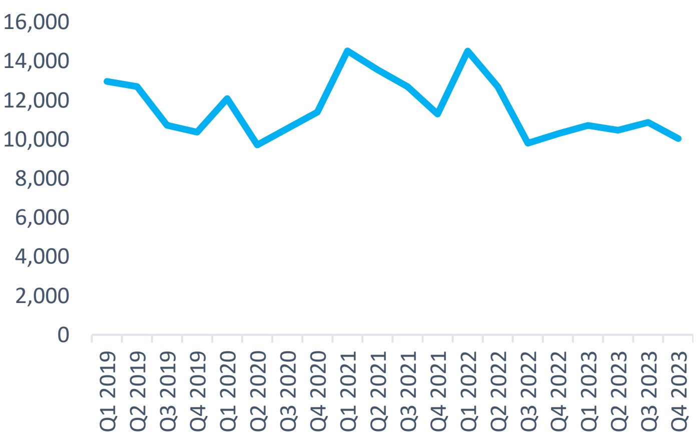
Trends in Midlands Engine business deaths:



Regarding **business births, there were 42,085 in the Midlands Engine in 2023, an all time low since data available back to 2017.** There was an annual decrease of 11.0% for the Midlands Engine which reflected the national trend (-5.8%).

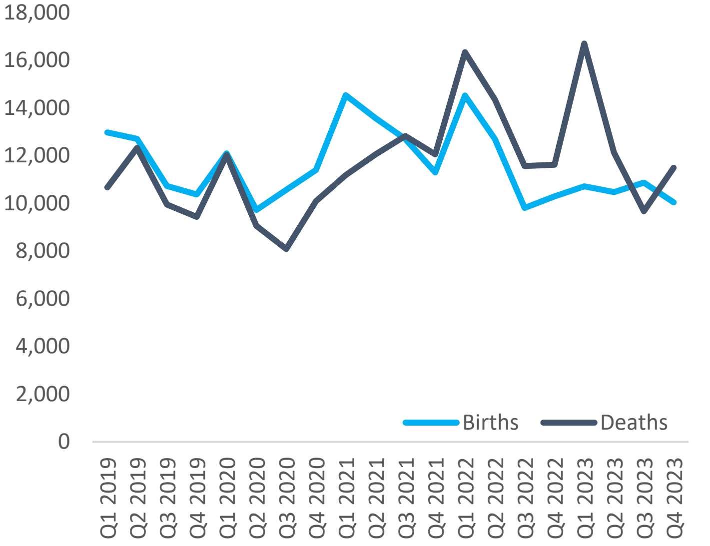
As seen in the following chart, there has been a **mixed performance over the latest quarters** for the Midlands Engine area, as there was an increase of 4.1% to Q1 2023, followed by a decrease of 2.2% to Q2 2023, an increase of 3.8% to Q3 2023 and then another decrease of 7.6%. Although, the latest decline was lower than seen nationally (-9.4%).

Trends in Midlands Engine business births:



As seen in the following chart, business deaths are back above business births in the latest quarter.

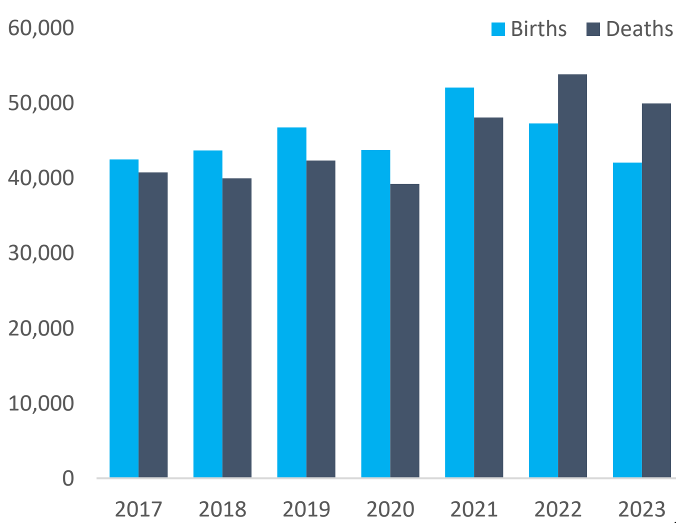
Quarterly trends in Midlands Engine business births and deaths:



Meaning **for both 2022 and 2023 the number of business deaths were above the number of business births in the Midlands Engine (6,550 and 7,880 more deaths than births respectively);** this was also the case nationally.

There were nine Midlands Engine local authorities with **more births than deaths in 2023 these were Oadby & Wigston (+110), Solihull (+85), Blaby (+50), Nottingham (+45), Melton (+30), Chesterfield (+10), South Derbyshire (+5), Tamworth (+5) and Redditch (+5)** While the most negative (more deaths than births) include Wolverhampton (-970), Birmingham (-460), Wychavon (-420), Mansfield (-345) and South Kesteven (-330).

Annual trends in Midlands Engine business births and deaths:



The State of Small Business

The Enterprise Research Centre (ERC) has released the annual State of Small Business Britain report.

Key findings from the report include:

- Business crises are common, with **a third of small businesses experiencing a threat to their survival within the last five years**. Despite this, fewer than half of firms sought external advice or support in the last year to help them plan how to cope with a crisis.
- The Covid-19 pandemic took a heavy toll on SMEs, as nearly half suffered a hit to their turnover. The pandemic also saw an increase in the number of company dissolutions and **prompted one in five small firms to pivot to a completely new business mo**del.
- The cost of doing business has risen. The ERC's Small Business Price Index (SBPI) showed that **costs rose faster during the first half of 2022 than they had since 2008.**
- International **trade has become increasingly challenging** following Brexit and the Covid-19 pandemic, with nearly one quarter of small firms viewing Brexit as a major business obstacle between 2018 and 2021.
- **Innovation among small businesses declined** between 2017 and 2021. Those firms that did innovate continued to experience significant disruption in 2022.
- Small businesses have been hit by an increase in '**presenteeism**' with 37% of firms in 2023 reporting that employees continued to work while unwell or beyond their contracted hours. This was accompanying by an increase in the rate of mental health-related sickness.
- Although there have been positive long-term trends in the number of people setting up their own businesses, not enough small businesses are investing in growth.

The small business support ecosystem

The small business support ecosystem needs to be focused on nurturing the ambition, confidence, capabilities, resilience, and innovation of the UK's diverse community of small businesses. It also should be built upon existing collaborations between a range of stakeholders, including national and local government, business support providers, educational organisations, business representative groups and professional bodies, as well as small business leaders themselves.

The small business support ecosystem:

The Small Business Landscape 2013-2023

Since 2013 there has been a general growth in the size of the UK business population, with the growth driven particularly by the smallest businesses (although there was a fall in the business population during the years of the Covid-19 pandemic). The number of private sector businesses in the UK at the start of 2023 was 5.6 million. Of these businesses, 5.54 million were classified as SMEs, with 5.51 million of these being small firms (with 0 to 49 employees). Total employment in UK SMEs was 16.7 million (61% of the total), with small businesses employing 13.1 million people (48% of the total). **SMEs therefore play a crucial, and growing, role in the UK economy, also accounting for 53% of turnover at the start of 2023.** Small business growth in the UK has slowed over the last decade hindered by Brexit, Covid-19, and geo-political tension. The proportion of small firms that were expanding their workforce fell 40% between 2012 and 2022. The report also warns the support available to small and medium-sized enterprises (SMEs) is also currently insufficient and too fragmented. In particular, SMEs need more investment and support on exports, innovation, achieving net zero, and supporting employees with their mental health. **Falling demand, energy prices and inflation are the main concerns** for businesses across all size categories, with small businesses 10 – 49 employees showing the highest concern with energy prices.

Understanding Small Business Growth

The UK has historically performed poorly in terms of the proportion of the business population that grow when compared to its international competitors. The UK has a high proportion of start-ups that do not survive. The report also outlines a **worrying trend of falling start-up rates in the UK over time** and an overall decline in the job reallocation rate. Furthermore, the number of high-growth firms in the UK declined to 10,968 (covering the 2015/18 period), making the overall incidence rate of these firms just 6.2%. There was variation by geography, with the incidence rate of HGFs in England ranging from 4.3% in the Black Country to 7.9% in London. The report highlights how access to finance, innovation, leadership & management can help increase small business growth.

