



Economic Growth Board

Date	2 February 2021
Report Title	Economic conditions and forecasts
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Report has been considered by	WMREDI team

Recommendations for action or decision:

The WMCA Board is recommended to:

- a) Note current economic conditions, including insight from the region's businesses, and long-term economic forecasts.
- b) Agree that regular insight from Economic Impact Group and Regional Business Council be report to the Economic Growth Board to inform its decision-making.

1 Purpose

- 1.1 To support the Economic Growth Board's decision-making by providing a summary of:
 - Long-term economic forecasts for the West Midlands.
 - Latest quantitative economic intelligence
 - Recent feedback and insight from West Midlands businesses, from the Economic Impact Group and Regional Business Council.

2 Background

Long-term economic forecast

- 2.1 The West Midlands was the fastest growing region outside London between 2010 and 2019. That success was driven by several of the region's key strengths such as manufacturing, automotive, construction and the visitor economy. As EGB knows, that progress was halted by the global pandemic. To further understand the economy, its potential trajectory and help the WMCA and partners target interventions, WMREDI (West Midlands Regional Economic Development Institute) commissioned Oxford Economics



to create an economic model of the region to 2040. The model gives partners an indication of future economic performance based on their independent assumptions about a series of trends. This creates a baseline “do nothing” scenario and helps decision makers understand the scale and nature of economic change to target interventions that drive prosperity and inclusion. Where the model forecasts potential challenges, these are opportunities for civic and business leaders to work together proactively on solutions using appropriate powers and resources.

2.2 The model has been created to ensure consistency with national, regional, and local changes and local variables. It does not extrapolate past trends but relies instead on a series of assumptions:

- UK GVA (Gross Value Added) growth was 7.4% in 2021 and urban areas will continue to economically outperform more rural areas
- The population in the WMCA area will grow from 4.2m to 4.4m by 2040. This rate of growth is slightly behind national growth trends, largely because of EU Exit reducing the rate of in-migration.

2.3 **Appendix 1** shows headlines from the model including:

- The UK’s long-run GDP trajectory, showing the relative effects of the 2008 global financial crisis and 2020 pandemic.
- West Midlands economic output is forecast to increase from £104bn in 2019 to £131bn in 2040. However, this yearly growth rate is less than the projected UK growth rate.
- Within the West Midlands, the LEP sub-regions have different output trajectories. GVA per head is forecast to increase slowest in the Black Country which in part reflects the degree of travelling for work.
- Wage growth is forecast to lag UK annual growth levels (2.96% vs 3.07%).
- Employment forecasts to 2040 vary considerably by sector. Growth in services employment sits alongside a potential decline in manufacturing employment. While this does point to manufacturing productivity (and potentially wages) increasing and operative roles moving to more skilled technical and scientific jobs, there are also opportunities to intervene to ensure the West Midlands retains comparative advantage in high-value manufacturing.
- New trade frictions have a disproportionate effect on the West Midlands because of its exporting strength – particular on automotive and transport machinery.

2.4 The model also captures the changing link between carbon and the economy. It finds that industry’s carbon emissions are set to decline (along with transport) over the period, but household emissions are forecast to rise based on the model’s assumptions and without further intervention.

Current economic conditions

2.5 The West Midlands’ Economic Dashboard is attached as **Appendix 2**. Compiled by the Black Country Consortium, it summarises headline data covering business, labour markets, social and environmental issues in the West Midlands.



2.6 The West Midlands Regional Economic Development Institute (WM REDI), produces a bi-weekly Monitor¹ which pulls together information across regional partners and beyond – including relevant regional, national, and global activity. Highlights from the latest Monitor are:

