



## Economic Growth Board

<b>Date</b>	<b>Friday 2<sup>nd</sup> December 2022</b>
<b>Report Title</b>	<b>Economic conditions in the West Midlands</b>
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<b>Report has been considered by</b>	

### Recommendations for action or decision:

- a) To note current economic conditions for the West Midlands, including insight from the region's businesses.

#### 1 Purpose

- 1.1 To support the Economic Growth Board's decision-making by providing a summary of:
- National economic policy developments
  - Long-term economic forecasts for the West Midlands;
  - Latest quantitative economic and regional labour market intelligence;
  - Summary of energy costs
  - Recent feedback from West Midlands businesses via the Regional Business Council and the Economic Impact Group.

#### 2 Background

##### ***National Economic Policy Update: Autumn Statement 2022***

- 2.1 On the 17<sup>th</sup> November 2022, HM Government published its Autumn Statement 2022<sup>1</sup>. The Statement covered a number of key elements of public life, however in regard to business, the economy and innovation some of the key announcements were:

##### Tax

- The threshold at which higher earners start to pay the 45p rate will be reduced from £150,000 to £125,140

<sup>1</sup> [Autumn Statement 2022: documents - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/107110/autumn-statement-2022.pdf)

- Personal allowance, National Insurance threshold, Inheritance tax thresholds will be held until April 2028
- The Dividend Allowance will be reduced from £2,000 to £1,000 in 2023, and £500 from April 2024
- The Annual Exempt Amount in capital gains tax will be reduced from £12,300 to £6,000 in 2023 and then to £3,000 from April 2024
- Vehicle Excise Duty will be applied to electric cars, vans and motorcycles from April 2025
- Fuel Duty to increase by 23%, worth around 12p a litre for a petrol car.
- Legally enforceable minimum wage for people aged over 23 will be increased from £9.50 to £10.42 an hour from April 2024.

### Business Tax

- Corporation Tax will increase to 25% for companies with over £250,000 in profits from 1 April 2023
- Diverted Profits Tax will increase from 25% to 31% from 1 April 2023
- The banking surcharge rate will be reduced to 3% from 1 April 2023
- The rate of the Energy Profits Levy, which applies to the profits of oil and gas companies operating in the UK and the UK Continental Shelf, will be increased from 25% to 35% from 1 January 2023 and the levy will remain in place until the end of March 2028
- A new temporary 45% Electricity Generator Levy on 'exceptional generation receipts' will be introduced from 1 January 2023 and also be legislated to end by 31 March 2028. The levy will be applied to groups generating electricity from nuclear, renewable and biomass sources, that undertake electricity generation in the UK and are either connected to a national grid or connected to local distribution networks.

### Business Support

- £13.6 billion package to support business rate payers, including:
  - Freezing the business rates multiplier for another year to protect businesses from rising inflation
  - An extended and increased relief for retail, hospitality and leisure businesses worth almost £2.1 billion
  - Reforming Transitional Relief - abolishing downwards transitional reliefs caps. The government also announced a £1.6 billion scheme to cap bill increases for businesses who will see higher bills as a result of the revaluation
  - Protection for small businesses who lose eligibility for either Small Business or Rural Rate Relief due to new property valuations through a 'Supporting Small Business' scheme worth over £500 million
  - Setting the Annual Investment Allowance to £1 million from April 2023. This will help many companies write off the cost of qualifying plant machinery investment in one go.
- The threshold for employer National Insurance contributions will be fixed until April 2028, but the Employment Allowance will continue to protect 40% of businesses from paying any NICS at all
- Plans for a possible online sales tax have been scrapped
- Investment Zones will now be centred around universities in "left behind areas" to help build clusters for new growth industries.

## Innovation

- Recommitment to public spending on R&D will increase to £20 billion a year by 2024-2025.

## ***Current regional economic conditions***

2.2 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 headlines in regard to businesses in the region:

**Regional Business Activity Index:** The West Midlands Business Activity Index rose from a 20-month low of 47.8 in September 2022 to 49.6 in October 2022 – although, remained below the 50-growth mark as West Midlands firms struggled to secure new business. West Midlands firms reported clients reducing spending linked to recession fears and financial difficulties.

**Regional Future Business Activity Index:** The West Midlands Future Business Activity Index decreased from 64.4 in September 2022 to 60.7 in October 2022, falling to the lowest point since the first Covid-19 lockdown. West Midlands firms remain confident of a rise in output over the next 12 months. However, optimism was restricted by concerns over the economic outlook and customer spending.

**WMCA (3 LEP) Enterprise Births:** Quarterly data shows that when comparing Q3 2022 to Q2 2022, there was a decrease of enterprise births in the WMCA (3 LEP) area by 1,395 (-23.7%, UK -16.8%) to a total of 4,490. When comparing Q3 2022 to Q3 2021, there was a decrease in enterprise births by 1,275 (-22.1%, UK -24.9%). When compared to Q1 2020, enterprise births decreased in the WMCA (3 LEP) area by 1,825 (-28.9%, UK -39.6%).