The State of Small Business

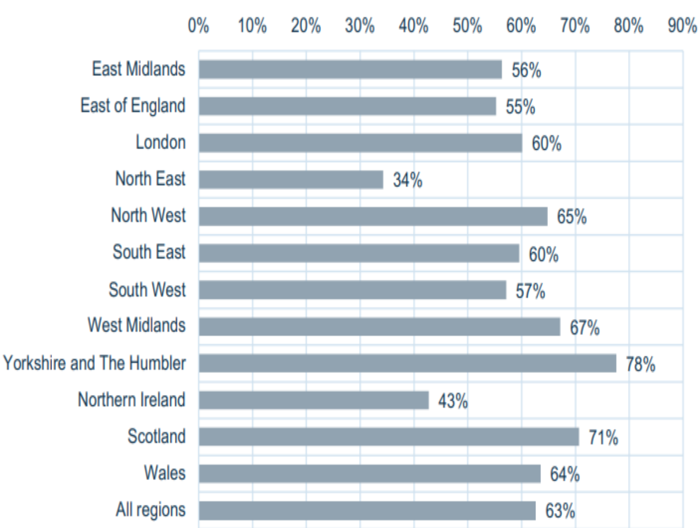
Innovation

Innovation has long-term performance benefits for SMEs, and that there are many moderating factors involved in this relationship. **UK firms have historically tended to under-invest in innovation compared to their international competitors.** More locally attuned innovation strategies, which can build on existing strengths and remedy weaknesses would be valuable. **There is evidence that more socially oriented businesses – which are often based in more disadvantaged areas - are an important source of new ideas and may benefit from more innovation support that could have wider social impacts.** The report outlines how the effect of innovation on performance remains small in the absence of R&D but is substantial where R&D is present. This suggests that policy efforts would be best targeted at encouraging micro-enterprises to undertake R&D as integral to innovation. Policy efforts directed towards building capability in SMEs are likely to be impactful on growth and productivity. This is likely to be most effective in low-tech and manufacturing sectors.

Small Businesses and Net Zero

The benefits of the net zero transition impact on the whole of society, and whilst the actions of businesses will play a crucial role in bringing it about, there are significant challenges for resource-constrained SMEs. As with digital adoption, the journey towards net zero will involve significant changes in business models and working practices for SMEs, and they will need varying levels of support that will change as they move through different stages. ERC research shows that **awareness of net zero has increased within the UK SME community, but this is not matched in terms of the proportion that are actually taking action.** Evidence shows that improvements in the quantity and the quality of actionable, usable information available to SMEs could make a real difference.

Percentage of firms knowing where to find reliable information on environmental solutions:



Digital Adoption in Small Businesses

Larger businesses take the lead in the adoption of more advanced emerging technologies. For example, 20% of medium sized businesses reported using AI and machine learning in 2022, while the percentage was much lower among small and micro-firms. Although SMEs do experience several important barriers to adoption, in particular related to infrastructure, finance and skills, **these barriers do not necessarily prevent firms from adopting new technologies provided they have strong levels of digital readiness.**

Internationalisation

SMEs have historically tended to be less well represented than larger firms in international trade. This is because **smaller firms face higher resource and informational constraints which bring challenges in navigating foreign markets.** The external shocks and crises of Brexit and Covid-19 have a negative impact on export activity that has hit smaller firms the hardest. An impaired ability to export is detrimental to productivity and competitiveness at firm and also economy-wide level. There is a need to **reduce exporting frictions**, to improve firms' confidence, capabilities and ambitions in international trade. This will involve multi-faceted support from government, education and business representative associations.

Building a Stronger Future for Small Businesses

- Develop an **evidence-based small business support ecosystem** that is firmly based on **intelligence about what small businesses need and what works**.
- Develop a small business support ecosystem that is focused on **creating the conditions for sustainable growth and improving productivity** amongst the UK's diverse population of small businesses.
- Need to ensure that the UK's small businesses are better informed about the range of finance options available to them, that **finance is more inclusive and accessible to underserved groups.**
- Need to encourage and enable more **innovation activity** in small businesses.
- The UK's small businesses urgently need access to **quality, actionable information and advice** to help them adopt net zero practices and **measure their effectiveness.**
- Need more UK businesses to **adopt digital technologies** that have the potential to improve their productivity.
- Need to challenge the mindsets of the UK's small business leaders, **encouraging sustainable growth ambitions and enhancing management and leadership skills**.
- Need to encourage more small firms to export, and support them to do so at different points in their export journeys, **maximising the links between exporting and innovation.**

Overview of How Britain's Exposure to Trade has Changed

A report by [Resolution Foundation] assesses how the UK exposure to international trade has changed over the past two decades. As the UK has become increasingly open, Britons have become more exposed to international trade. Jobs are, on average, **just as exposed as before**, but we now **consume much more imported goods and services**. This highlights the need for a different discourse around trade.

Because openness has increased, the exposure of jobs to trade has not declined alongside manufacturing

Although the focus of global trade risks has remained on manufacturing jobs, British workers' exposure to manufacturing job losses or wage penalties has fallen. The share of employment in manufacturing sectors fell from 18% to 11% between 2000 and 2009. But the overall trade exposure of jobs has not declined with manufacturing. **Despite stories of slowing global trade and Brexit raising barriers to trade in recent years, the UK today is substantially more open to international trade than it was 20 years ago.** Total trade has increased from 53% of GDP in 2000 to 65% in 2023. As international trade has grown, the exposure of the UK's workers and consumers has changed. Although fewer workers now sit in traditionally highly-tradable, manufacturing sectors, the impact of this has been almost entirely offset by increases in the average tradability of other sectors, including other high-paying sectors. The average worker in the 90th pay decile was 18% more exposed to international trade in 2019 than in 2000.

Manufacturing became more import intensive as other parts of the economy became more exposed to exports

Across the pay distribution, workers have seen their jobs become more exposed to exports. This is because **while declining manufacturing sectors became more import intensive, it was the UK's growing professional services sectors that were becoming more export oriented**. Three-quarters of the overall increase in trade exposure of the highest paid workers can be attributed to higher export exposure, while for workers in the pay deciles around the 25th, 50th and 75th percentiles the higher export exposure was offset by falls in their import exposure. The number of sectors that had high export exposure (exports as a share of total supply exceeded 25%) increased from 15 to 22 industries (out of 105) between 2000 and 2019, and many of these were professional services sectors. In 2000, 17% of workers worked in these high export intensity sectors; by 2019, this was 20%.

British consumers have become more reliant on imported consumption

As Britain becomes more open, consumers have been presented with more imported products to consume. **In 2005, a quarter of the value of goods and services consumed in the UK came from abroad. By 2019, this had grown to almost a third.** This change would have been 1.4 percentage points bigger if consumption patterns had remained fixed, rather than shifting over this period from more to less import-intensive goods and services. This means consumers are more exposed to trends in global trade.

The consumption of lower-income households is more exposed to import-price volatility

Although lower-income households' imported share of consumption is below average, they have higher exposure to import price volatility for two reasons. First, their imported consumption is more heavily weighted to volatile essentials. And second, they consume cheaper varieties of products and their prices are more sensitive to trade shocks. Overall, **food and fuels account for over a third of the poorest households' imported consumption, compared to a quarter of the richest fifths.** So, not only do these products account for a larger share of lower income households' expenditure, as they are essential consumption, they are much harder to substitute away from to mitigate higher prices. And so, although lower-income households are less exposed to imported consumption overall, they have higher exposure to more volatile import prices.

