



Economic Growth Board

Date	Friday 23 rd September 2022
Report Title	Economic conditions in the West Midlands
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Report has been considered by	

Recommendations for action or decision:

- a) Note current economic conditions, including insight from the region's businesses and long-term economic forecasts.

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 and from the Economic Impact Group.

2 Background

Current economic conditions

- 2.1 The West Midlands' Economic Dashboard is attached as **Appendix 1**. Compiled by the Black Country Consortium Economic Intelligence Unit, it summarises headline data covering business, place, the economy, and people in the West Midlands. Some of the salient information from the dashboard include the West Midlands Business Activity Index decreased from 51.1 in June 2022 to 50.3 in July 2022; which indicates a stagnation in local output. However, provisional figures show that UK business investment increased by 3.8% in Quarter 2 (Apr to Jun) 2022. It is the first time all components increased since Quarter 2 2021.

2.2 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. At the time of writing, the latest publicly available edition is from 2nd September 2022. The below content is taken from the next issue, which will be published after the 19th September 2022.

- **System Average Price of Gas:** The System Average Price (SAP) of gas decreased by 16% in the week to 4th September it is now 223% higher than the equivalent level seen on 5th September 2021. It was 1575% higher when compared to the pre-Coronavirus baseline.
- **Fuel Poverty in the UK:** According to data from 2020, the West Midlands has the highest rate of fuel poverty of any region in the UK, with the highest number of households being in fuel poverty in Wolverhampton (22.4%), Birmingham (21.8%) and Sandwell (20.8%).
- **West Midlands Exports:** 49.8% of responding WM businesses reported that exporting stayed the same in August 2022 when compared to August 2021. 54.2% of responding WM businesses reported that importing stayed the same in August 2022 when compared to August 2021.
- **NatWest Purchasing Manager Index (PMI) Survey: West Midlands Region:** WM Business Activity Index decreased from 50.3 in July 2022 to 49.3 in August 2022, indicating a quicker deterioration in demand conditions leading to a renewed fall in business activity (below the 50-growth mark, although marginal). Firms indicated that business activity contracted due to reduced client purchasing, consumers reducing expenditure, economic uncertainty, and product availability issues. Out of the 12 UK regions, the West Midlands was the fourth highest for Business Activity in August 2022. The UK Business Activity Index decreased from 52.1 in July 2022 to 49.6 in August 2022. The West Midlands Future Business Activity Index decreased from 68.3 in July 2022 to 67.8 in August 2022. Firms in the West Midlands remain optimistic for the upcoming year; however, the degree of optimism was at its second-weakest level since October 2020 and below its historical average as firms reported inflation concerns, recession fears and energy price volatility.
- **Bottlenecks in international freighting:** Bottlenecks in international freight remain high and are being accentuated by the Ukraine war and the shutdowns in China. The freight route across Russia, which for decades served as the main overland link between Europe and China, has become problematic as Beijing and other countries try to shield their economies from the snags caused by the sanctions on Moscow. Potential options in the light of these changes are:
(1) consider alternative sourcing - now is the time to either diversify partners or find alternative sourcing modes;

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

- (2) capitalize on new opportunities - to fill the gaps created by the volatility, creating new business models and potentially improving the lives of others;
- (3) understand that quantitative approaches can help, but there are challenges - while modelling can help optimize supply chain changes, there are limits to this approach given that most supply chain models assume a steady state, which is not applicable for redesigning something that is in transition;
- (4) accept that this is the new normal - the key to sustaining growth in uncertain times is developing best-in-class agile competencies.

Energy Price Guarantee

- 2.3 On the 8th September, HM Government set out the Energy Price Guarantee² in response to rising energy costs, to support families struggling to pay bills over the next 24 months and support businesses for the next 6 months. From October 1st 2022, the new Energy Price Guarantee will mean that a typical UK household will now pay up to an average of £2,500 a year on their energy bill. This will allow the average household to save £1,000 a year based on current energy prices from October and is in addition to the £400 energy bill discount for all households that as announced on the 29th July 2022. For businesses and other non-domestic energy users such as charities and public sector organisations, a 6-month scheme will be provided, with equivalent support as for consumers. The Government will provide energy suppliers with the financial difference between this new lower price and what energy retailers would charge their customers, had this scheme not been put in place. After this initial six-month scheme, the Government will provide ongoing, focused support for vulnerable industries. There will be a review in 3 months' time to consider where this should be targeted to make sure those most in need get support. Schemes previously funded by green levies will also continue to be funded by the Government during this two-year period to ensure the UK's investment in home-grown, secure renewable technologies continues.

Direct insight from businesses and business groups

- 2.4 As well as quantitative analysis, strong business engagement channels with large & small businesses and business representative groups provide 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 of responses by Government, regional partners, and businesses themselves. It continues to be an effective vehicle of sharing information across the region from the WMCA and its partners. Recent items have included:

- **UK House and the Business and Tourism Programme:** At the meeting on 21st July 2022, Members received an updated from the West Midlands Growth Company on the Business and Tourism Programme (BATP) which coincided with the Commonwealth Games, which aimed to embed strong and positive perceptions of the West Midlands into the international imagination, driving long-term economic benefits across the region and fostering civic pride with a strong focus on tourism, trade and investment from the Games. Key outputs include 65

² More information on the Energy Price Guarantee can be found [here](#).

events hosted, 68 external events and sales mission, 10 MICE conferences (meetings, incentives, conferences and exhibitions), over 1000 media articles reaching over 710,400,000 people worldwide.