**WMCA (3 LEP) Enterprise Deaths:** Quarterly data shows that when comparing Q3 2022 to Q2 2022, there was a decrease of enterprise deaths in the WMCA (3 LEP) area by 1,380 (-19.4%, UK -16.2%) to a total of 5,735. When comparing Q3 2022 to Q3 2021, there was a decrease in enterprise deaths by 610 (-9.6%, UK -5.5%). When compared to Q1 2020, enterprise deaths increased in the WMCA (3 LEP) area by 85 (+1.5%, UK -6.8%).

2.3 The West Midlands Regional Economic Development Institute (WM REDI) produces a bi-weekly Monitor<sup>2</sup> which pulls together information across regional partners and beyond – including relevant regional, national, and global activity. At the time of writing, the latest edition was published on the 11<sup>th</sup> of November 2022.

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<sup>2</sup> [West Midlands Impact Monitor – 11th November 2022 – City REDI Blog \(bham.ac.uk\)](https://www.bham.ac.uk/city-re-di/blog/2022/11/11/west-midlands-impact-monitor-11th-november-2022)

**Bank of England – Interest Rates:** The Bank of England recently increased its benchmark rate from 2.25% to 3%, this is the eighth consecutive increase since December 2021, pushing the rate to its highest level for 14 years. This also marks the biggest single increase since 1989. With interest rates rising, about 1.6 million people on tracker and variable rate mortgages will see an immediate increase in their monthly payments. The increase from 2.25% to 3% means those on tracker mortgages will pay about £73.50 more a month whereas, those on variable rate mortgages face a £46 increase. This comes on top previous interest rate rises. Compared with pre-December 2021 average tracker mortgage holders will be paying £284 more a month and variable mortgage holders about £179 more.

**Grocery Inflation:** Take home grocery sales rose by 5.2% in the 12 weeks to 30th October 2022 and four-week grocery price inflation has also hit another peak since Kantar began tracking these prices back in 2008, now sitting at 14.7%. Now Kantar is forecasting an annual £682 jump to consumers shopping bill if they continue to buy the same items as now. Additionally, over a quarter (27%) of households now saying they are struggling financially, almost double the proportion that were recorded last November. Kantar also reported that 9 in 10 of this group say higher food and drink prices are now a major concern, second only to energy bills.

**Regional 2021 Census data: Median Age:** Across the WMCA the 2021 Census has revealed that the LA which has the lowest Median average was Birmingham at 34, followed by Coventry at 35, and Sandwell at 37. It is unsurprising that Birmingham and Coventry had the youngest median, as these cities have higher numbers of university students in their geographies, which the ONS pointed out generally led to lower average median ages. Whereas LAs with the highest average Median age were Stratford-upon-Avon (48), followed by Wyre Forest (47) and Lichfield (46).

**Regional 2021 Census data: Household Deprivation:** LAs which had the highest proportion of household not deprived in any dimension were Warwick at 57.4%, Stratford-upon-Avon 56.5% and Rugby at 53.4%. This is unsurprising given these areas are more affluent areas. Comparative to less affluent areas which saw lower levels of deprivation. LAs with the lowest proportion of households not deprived in any dimension being Sandwell 37.9%, Walsall 40.2% and Wolverhampton 40.3%. Areas with the highest proportion of households deprived in four dimensions were Birmingham 0.39%, Coventry 0.37%, and Sandwell 0.30%. Areas with the lowest proportion of households deprived in four dimensions were Stratford-upon-Avon 0.05%, Rugby 0.09%, and Tamworth 0.12%.

**International Immigration:** Coventry now has the highest proportion of residents born outside of the UK, knocking Birmingham of the top spot since the 2011 census. However, every local authority has seen an increase in the number of residents born outside of the UK. Coventry, Birmingham, Sandwell, and Wolverhampton all have over a fifth of residents born outside of the UK. Whereas, Cannock Chase, North Warwickshire, and Lichfield all have below 5% of its population born outside of the UK.

### ***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. Likewise, it is an effective vehicle for sharing information across the region from the WMCA and its partners. Recent items have included:

**Cost of doing Business:** The Greater Birmingham Chamber of Commerce, in collaboration with the Black Country Chamber of Commerce and Coventry and Warwickshire Chamber of Commerce, produced a report detailing the particular difficulties businesses in the West Midlands were facing, in light of increased energy costs and sustained inflation on materials and labour costs and a summary of potential policy solutions to help businesses mitigate the economic turbulence. This provided a foundation for the group to discuss other potential short-, medium- and long-term policy solutions to support businesses in the West Midlands.