As trade exposure has changed, so too has the nature of the shocks we are exposed to

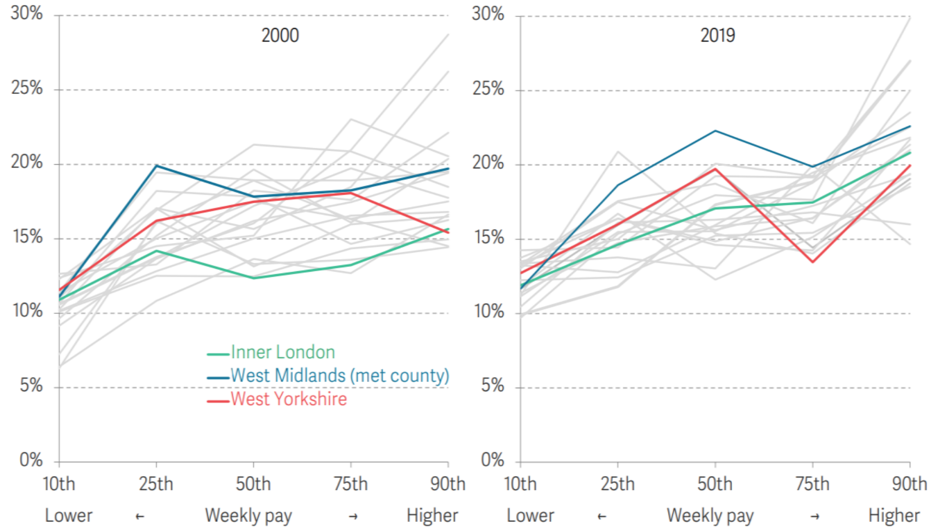
Manufacturing workers have remained the focal point of perceived international trade risks – with fears of a second 'China-style' import competition shock arising. But as the employment share of manufacturing has declined, particularly in lower-value-added manufacturing sectors that were outcompeted by the initial China shock, the exposure of UK workers to this type of shock has fallen. The impact of a surge in imports in these sectors again would increasingly fall on foreign workers, who produce the imported goods already entering the UK. However, far less attention has been given to the risks posed to workers by global demand shocks. **The increased export exposure of professional services sectors has left the workers in these sectors significantly more vulnerable to fluctuations in demand for goods coming from abroad. As these services sectors disproportionately employed lower-paid workers, it was workers in lower-paid sectors that saw the trade intensity of their jobs affected most.** Yet, once again, the nature of future global-demand shocks could vary significantly – and if global demand fell instead for professional services, as it did in the global financial crisis, it could be the UK's newly-exposed higher-paid workers who would face the consequences.

Overview of How Britain's Exposure to Trade has Changed

The regional variation of workers' trade exposure has fallen

The overall trade exposure of workers has changed little in the past 20 years, yet the exposure of various sectors has changed. As more sectors have become exposed to trade, the variation in regional exposure has generally fallen. **The West Midlands now stands out among regions as having the highest trade exposure for median-pay workers illustrative of its above average manufacturing employment share.** Inner London saw the biggest increase in tradability across both lower- and higher paid workers between 2000 and 2019, driven by the increased tradability of professional services sectors.

Average trade exposure of workers living in different regions in 2000 and 2019, by weekly pay percentile:



Source: RF analysis of ONS Labour Force Survey; ONS, Supply and Use Tables. Include deciles around 10,25,50,70 and 90th percentile and assumes sectors' trade exposure is the same in all regions.

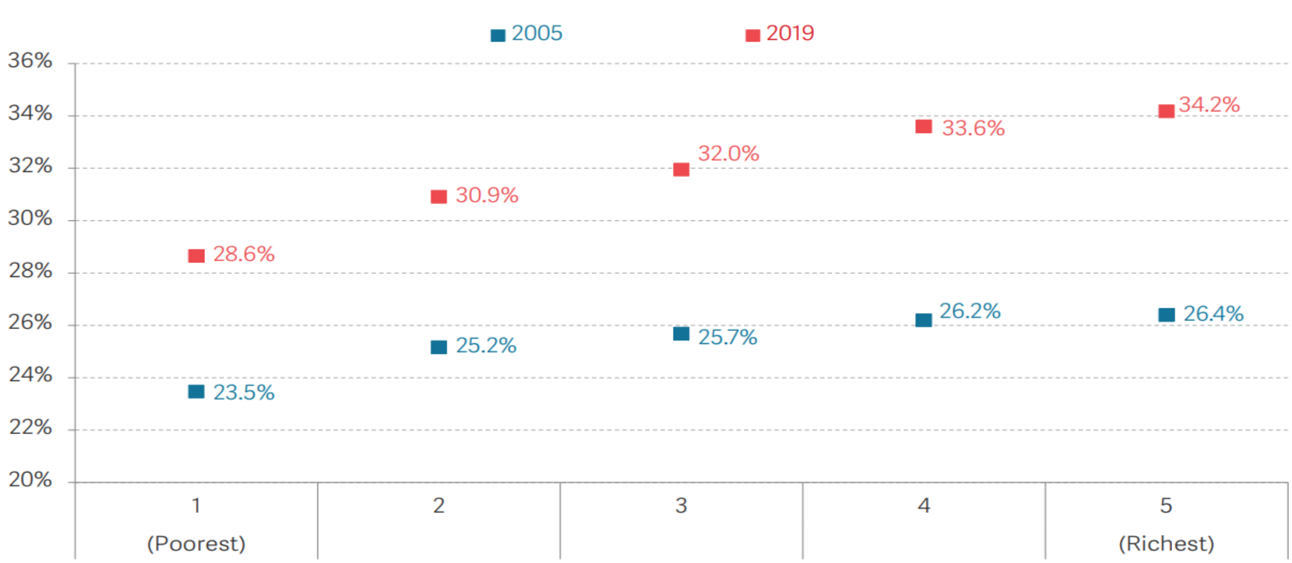
British families now spend much more on imports than in the past

As the import intensity of the economy has increased, so too has people's consumption baskets**.** In 2005, just over a quarter (25.7%) of the value of goods and services consumed in the UK came from abroad. By 2019, this had grown by 6.6 percentage points to around a third (32.3%). A rise in the import intensity of consumption ultimately means that consumers will be more exposed to global shocks. There are a number of shocks that can impact global trade and import prices, ranging from conflicts to extreme weather events, and policy changes.

Lower-income households have seen their import share of consumption increase by less

In 2005, 23.5% of the poorest fifth of households' consumption was imported, compared to 26.4% for the richest fifth. And, since 2005, this gap has increased, as lower-income households experienced smaller increases in the import intensity of their consumption. Between 2005 and 2019 the poorest fifth of households saw their import share rise to 28.6%, a rise of 5.2 percentage points, but the richest households import share rose by 7.8 percentage points, to 34.2%. The changing consumption patterns, and growing gap in import exposure, can be attributed to a single cause: rising housing costs for lower income households. As the number of households in the social rented sector has fallen, and rental prices have increased, rent has increased as a share of consumption for lower-income households.

Import share of consumption by income quintile in 2005 and 2019 (UK):



Source: RF analysis of ONS, Input output tables and supply use tables and ONS, The Living Costs and Food Survey (LCFS). Excludes consumption of package holidays as no conversion from CPA to COICOP is available.

Upgrading the UK's Industrial Infrastructure to Unlock Technological Transformation for Growth

Demos (in partnership with SEGRO) released a report on how the government can unlock the technological potential of Britain to aid its ambition in transforming the country into a technology superpower by 2030.

The superpower potential is limited by the state of the industrial infrastructure
Too much focus is given to research and development (R&D) in isolation, while the report outlines the importance of improving the surrounding infrastructure to facilitate the potential for growth. **The UK's poor infrastructure is hampering both the development and adoption of new technologies.** The UK has low levels of R&D investment and robotic technology and falls behind other countries for adoption of information technology. Research from Sage in 2022 on the challenges facing small and medium sized businesses in adopting new technology found that one in five businesses cited poor infrastructure as a contributing factor. The same research found that **unlocking the full benefits of technology within these firms could add an extra £232bn a year to the economic contribution of SMEs**. The lack of infrastructure means that over 350,000 businesses, employing 3.8m people and with a combined turnover of £666bn a year lack access to the right buildings and facilities for their businesses.