- **Industrial Energy Costs and the WM Industrial Energy Task Force:** At the meeting of the EIG on the 1st September 2022, Matthew Rhodes, Chair of the Industrial Energy presented an update in regard to the situation of energy costs for businesses in the West Midlands. It was highlighted that some 70% of businesses in the West Midlands faced energy cost increases between 300%-400% over the next 12 months as businesses came off their current energy contracts. Matthew outlined that the WM Industrial Energy Task Force was established as an industry led task force, made up 10 diverse industrialists from across the region. Members heard how the task force wouldn't be starting from scratch but building on the work of the Repowering the Black Country programme and other schemes from across regional partners. Matthew noted that the task force would attempt to address short- and medium-term interventions that were specific the regions business demography.
- **Bank of England Quarterly Monetary Policy:** Members received a presentation on the Bank of England's Quarterly Monetary Policy Report, which was published on August 3rd 2022. Between its publication and the meeting date, some changes had occurred such as CPI inflation at its highest rate in the past 40 years at 10.1%. Likewise, Russia's war on Ukraine had caused a sharp increase in energy prices with huge wholesale gas price inflation which was creating an incredibly volatile market.

Regional Business Council

- 2.5 At the Regional Business Council on the 19th July 2022, members received an item on the current skills landscape in the West Midlands; members concluded that there was a need to promote level 4 skills in the region. Likewise, members received an update relating to Innovation Accelerator activity and discussed the intended outcomes and how to best leverage it to draw in longer term benefits. Members extensively discussed the energy crisis and the real issues for businesses that were beginning to materialise because of rising energy costs. The meeting concluded with discussion on the state of the region in terms of its economy.

Skills and Employment insights

- 2.6 Another key barometer of the West Midlands economy is the condition of the labour market. This section highlights the latest information regarding skills and employment insights in the West Midlands:
- **Regional Employment:** For the three months ending July 2022, the West Midlands Region employment rate (aged 16 – 64 years) was 75.3%. Since the three months ending April 2022, the employment rate decreased by 0.6pp for the West Midlands region. There was an increase of 1.1pp when compared to the same period in the previous year – joint highest increase (with Scotland) across all UK regions. The UK employment rate was 75.4%, a decrease of 0.2pp when compared to the previous

quarter but an increase of 0.3pp when compared to the previous year.

- **Regional Unemployment:** For the three months ending July 2022, the West Midlands Region unemployment rate (aged 16 years and over) was 4.6%, which has increased by 0.1pp since the previous quarter but decreased by 0.6pp from the previous year. The UK unemployment rate was 3.6%, a decrease of 0.2pp from the previous quarter, and a 1.0pp decrease when compared to the previous year.
- **Regional Inactivity:** For the three months ending July 2022, the West Midlands Region economic inactivity rate (aged 16 – 64 years) was 21.0%, an increase of 0.4pp from previous quarter but a decrease of 0.6pp when compared to the previous year, with the latter being the joint highest decrease with Yorkshire and the Humber. The UK economic inactivity rate was 21.7%, increasing by 0.4pp from the previous quarter and an increase of 0.5pp from the previous year.
- **Claimant Count:** There were 145,285 claimants in the WMCA (3 LEP) area in August 2022. Since July 2022, there has been an increase of 1.0% (+1,415) claimants in the WMCA (3 LEP) area, the UK also increased by 1.0%. When compared to August 2021, the number of claimants has decreased by 20.7% (- 38,025) in the WMCA (3 LEP) area, with the UK decreasing by 28.3% over the same period. When compared to March 2020 (pre-pandemic figures), the number of claimants has increased by 23.6% (+27,695) in the WMCA (3 LEP) area, with the UK increasing by 21.2% over the same period
- **Vacancies:** Mirroring national vacancy data, the number of job postings across the WMCA 3 LEP area decreased by 22,819 or -14% in August 2022. All 19 local authority areas recorded a drop in job postings. Bromsgrove and North Warwickshire were hit hardest with both areas logging 19% fewer job postings than the previous month, although most areas recorded negative double-digit change. Unsurprisingly, the effort towards hiring for particular positions was subdued in all 19 LAs, however, it remained strongest across the 7 Met. areas.³

Research Excellence Framework

2.7 The Research Excellence Framework is a means by which the quality of university research in the UK is assessed, with the joint purposes of providing accountability for publicly funded research, provide benchmarking data, and informing the allocation of research funding. Research quality is reviewed by expert panels across 34 broad, subject-based, areas known as units of assessment (UoAs). Each UoA must have three elements of evidence, and each element is assessed and given a quality classification which is then aggregated to give an overall UoA quality profile.

³ Lightcast, September 2022 - please note, as of March 2022, Lightcast, previously known as Emsi Burning Glass implemented new data collection and processing procedures within the Analyst Tool. It is estimated that this will result in an approximate 22% reduction in overall job posting counts, which will vary depending on the filters used within the research. Lightcast believe that these new procedures will mean fewer duplicates are collected upfront alongside an enhanced deduplication process.

2.8 A total of 4,868.41 FTE employed staff from 11 universities across the West Midlands (Aston, Birmingham, Birmingham City, Coventry, Harper-Adams, Keele, Newman, Staffordshire, Warwick, Wolverhampton, and Worcester) attained an overall quality judged to be 81% at 3* and 4*. In terms of quality profile, notable disciplines were chemistry, earth systems and environmental sciences, economics and econometrics, mathematical sciences and physics. Also notable, between 90%-95% research at 3* and 4* were Anthropology and development studies and clinical medicine.

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 report refers to the 3 LEP area and incorporates links with all constituent and non-constituent authorities.

8. Other implications

8.1 None.