- **2022 growth outlook:** KPMG forecast that the West Midlands is set to see the highest increase in GDP growth (7.8%), with the Commonwealth Games pinpointed as a point of difference from the rest of the UK.
- **Costs of goods and services is rising faster than average wages:** Growth in regular pay was 3.8% in late 2021, whilst inflation rose to 5.4% in December 2021, the highest rate in 30 years. This means pay is falling in real terms for most people which can constrain spending. Pressures on household finances will continue with the lifting of the energy cap in April and increases in national insurance.
- **Isolating workforce:** Data from the WMCA Growth Hubs suggest that mid-January saw between 7% and 25% of the West Midlands workforce were off sick or isolating. This has a bigger effect for industries and workers that cannot work remotely such as health and care, schools, hospitality, and retail. These sectors also report high vacancy rates and problems recruiting staff. A full labour market analysis is covered as part of the ‘Plan for Jobs’ at **item 9**.
- **Return to the workplace:** The Business Insights and Conditions Survey (BICS) suggests that 41% of West Midlands businesses have seen workers return to their normal place of work, with 23% expected to return within the next six months and 1.0% after 6 months. 8.5% of West Midlands businesses reported that they “*were not expecting the workforce to return to their normal place of work*”. Within this, many companies – particularly in-service industries - have reassessed their business model and invested in technology. There is one factor behind an increase (to around two-thirds of businesses in the West Midlands) reporting that their workforce requires extra support or training in advanced digital skills.
- **International trade:** For the year ending Q3 2021, the West Midlands region exported £26.1bn and imported £33.8bn, leading to a trade deficit of £7.7bn. This is a larger deficit compared to the year ending Q3 2020 (£4.3bn). The largest value export by sector was machinery and transport at £17.6bn (67%) and of which 60.7% (£10.7bn) were non-EU exports

Direct insight from businesses and business groups

2.7 As well as quantitative analysis, strong business engagement channels with large and small businesses and business representative groups provides invaluable ‘real-time’ insight. Chaired by the Mayor, the informal Economic Impact Group (EIG) was set up in response to the pandemic and continues to provide a barometer of current business issues and the effectiveness responses by Government, regional partners and businesses themselves. Recent issues highlighted include:

- **Trade frictions and import/export:** Chambers and businesses have highlighted the impact of increased shipping costs for UK businesses, affecting import and

¹ The latest and previous versions of the WMREDI Monitor can be accessed [here](#)



export and contributing to an inflationary cost base. As a result of the joint action, insights were escalated to the Departments for Business and International Trade. The Black Country Chamber of Commerce has also coordinated work with the Trade Remedies Authority after the reopening of the issue of steel quotas and tariffs to ensure the region's business base (predominantly users) is able to access a competitive supply.

- **Covid grants for Hospitality and Retail:** In response to the rapid spread of the Omicron variant, Plan B restrictions were introduced on 10 December 2021 which included work from home guidance, face masks in public indoor venues and the use of an NHS Covid Pass in some settings. The EIG heard evidence of hospitality venues having cancellation rates over 50% of bookings as well as reduced retail footfall. The actions were:
 - Pursuing grants for firms affected by Covid, confirming flexibilities (e.g. that firms could be eligible for more than one payment from the Additional Restrictions Grant), and publicising support announced by the Chancellor on 21 December. Chambers have also reflected positively about the approach taken by local authorities to provide targeted support to affected firms.
 - Clarifying workplace testing support, where officials confirmed that tests were prioritised for around 100,000 workers in critical sectors.
- **Regulatory divergence:** maintaining an awareness of the UK's direction on policy areas like data adequacy which affects businesses and their on-going ability to trade, or work, with European customers.
- **Business energy costs:** During 2021 business gas and electricity prices increased about 8-fold - with some more extreme spikes – and reached a level around twice that in France and Germany. As the West Midlands has a higher concentration of energy-intensive industries (contributing 15% of GVA compared to the national average of 11%), the Economic Impact Group brought together the three Local Enterprise Partnerships, the Chambers of Commerce and businesses themselves to summarise the challenge and identify practical options. This was used by the Mayor when he the Secretary of State and provides the strategic context for interventions to support local green energy production and increase industrial energy efficiency, particularly during the period in which businesses will have hedged supply costs. This is the focus of work led by the Energy Capital Board in conjunction with the Environment and Energy Board.