The experience of business
30% of businesses are not confident about the UK's ability to remain an attractive destination for business. Smaller businesses were less likely to be confident in the country's future attractiveness to do business, with 42% saying they were not confident compared to just 28% of large businesses. **Concerns about the UK's competitiveness have grown over time**. An annual survey by EY, found that while in 2020 44% of foreign investors they served saw the UK as a top three European country to invest in, in 2023 this dropped to just 32%. At the same time, the proportion citing France or Germany as a top attractive place to invest increased year-on-year.

Population of Businesses Affected by a Lack of Access to Business Facilities:

SIZE OF BUSINESS	NUMBER OF BUSINESSES AFFECTED	NUMBER OF EMPLOYEES AFFECTED	TURNOVER OF BUSINESSES AFFECTED
Micro	302,146	1,100,000	£152bn
Small	46,784	912,000	£141bn
*Medium**	*3,690*	*359,000*	*£76bn*
Large	1,114	1,500,000	£297bn
TOTAL	353,734	3,871,000	£666bn

**sample less than 100 businesses*
Source: Demos

Impacts reported by businesses included:

- Reduction of operational performance - 45%
- Reduction in the ability to compete with other businesses in the UK and overseas - 39%
- Reducing plans for investment in new equipment or replacing existing equipment - 37%
- Reducing the number of staff hired - 27%
- Reducing training for existing staff - 24%
- Reducing plans for growth in future years - 20%

Six key issues identified that need to be resolved to turn the UK into a technology superpower:
Power, buildings, transport, planning, skills and partnership with government

The report highlights six policies to tackle the most pressing challenges:

- Ensure that the Department for Science, Innovation and Technology's cross-government action plan addresses our industrial infrastructure needs.
- Merge the National Infrastructure Commission with the UK National Infrastructure Bank to create a **'Super Agency'** - the National Infrastructure Delivery Authority (NIDA) to advise, plan and finance major infrastructure projects across the UK.
- Create a presumption in favour of development of industrial infrastructure within the National Planning Policy Framework (NPPF).
- Increase and ring-fence spending on local authority planning teams with central government investment over ten years.
- The Department for Energy Security and Net Zero should work with Ofgem and National Grid ESO to create a **"Priority Power Access Plan"** which puts industrial infrastructure projects at the front of the queue for grid access
- Extend **'Investment Zone'** Structures and Buildings Allowance rules to cover the whole of the UK.

The UK faces significant challenges in its pathway to becoming a technological and scientific superpower by 2030. The most urgent is building the industrial infrastructure including the space, digital capabilities, utilities and transport networks that can provide the platform for the world-beating research institutions and businesses. This will enable the rest of the economy to adopt the rapid technological improvements made available to it. **Meeting demand for just one part of the UK's industrial infrastructure, logistics, could add £68bn in GVA to the UK economy - equivalent to 3% of UK economic output - and generate 1.1m jobs.**

Local Business and Policy Intelligence By Sector

SECTOR	KEY INSIGHTS
Tech / Digital	• **The UK Government have invested £45 million in the UK's quantum sector** as part of its commitment to transforming into a quantum-enabled economy by 2033 – seizing this technology's potential to overhaul healthcare, energy, transport and more. • This month the Government responded to the AI Regulation White Paper, setting out the ambition for AI regulation and the need to **strike a careful balance between innovation and regulation**, whilst also avoiding a 'one size fits' all approach. • The Government have released a draft Code of Practice on cyber security governance to help directors and senior leaders **shore up their defences from cyber threats.**
Construction	• Monthly **construction output in the UK is estimated to have decreased 0.5% in volume** terms in December 2023. Quarterly construction output saw a decrease of 1.3% in Quarter 4 (Oct to Dec) 2023 compared with Quarter 3 (July to Sept) 2023. • A new report on HS2 from Arcadis estimates the **West Midlands economy could be boosted by £10bn** during the next 10 years as **41,000 homes and 7.5 million sq ft of commercial floorspace will be generated within a 1.5-mile radius** of Curzon Street and Interchange stations, in Birmingham and Solihull respectively, and the depot and control centre in Washwood Heath. The report also indicated that **30,835 new jobs will be created**.
Retail, Hospitality and Tourism	• Retail sales volumes are estimated to have **rebounded by 3.4% in January 2024**, following a record fall of 3.3% in December 2023 (revised from a fall of 3.2%). This was the largest monthly rise since April 2021 and returned volumes to November 2023 levels. **This reflected rising levels of consumer confidence, as well as a boost from the January sales**.
Manufacturing	• New car registration figures from the Society of Motor Manufacturers and Traders (SMMT) for January 2024 reveal almost two-thirds of new cars sold were to fleet, versus the traditional 50/50 split of fleet and retail. EY note that one critical challenge for manufacturers will be how to **make this channel mix sustainably profitable**. The deferral of the 'rules of origin' legislation will provide **further impetus to automotive manufacturing, in the UK and continental Europe**. • **Research from MakeUK reveals Britain's manufacturers are stepping up their ESG commitments** as the topic rises rapidly on the boardroom agenda in response to the growing labour market, government, investor and customer pressure. The number of firms setting ESG targets for their business has increased by 48%, with around two thirds (62%) of manufacturers now doing so since 2021, according to a new report launched by Make UK and Lloyds Bank. • Britain's manufacturers realised **productivity improvements worth £48.5bn in 2023**, according to analysis of ONS data. This is an **increase of 8.6% on 2022 levels** and includes multi-billion-pound improvements in automotive and food production output. Output per manufacturer increased by 1.2% between Q4 2022 and Q4 2023, while productivity per manufacturer was up 1%. On average, each active UK manufacturer produced goods worth £1.13m in Q4 2023, up from £1.10m in 2022. Additionally, **output per employee was up 2% year-on-year.** • A new **region-wide rail training academy** designed to support hundreds of new training and employment opportunities for local people in the rail sector has opened, called the **Very Light Rail National Innovation Centre**.
Environmental Technologies	• Twelve industrial areas are the latest to benefit from the **Local Industrial Decarbonisation Plans (LIDP)**, receiving a share of up to **£6m** to decarbonise businesses in areas that account for high emissions. Winning projects include the **Decarbonising the Midlands Aerospace Cluster (DMAC)** led by the Midlands Aerospace Alliance. • The next round of funding has opened for the **Industrial Energy Transformation Fund (IETF)**, which aims to help companies replace inefficient equipment, install electric furnaces and switch to hydrogen. • The British Chambers of Commerce (BCC) **'Green Innovation Challenge' report** has **outlined a series of proposals for policymakers**, including a new public body to oversee delivery of core climate policies and strengthened resources for the independent Climate Change Committee. The report also calls for a robust Green Industrial Strategy from Government, a permanent cross-sector approach to green jobs from policymakers and quicker Government action on financing the transition to net zero through the tax system. • **British farmers have been hit by £1.4 billion fertiliser bill since Russian invasion of Ukraine, with costs set to stay high**. The price of gas soared because of the Russian invasion and gas is heavily used in the production of many fertilisers. Prices for **ammonium nitrate**, the main fertiliser used by British farmers hit £870 per tonne in September 2022, compared to an average price per tonne of £217 in 2020. Although fertiliser prices have come down from the peak of 2022, they have plateaued at 50% above pre-crisis levels since May 2023. If this higher price is maintained throughout 2024, farmers are projected to spend £755m on fertiliser this year, £285m or 60% more than they would have spent in 2020.

Business Insights and Impact on the UK Economy

ONS have published the final results from Wave 102 of the **Business Insights and Conditions Survey (BICS)**.

Financial Performance
32.2% of West Midlands businesses and 29.2% of East Midlands businesses reported that the business turnover in January 2024 when compared to the previous month had increased. While 23.4% of West Midlands businesses and 26.6% of East Midlands businesses reported turnover had decreased.

37.5% of West Midlands businesses and 40.2% of East Midlands businesses expect turnover to increase in March 2024. While 6.3% of West Midlands businesses and 6.2% of East Midlands businesses expect turnover to decrease.

Demand for Goods and Services
21.1% of West Midlands businesses and 19.2% of East Midlands businesses reported the domestic demand for goods or services in January 2024 when compared to the previous month had increased. 17.3% of West Midlands businesses and 19.1% of East Midlands businesses reported a decrease.