**Her Majesty Trade Commissioner for Europe:** The HMTCE for Europe, Chris Barton, attended a meeting of the EIG to provide information on the role of a Trade Commissioner and the responsibility of his team and the opportunities that were available in regard to trade with Europe. Members highlighted a number of sectors that could do with additional support in regards to exporting to Europe, including tech, green energy and manufacturing. There was a commitment for Trade Commissioner, the Department for International Trade and the WMCA to work closer together to support businesses in their overseas trade in Europe.

**Levelling Up Prospectus:** The Economic Impact Group received a timely update on the process surrounding the Trailblazing Devolution Deal with HM Government, as set out in the Levelling Up Whitepaper. Along with this, members received an overview of the Levelling Up Prospectus which sets out the West Midlands Combined Authority blueprint for levelling up in the region. The Prospectus also includes the tools that are needed in the region to tackle the challenges for today, while forging a region fit for the future. A copy of the Levelling Up Prospectus is available on the West Midlands Combined Authority [website](#).

**West Midlands Business Support:** Members requested further information on the future of business support in the region. Therefore, the EIG heard about the WMCA's plans on aligning the business support system, which was split into three elements. The first section provided an update on the integration of three Local Enterprise Partnerships (LEPs) in the region and their functions as predicated in the Levelling Up Whitepaper and what this would mean in practice, a review of the roles and functions of the West Midlands Growth Company as requested by the Economic Growth Board on 23<sup>rd</sup> September 2022 and finally, the UK Shared Prosperity Fund and the £42.2m allocated for supporting businesses to March 2025.

## ***Regional Business Council***

- 2.5** At the Regional Business Council on the 4<sup>th</sup> November 2022, members discussed the change in Prime Minister and Cabinet in HM Government, and what opportunities and risks this had presented for the region. Likewise, members considered the railway

services in the West Midlands given its importance for economic growth, particularly in regard to Great British Railways and the business case for the Midlands Rail Hub. Members received an update on how the £42.4m share of the UK Shared Prosperity Fund dedicated for business support could be utilised to support local SME businesses in the region and ways to improve awareness and uptake of support. Finally, the Council discussed business issues such as energy security, the impact of current economic conditions and pay strategies to help combat the Cost-of-Living issues for employees.

## **Skills and Employment insights**

2.6 Another key indicator 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 September 2022, the West Midlands Region employment rate (aged 16 – 64 years) was 74.1%. Since the three months ending June 2022, the employment rate decreased by 0.8 percentage points (pp) and a 0.2 decrease when compared to the same period in the previous year.<sup>3</sup>
- **Regional Unemployment:** For the three months ending September 2022, the West Midlands Region employment rate (aged 16 – 64 years) was 74.1%. Since the three months ending June 2022, the employment rate decreased by 0.8 percentage points (pp) and a 0.2 decrease when compared to the same period in the previous year.<sup>4</sup>
- **Regional Inactivity:** For the three months ending September 2022, the West Midlands Region economic inactivity rate (aged 16 – 64 years) was 22.1%, an increase of 0.8pp from previous quarter and an increase of 0.4pp when compared to the previous year.<sup>5</sup>
- **Claimant Count:** There were 143,050 claimants in the WMCA (3 LEP) area in October 2022. Since September 2022, there has been an increase of 0.4% (+595) claimants in the WMCA (3 LEP) area, while the UK decreased by 0.1%. When compared to October 2021, the number of claimants has decreased by 16.6% (-28,395) in the WMCA (3 LEP) area, with the UK decreasing by 23.0% over the same period. When compared to March 2020 (pre-pandemic figures), the number of claimants has increased by 21.7% (+25,460) in the WMCA (3 LEP) area, with the UK increasing by 18.9% over the same period.<sup>6</sup>
- **Vacancies:** The number of job postings across the WMCA 3 LEP area increased by 3,124 month-on-month or 2.4% in October 2022. However, posting activity was mixed within each of the 19 local authority areas; with eight LA's recording an increase, two with no change and nine logging fewer postings than the previous month. Bromsgrove, Redditch, and Stratford-upon-Avon were hardest hit, all recording -3% fewer job postings; whilst Wyre Forest (9%), Warwick (6%), Birmingham (5%) and Wolverhampton (4%)

<sup>3</sup> Source: ONS, Labour Market in the Regions of the UK: November 2022

<sup>4</sup> Source: ONS, Labour Market in the Regions of the UK: November 2022

<sup>5</sup> Source: ONS, Labour Market in the Regions of the UK: November 2022

<sup>6</sup> ONS/DWP, Claimant Count, November 2022. Please note, when new data is released, the previous month is also revised.



performed relatively strongly. Posting intensity, i.e., the effort towards hiring for particular positions was strongest across the 7 Met. areas.<sup>7</sup>

### **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.

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<sup>7</sup> Source: Lightcast, November 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.