- 2.8 The WMCA has also worked with business leaders to establish a new Regional Business Council, drawing together 22 chief executives of some of the largest and most strategically important firms in the region. The Council is not decision-making but acts as a confidential forum to connect business and the Mayor of the West Midlands to share commercial feedback on growth plans for the UK and West Midlands, and how business leaders can advocate for the West Midlands with investors and Government. The Council has identified four areas of focus and insight from these discussions will be used to shape regional priorities and programmes, decided on through democratic structures:
- a) Going faster on decarbonisation, including supply of green finance and the infrastructure required to support zero-carbon transport.
 - b) Strengthening the West Midlands brand to help region punch its weight nationally and globally

- c) Boosting the region's approach to innovation, including how business can apply the 'Open Innovation' model in the West Midlands and its impact on start-ups and high-growth firms.
 - d) Tackling current and emerging skills shortages so everyone can access opportunities, particularly in those clusters with potential for additional growth.
- 2.9 By drawing together the latest economic conditions and issues raised by businesses in the West Midlands, the Economic Growth Board can use this intelligence to inform decisions and set priorities.

3. Financial Implications

- 3.1 There are no financial implications arising from this report.

4. Legal Implications

- 4.1 There are no legal implications arising from this report.

5. Equalities Implications

- 5.1 There are no immediate equalities implications arising from this report.

6 Inclusive Growth Implications

- 6.1 Presentation of up to date and current data on the state of the West Midlands economy, workforce and population will allow EGB to recommend and agree actions to address inclusive growth needs.

7 Geographical Area of Report's Implications

- 7.1 The information within this report is for the 3 LEP area (covering all constituent and non-constituent authorities within that area).

8 Other implications

- 8.1 None.



West Midlands
Combined Authority

Appendix 1

UNIVERSITY OF BIRMINGHAM CITY REDI WM REDI Black Country Consortium Economic Intelligence Unit UKRI Research England

OEF Model Funded by:

West Midlands Combined Authority

Midlands Connect Transport | Investment | Growth

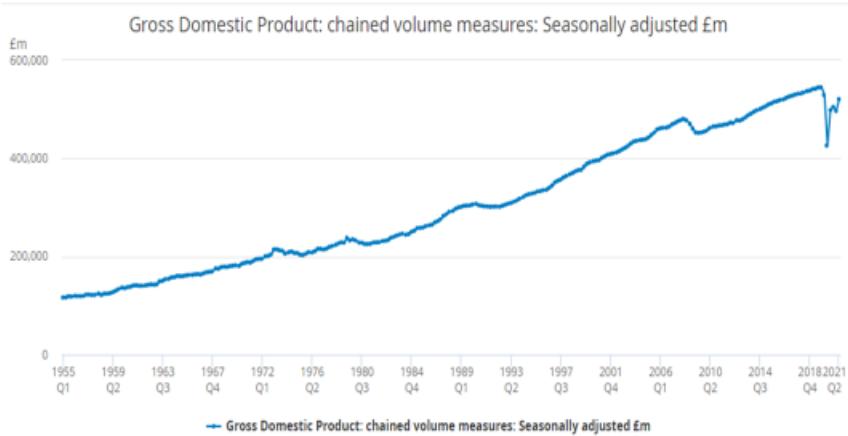
MIDLANDS ENGINE

OXFORD ECONOMICS

WMCA Oxford Economics Forecasts

Analysis Provided by WMREDI/BCCIEU

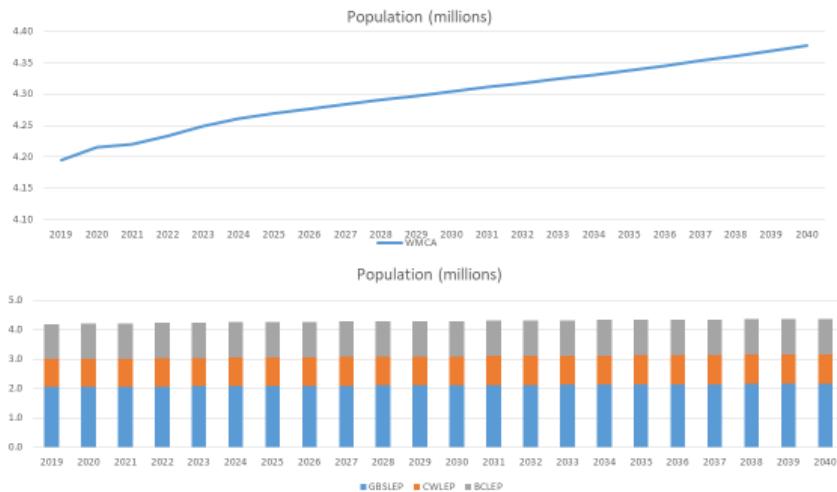
Context of UK growth since 1955



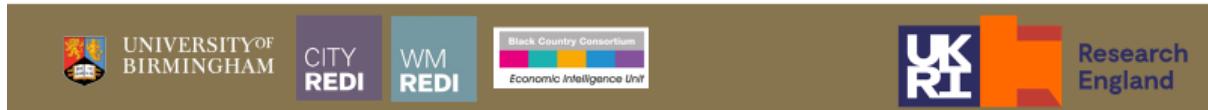
UNIVERSITY OF BIRMINGHAM CITY REDI WM REDI Black Country Consortium Economic Intelligence Unit UKRI Research England



Population

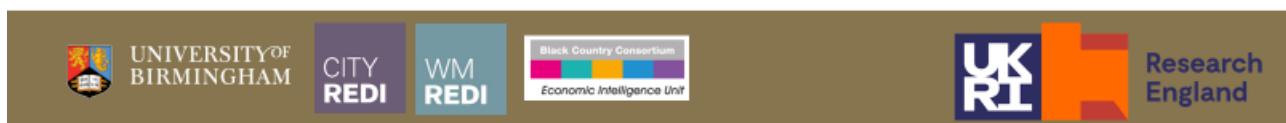


- Total population across the WMCA was **4.2 million in 2020**.
- It is forecasted to **grow to 4.4 million by 2040**.
- This is a projected growth of **182,000 people, or a 4.36% growth in the population** compared to 4.5% nationally by 2040



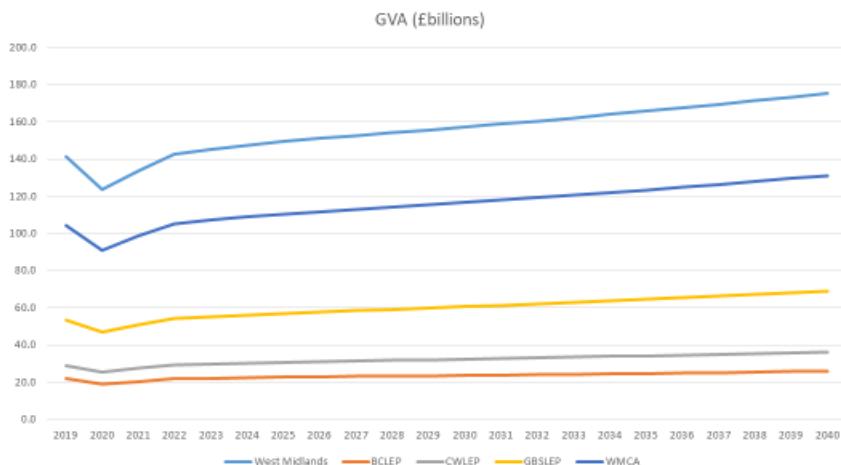
Assumptions

- UK GVA growth of 7.4% in 2021, underpinned by:
 - Removal of lockdown restrictions
 - Continued fiscal support
 - Consumers spending some of their excess savings
 - Inflation remains contained
 - Sustained monetary policy support
 - Extra trade frictions due to Brexit
- Long-term growth underpinned by continued growth in the labour supply and the strength of certain UK service sectors
- Employment growth lead by:
 - Professional, scientific & technical activities
 - Human health & social work
 - Administrative & support services





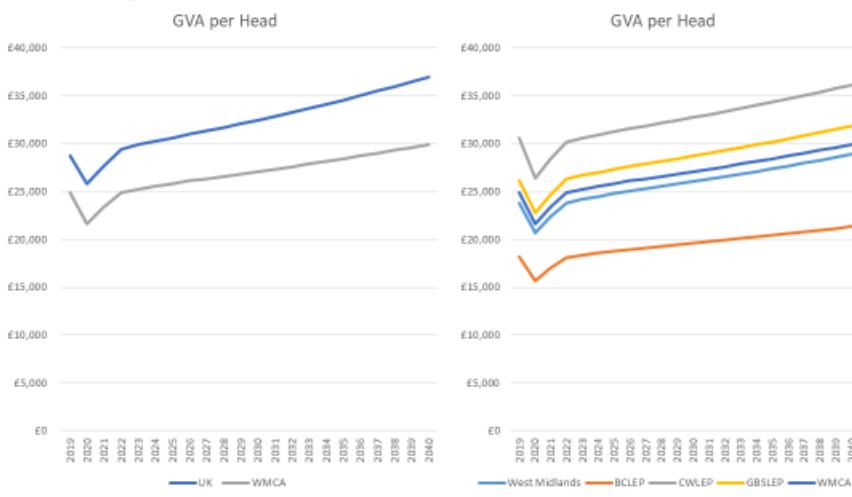
GVA



- Total GVA in 2019 for the WMCA was **£104 billion**
- The projected GVA in 2040 is **£131 billion- an additional £27 billion**
- This is an increase of 25.5%, with an **annual yearly growth rate of 1.16%**
- Below the **UK annual yearly growth rate at 1.35%**



GVA per Head

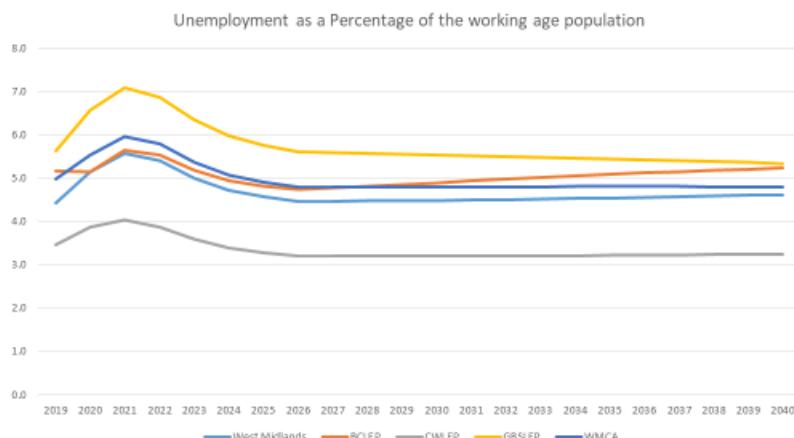


- In 2019 GVA per head across the WMCA was **£24,895**, comparative to the UK average of £28,765.
- The baseline scenario forecasts the WMCA GVA per head to **grow to £29,939 by 2040**- an average annual yearly growth rate of 0.95%, compared to the UK at 1.15%
- CWLEP has the highest GVA in the WMCA area, however GBSLEP had the highest annual growth rate at 1.01%. BCLEP had the slowest growth at 0.8% annually

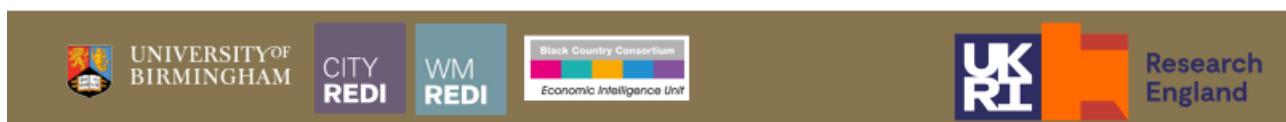




Unemployment



- The percentage of those unemployed as a percentage of the working age pop. was **5% in the WMCA**, compared to the UK at 3.8% in 2019.
- The Oxford model predicts that unemployment will decrease to **4.8% in the WMCA by 2040**
- Unemployment is set to decrease in WMCA, GBSLEP and CWLEP, but increase in BCLEP by 2040



Key issues

- The baseline takes a soft approach to brexit and covid impacts and assumes a return to trend by 2023
- Notable issues to consider
 - GVA and GVA per head continues to grow, but at a slower rate to the UK – gap gets wider
 - BC and its unemployment growth
 - General growth in construction, real estate, ICT, Health continues at UK level but WMCA not getting its share
 - WMCA doesn't outperform UK on any growth sectors
 - Manufacturing takes a huge employment hit over the next 10 years, as does water supply, agriculture and also financial services
 - Transport emissions are set to reduce, and industry emissions decline as manufacturing in the region declines, but household emissions are set to rise