7.3% of West Midlands businesses and 5.2% of East Midlands businesses reported the international demand for goods or services in January 2024 when to the previous month had increased. 6.0% of West Midlands businesses and 6.2% of East Midlands businesses reported a decrease.

Global Supply Chain Disruption
8.9% of West Midlands businesses and 9.2% of East Midlands businesses experienced global supply chain disruption in January 2024. With 57.7% of West Midlands businesses and 65.0% of East Midlands businesses citing the main reason for disruption was the conflict in the Middle East.

Trade
24.4% of West Midlands businesses and 23.3% of East Midlands businesses both exported and imported in January 2024. 3.3% of West Midlands of 3.4% of East Midlands businesses imported only and 12.2% of West Midlands businesses and 12.3% of East Midlands businesses imported only.

Main Concern for Business
18.4% of West Midlands businesses and 19.4% of East Midlands businesses cited **falling demand of goods and services as the main concern for business** in the following month.

Recruitment Difficulties
18.6% of West Midlands businesses and 18.7% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in January 2024.

Number of Employees
20.5% of West Midlands businesses and 19.5% of East Midlands businesses expect the number of employees in March 2024 to increase. 7.4% of West Midlands businesses and 7.5% of East Midlands businesses expect the number of employees to decrease.

Worker Shortage
19.0% of West Midlands businesses and 18.8% of East Midlands businesses are currently experiencing a shortage of workers. While 65.0% of West Midlands businesses and 66.1% of East Midlands were not.

Input Price Increases
23.2% of West Midlands businesses and 22.2% of East Midlands businesses had not passed input price increases on to customers over the last 6 months. Although, 7.9% of West Midlands businesses and 8.1% of East Midlands businesses passed on more than 75%. 6.5% of West Midlands businesses and 5.8% of East Midlands businesses passing on between 50-75% and 5.8% of West Midlands businesses and 6.5% of East Midlands businesses passing on between 25-50%. 14.0% of West Midlands businesses and 14.8% of East Midlands businesses past on less than 25%.

Supply Chains
79.3% of West Midlands businesses and 79.0% of East Midlands businesses were able to get the materials. Goods or services it needed from within the UK in January 2024. A further 5.8% of West Midlands businesses and 4.8% of East Midlands businesses were able to get materials, goods or services from within the UK but by changing suppliers or finding alternative solutions. While, 2.7% of West Midlands businesses and 4.3% of East Midlands businesses were not able to get the materials, goods or services needed from within the UK in January 2024.

Overall Performance
30.4% of West Midlands businesses and 26.3% of East Midlands businesses reported that the overall performance in January 2024 when compared to the same month in the previous year had increased. While 18.8% of West Midlands businesses and 21.0% of East Midlands businesses reported performance had decreased.

43.2% of West Midlands businesses and 41.4% of East Midlands businesses expect overall performance to increase over the next 12 months. While 7.6% of West Midlands businesses and 7.9% of East Midlands businesses expect performance to decrease.

Please note – the survey reference period: 1st to 31st January 2024. Survey live period: 5th to 18th February 2024. The response rates are low and the data is unweighted and should be treated with caution.

4. Inclusive Growth

How the Higher Education Sector May Support More Inclusive Growth

In this insight, HESA researchers undertook an empirical analysis exploring the association between education provision, the skill level within the local population and productivity.

Key Findings:

- One of the **key challenges facing policymakers throughout the UK is how to improve productivity** (particularly in areas with lower living standards) in an era of tighter fiscal budgets.
- Existing literature suggests that **raising skills and qualifications is one of the factors that can contribute to boosting productivity**.
- Given limited financial resource, empirical analysis is therefore needed to identify areas which could benefit most from investment in education.
- The study identifies **38 local authorities/council areas across the UK, which have the smallest proportion of residents with Level 4 qualifications or above – of which 13 were in the Midlands.** Furthermore, school attainment is often below the national average.
- On average, these localities also have the **lowest productivity levels.**
- These places tend to have a manufacturing, mining or industrial legacy, with many continuing to see a net outflow of graduates today.
- The local authorities identified also contain some of our most deprived vicinities, **with 44% of neighbourhoods within these localities falling within the lowest quintile of the HESA measure of deprivation.**
- **The vast majority of these areas do not have any higher education provision according to HESA records,** while those that do are often served by a single establishment.
- The **key information currently missing in this analysis is higher education provision in further education colleges.** Adding this to HESA records will give a more complete picture of education supply across the country, which would support policymakers in determining how education investment could help to increase productivity in areas that have faced relative economic decline in recent decades.

Midlands Engine local authority summary (sorted by lowest to highest with L4 quals or above):

Local Authority	Proportion of residents with L4 quals or above	Qualifications decile	Graduate net inflow/ outflow	2021 productivity (indexed values)	Number of higher education providers
Ashfield	**15.1%**	**1**	**-31.8%**	**89**	**1**
Boston	**15.1%**	**1**	**-13.0%**	**73**	**1**
Sandwell	**15.4%**	**1**	**-40.5%**	**83**	**0**
Stoke-on-Trent	**15.5%**	**1**	**33.0%**	**78**	**2**
South Holland	**15.8%**	**1**	**-50.9%**	**85**	**1**
Bolsover	**15.8%**	**1**	**-48.7%**	**114**	**0**
North East Lincolnshire	**16.2%**	**1**	**-22.6%**	**77**	**0**
Mansfield	**16.4%**	**1**	**-15.0%**	**72**	**0**
Walsall	**16.9%**	**1**	**-39.1%**	**79**	**1**
Cannock Chase	**17.2%**	**1**	**-39.2%**	**78**	**0**
Tamworth	**17.4%**	**1**	**-34.0%**	**87**	**0**
East Lindsey	**18.1%**	**1**	**-55.5%**	**82**	**0**
Nuneaton and Bedworth	**18.6%**	**1**	**-39.6%**	**73**	**0**
Dudley	19.2%	2	-40.3%	80	0
Wolverhampton	19.5%	2	-6.3%	84	1
North Lincolnshire	19.5%	2	-39.1%	99	0
North Warwickshire	19.8%	2	-21.5%	99	0
Bassetlaw	20.2%	2	-37.7%	71	1
Erewash	20.7%	2	-53.4%	78	0
Redditch	20.7%	2	-32.4%	86	0
Telford and Wrekin	20.9%	3	-21.1%	84	2
Chesterfield	21.0%	3	8.9%	88	1
Leicester	21.2%	3	30.9%	89	2
Lincoln	21.3%	3	131.5%	83	4
Nottingham	21.9%	3	150.1%	84	6
Wyre Forest	22.1%	3	-53.7%	62	0
North East Derbyshire	22.2%	3	-66.1%	90	0
Newcastle-under-Lyme	22.5%	4	-40.5%	78	2
Birmingham	23.0%	4	39.8%	85	18
Coventry	23.0%	4	21.1%	100	3
Amber Valley	23.2%	4	-50.2%	95	0
East Staffordshire	23.4%	4	-17.3%	87	1
Staffordshire Moorlands	23.7%	4	-56.2%	69	1
Hinckley and Bosworth	24.1%	5	-51.6%	93	1
Newark and Sherwood	24.2%	5	-42.2%	77	0
Derby	24.2%	5	41.4%	87	2
North West Leicestershire	24.3%	5	-13.5%	85	0
Oadby and Wigston	24.8%	5	-73.1%	69	0
Blaby	24.9%	5	-30.9%	95	0
South Staffordshire	25.1%	5	-67.5%	85	0
West Lindsey	25.3%	5	-63.7%	87	1
Gedling	25.3%	5	-62.9%	87	0
North Kesteven	25.4%	5	-53.1%	102	0
South Kesteven	25.6%	5	-52.8%	77	1
South Derbyshire	26.0%	6	-61.4%	164	0
Melton	26.2%	6	-40.5%	88	0
Charnwood	26.8%	6	-25.3%	86	1
Herefordshire, County of	27.5%	7	-34.6%	72	0
Shropshire	27.5%	7	-32.6%	80	2
Worcester	27.7%	7	36.7%	92	1
Rugby	28.2%	7	-40.4%	90	0
Broxtowe	28.2%	7	-56.2%	96	0
Lichfield	28.4%	7	-42.8%	79	1
Solihull	28.5%	7	-29.2%	113	0
Wychavon	28.7%	7	-54.9%	89	0
High Peak	29.4%	7	-61.0%	77	1
Stafford	30.3%	8	-19.9%	82	1
Bromsgrove	30.5%	8	-58.6%	105	1
Harborough	31.8%	8	-56.2%	83	0
Rutland	32.9%	9	-43.2%	86	0
Stratford-on-Avon	33.4%	9	-22.5%	101	0
Derbyshire Dales	33.4%	9	-46.9%	73	1
Malvern Hills	33.9%	9	-52.6%	89	1
Warwick	38.4%	10	9.5%	112	1
Rushcliffe	39.0%	10	-58.9%	119	0

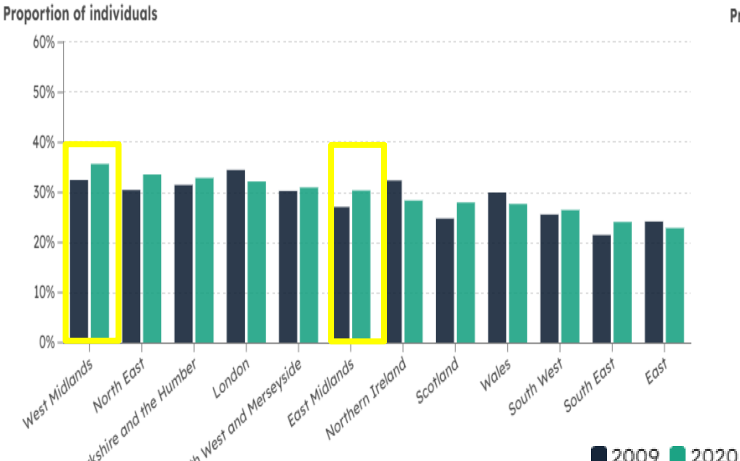
Households Living Below a Minimum Income Standard

A recent report from the Joseph Rowntree Foundation explores the **Minimum Income Standard (MIS), this sets out what the public agree is needed to have a minimum socially acceptable standard of living in the UK today, to live with dignity**. The report focuses on three groups: children, working-age adults and pensioners and looks at the period between 2008 and 2022. It gives an estimate of the proportion of people who are living below MIS and those with incomes below 75% of MIS. Those living below 75% of MIS face a far greater likelihood of deprivation compared with those whose incomes are above MIS.

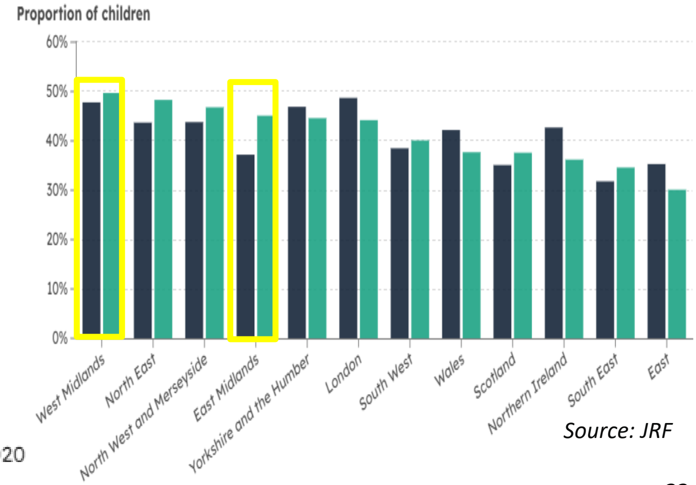
Key Insights Include:

- In 2021–22, **30.4% of all individuals in the UK were living in households with incomes below MIS**, compared to 27.2% in 2008–09. **This means that they do not have the income required to be able to afford the goods and services the public agree people need to meet their material needs and to participate in society.**
- In 2021–22, 20.2 million people were living below MIS, compared to 16.5 million in 2008–09. This is around 900,000 more people than in 2020–21.
- The proportion of individuals in households with incomes below MIS varies across demographic groups: 41.7% of children, 29.2% of working-age adults and 20.5% of pensioners were below the MIS threshold in 2021–22.
- Children in lone-parent families continue to have a very high risk of living in a household with an inadequate income, with 69.9% in a household below MIS in 2021–22, more than double the rate among children in couple-parent families (33.0%). In 2021–22, 6 million children were growing up in households lacking the income needed for a dignified standard of living. More than twice as many children below MIS were in working households (4.3 million) than in workless households (1.7 million).
- Among working-age adults without children, single people are consistently more likely to be below MIS than those in couples, and in 2021–22 had more than double the risk (38.1% versus 17.7%).
- Single pensioners have a substantially higher risk of having an inadequate income than couple pensioners, and this gap has widened over time. Single female pensioners are particularly vulnerable to insufficient income to reach a minimum socially acceptable standard of living. In 2021–22, 32.0% of single female pensioners and 26.5% of single male pensioners were living in a household below MIS.
- Among all working-age adults, those aged 16–24 have a markedly higher risk of having an inadequate income as compared to other age groups (41.8% of this age group being below MIS), reflecting the lower rates of benefits and earnings available for people in this age group.
- **Reflecting child poverty statistics, the proportion of children below MIS has been increasing in areas such as the West Midlands** and the North East, and London is no longer the geographical area with the highest proportion of children below **MIS. The East Midlands ranks 4th in terms of the proportion of children below MIS**, with this increasing since 2009.
- While workless households remain highly likely to be living with an inadequate income, the proportion of households below MIS where at least one adult is in employment has increased since 2008–09, with these households now representing nearly two-thirds of all working-age households below MIS. In part, this is due to increasing employment over this period. In February–April 2009, 71.2% of 16–64 year olds were in employment; in February–April 2022, 75.6% were in employment.

Proportion of individuals below MIS by UK country and region, 2009 and 2020 (three-year averages)



Proportion of children below MIS by UK country and region, 2009 and 2020 (three-year averages)



Source: JRF

Note: Data for 2009 are an average of 2008–09, 2009–10 and 2010–11 and data for 2020 are an average of 2019–20, 2020–21 and 2021–22

The Geography of Charitable Giving in the UK

The geography of charitable giving in the UK

Centre for Cities released a report addressing the geographical differences in charitable giving across the UK, how this relates to economic performance and whether the geography of giving meets the geography of need. In 2022, it was estimated that £12.7 billion was donated to charity in the UK. This is roughly a fifth of annual local government financing. From this perspective, the UK's charitable activity represents a significant resource for place-based economic development. Charitable giving has impact in local economies – local organisations can have insight into local needs and priorities and are often able to design appropriate interventions.

Key Findings

- **Higher rates of charitable giving could be 'unlocked' in better off places with the most potential to give.**
    - There is untapped capacity when it comes to the geography of giving in the UK. A higher proportion of people give to charity in places with higher incomes. But it seems there is capacity for more people to give in southern places, where people are up to 15% less likely to give compared to places of similar incomes in the rest of the UK.
    - There is also missing generosity in some richer places. Amounts donated per donor do not track affluence levels, meaning that donors in many Southern places are less 'generous', donating a smaller share of their income than the rest of the UK.
- **The geography of charitable activity does not meet the geography of need.**
    - The North East and North West have relatively strong preferences for local giving, but their high deprivation means that overall donation rates are limited. Meanwhile, Yorkshire, **West Midlands**, and Wales have fewer and smaller donations to local causes than richer southern areas. But in all high need regions, the types of local causes given to do not reflect local need.
    - There are fewer charities per head in more deprived areas outside the Greater South East.

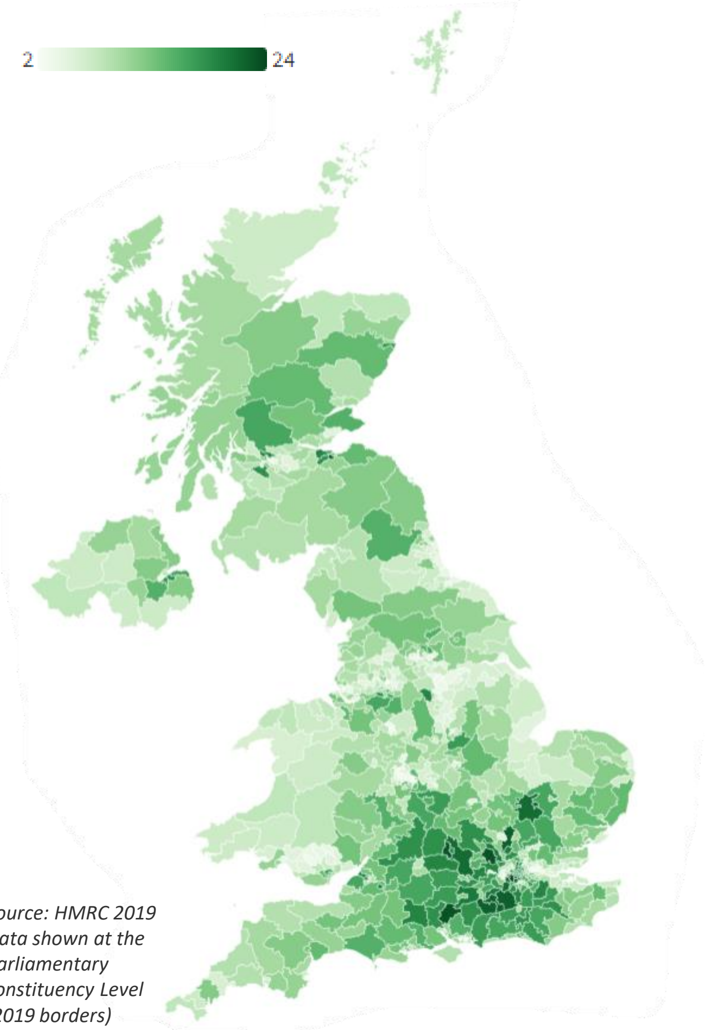
The proportion of people giving varies only slightly across UK regions

Most people in the UK make charitable donations. Estimates of proportions giving to charity from established national surveys range from 63% to 75%. This propensity to give does vary across UK regions, but not by much. Data shows that the proportion of giving is lower in the North East, Yorkshire, and London. It is higher in the South (excluding London), Scotland and in Northern Ireland. But differences aren't huge: propensity to give ranges from 57% (in London) to 68% (in the South East).

Unmet need

Wales, Yorkshire, and the **West Midlands** see the lowest donations per donor to local causes. The North East and North West give more locally, but their high deprivation limits the total amount donors can give. And London donors give the most to local causes, but have the lowest local need. The types of local causes donated to also do not reflect local need. In the North, **Midlands**, and Wales, donors are more likely to support local animal and environmental charities than those helping to alleviate local poverty. Local poverty charities are most popular in London, the region with the lowest local deprivation. This is the same story for the geography of charitable organisations. There are more charities per head in the Greater South East. There are even fewer charities specifically focused on local economic needs in more income deprived areas.

Share of self-assessment taxpayers making donation:



Source: HMRC 2019 Data shown at the parliamentary constituency Level (2019 borders)

The Geography of Charitable Giving in the UK

There is a clear link between affluence and propensity to give at the sub-regional level

Higher donor shares are found mostly in the South compared to lower rates in parts of Wales, the **Midlands**, and the North. The proportion of people declaring donations ranges from less than 5% in parts of **Birmingham**, Liverpool and Blackpool to more than 20% in parts of Winchester, Cambridge, and Edinburgh.

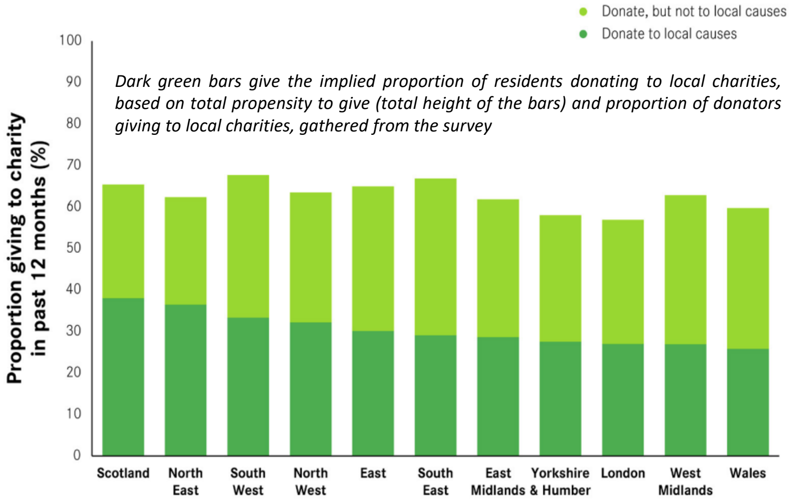
Missing generosity

Looking at how much donors give – their 'generosity' – provides further insight into the geography of giving. From this perspective, richer places in the UK display missing generosity when it comes to charitable giving. Unlike propensity to give, there no clear geography to the generosity of donors. There are both clusters of low generosity cities (less than £100 per donor) in West and South Yorkshire and on the south coast, and the most generous cities (at least £250 per donor) include Cambridge and London alongside Blackburn, Newport and **Coventry**. The lack of geographic pattern is because there is little relationship between city affluence and generosity of donors.

The geography of local giving

For the geography of giving to meet this geography of need, it would require high local donation rates in the North, West Midlands, and Wales. Among donors, 58% give to local charities in some capacity in Scotland and the North East. This compares to only 43% in the South East, West Midlands, and Wales. Yorkshire, West Midlands, and Wales have similar low proportions of people donating locally to London, despite much higher local need. In general, it is these more affluent places, with the least need for charity, that have the highest concentrations of charitable activity. This is because **geography of charitable activity in the UK reflects an area's ability to give, rather than its need.**

Proportion of people donating to local and non-local causes:



Source: Understanding Society 2019, Centre for Cities' survey 2023.

The geography of charitable organisations

There are a total of 137,000 charities in the NCVO General Charities Register in England & Wales- these charities are disproportionately concentrated in the South. The distribution of causes of local charities across the country does not seem to be particularly sensitive to local need. London has the highest proportion of charities dedicated to poverty-related causes, despite having the lowest deprivation of all regions. Wales has more local charities supporting animal welfare and the environment than those preventing or alleviating poverty.

Regional distribution of causes of local charities:

Source: Charity Commission Register 2023.

Policy implications

For national government

- Incentivise giving from richer areas to specifically benefit places in need. Develop a strategy on how charitable giving can support levelling up in the UK.

For local government

- Set up **broad local funds** which could divert donations to local charities under the umbrella of a wider cause. Tailor approaches based on existing variation in preferences for local giving.

For large national charities

- Undertake 'Levelling Up Charity Partnerships**'**. These schemes would see national charities partnering with local charities pursuing similar causes in high need areas, diverting donations and helping to overcome local economic constraints.
- Increase transparency and share data on where donations are spent. This would help fill existing evidence gaps.

5. Food White Paper

Midlands Engine Food White Paper

The [Midlands Engine Food White Paper] is a comprehensive culmination of extensive collaboration with **over 100 stakeholder organisations** representing industry, academia, and the public sector throughout the Midlands region.

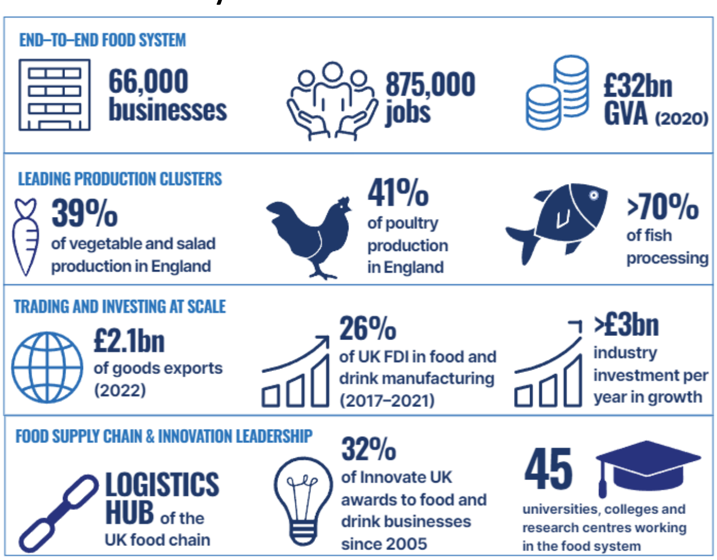
The paper **highlights the pivotal importance of the Midlands within the UK food system** and the role of the Midlands in the broader context of the UK's food system, advocating for a strategic and transformative approach that places the Midlands at the forefront of sustainable growth and national food security initiatives.

It presents a clear and compelling case for why and how Midlands industry, academia and public sector partners should come together, with national policymakers in government, to co-create and bring forward delivery of a long-term transformative plan for sustainable food systems growth, with the Midlands at its heart.

Why the Midlands?
More food is produced in the Midlands than in any other UK region, and the Midlands is the hub for UK food distribution and logistics**. More than half (52%) of larger food and drink manufacturing companies (£100m+ turnover) and a fifth of agri-tech businesses in the UK are based in the Midlands.**

The Midlands food system makes an important contribution to UK trade and investment, **generating over £2 billion of goods exports** and accounting for **over a quarter of foreign direct investment (FDI)** into UK food and drink manufacturing.

Midlands Food System at a Glance:



The Opportunity
This paper identifies the opportunity to transform the food system via a focused approach across four themes:

- **Investment and agricultural transition**
- **Business support and trade**
- **Innovation and skills**
- **Infrastructure and premises**

It is estimated that, through transformative action across the above four themes, there is potential to achieve the following gains in the Midlands alone:

2021	2030	2040
£20.6bn GVA	+£6bn GVA	+£18bn GVA
370,000 jobs	+9,000 jobs	+26,000 jobs
£3bn annual investment	+£2bn annual investment	+£8bn annual investment

The Midlands food system is delivering for the UK

- Growing investment in productivity and sustainability in new facilities, technologies and processes.
- Creating high-quality jobs through investment in new skills, innovation, and adoption of new technology.
- Creating a resilient, sustainable food system that enhances biodiversity, increases water and energy efficiency, and delivers a circular economy.
- Attracting major investments from many of the largest food companies in the world.
- Transitioning towards net zero by investing in innovative regenerative farming and carbon reduction in food processing and logistics.
- Delivering healthier diets through reformulation and promoting the supply of 'naturally good-for-you' foods.
- Developing its export potential and creating opportunities to reshore production in sectors such as fresh produce.

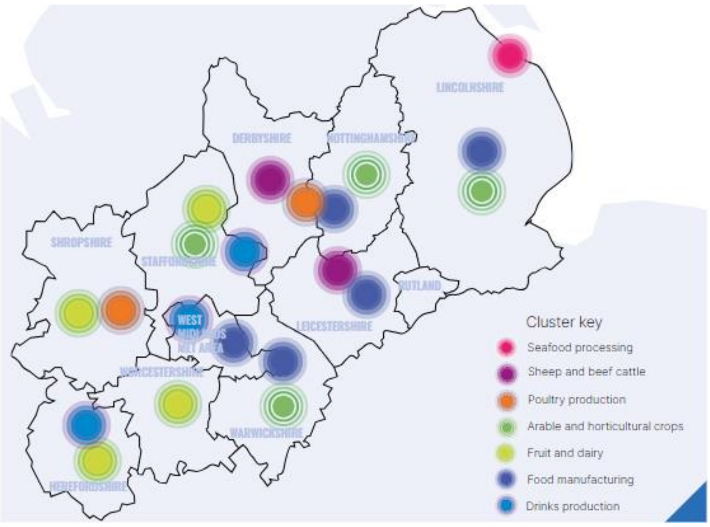
Midlands Food and Drink Manufacturing at a Glance:

Clusters

The Midlands food system is large, with clusters of larger firms and SMEs extending across the whole region. Core food production and distribution, which this White Paper focuses on, employs **370,000 people** in the Midlands with **a GVA of £20.6bn** including:

- **214,000 jobs on farms and in food manufacturing**
- **159,000 jobs in enabling activities including inputs, distribution and technology**

Food and Drink Clusters in the Midlands:



Some of these clusters include:

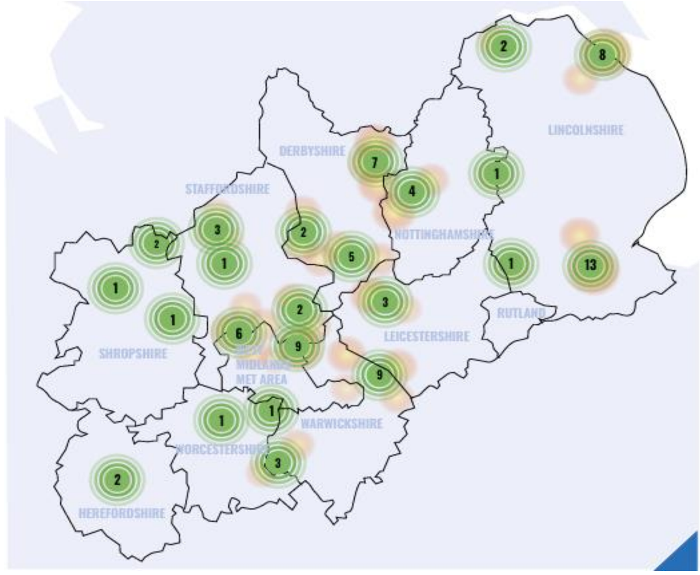
- **Food manufacturing clusters** in Birmingham, Coventry, Nottingham and Lincolnshire
- **Fruit and dairy** in Shropshire, Herefordshire and Worcestershire
- **Arable and horticultural crops** in Lincolnshire and Nottinghamshire
- **Sheep and beef cattle** in Derbyshire and Leicestershire
- **Poultry production** in the Marches and East Midlands
- The UK's largest s**eafood** processing cluster in Grimsby

Midlands Share Of England's Farm Output:

Livestock	Arable crops	Horticulture
41% of poultry	**31%** of potatoes, field beans and maize	**39%** of vegetables/salads
21% of beef and sheep	**28%** of oilseed rape	**34%** of nursery stock
20% of dairy herd	**27%** of sugar beet	**31%** of top fruit
15% of pig herd	**26%** of cereals	**22%** of soft fruit
	20% of dry peas	**21%** of glasshouse crops

The Midlands has been the leader in national food and drink distribution for decades, exploiting its position at the centre of the UK to deliver efficient national distribution networks. Goods consolidated in the Midlands can be **within 125 miles of a port of entry** and within **four hours of over 90% of UK mainland destinations.**

Major Midlands Food Logistics Businesses And Regional And National Distribution Centres:



Recommendations

Investment: Midlands partners, the Department for Business & Trade (DBT) and the Office for Investment (OfI) working together to deliver a globally competitive investor offer to attract more UK and international food system investment.

Agricultural Transition: accelerating the Agricultural Transition through sustainable farming and investment programmes, pro-growth infrastructure and fiscal policies for long-term farm investment Business support & trade.

Business support: creating a long-term, single, co-ordinated support offer for food and drink businesses, built on existing regional expertise and delivering integrated business support and skills.

Trade: supporting the development of trade (import and export) in food and drink products and technology used in the industry.

Innovation: Midlands partners working with UK Research & Innovation (UKRI) to co-create a globally competitive food systems innovation partnership and multi-year Collaborative R&D programme for food system innovation.

Skills: industry, academia and government co-designing a supportive workforce supply plan, including devolved arrangements, focused on flexible apprenticeships, migration and skills investment to support technology adoption Infrastructure & premises.

Infrastructure: increasing infrastructure investment in the Midlands as the UK's food production and distribution hub, via devolved regional challenge funds for faster, lower-cost progress.

Premises: developing a more enabling planning system and premises supply strategy so food and drink businesses can access the premises and facilities they need to grow sustainably e.g. SmartParc model.

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

MIDLANDS ENGINE OBSERVATORY

In Partnership: