MIDLANDS ENGINE
Observatory

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

SPECIAL EDITION: FEBRUARY 2022
BREXIT: ONE YEAR ON

Executive Summary

This special edition of the Midlands Engine Regional Economic Monitor provides a deep-dive on the impact of Brexit on the Midlands and wider UK economy, one year on from the UK's formal departure from the bloc. It aims to **identify issues that businesses have faced in the last year – in particular related to trade and the labour market – as well as forthcoming challenges and opportunities for 2022** and beyond. Intelligence has been gathered from a wide range of sources and stakeholders, reflecting the Midlands Engine's reach within regional structures and partnerships.

The monitor's findings are evidence-led but recognise the current **limitations of disentangling Covid-19 and Brexit impacts**, acknowledging that, in some cases reasonable assumptions must be made in order to infer causes and identify findings. To this end, there is a very real sense in which the co-evolution of Brexit and the Covid-19 pandemic have exacerbated the scale and significance of the challenges faced by the businesses, people and communities of the Midlands.

Overall, the monitor confirms a tumultuous period in the last year, not least down to the volatility and unpredictability of Covid-19 and its impacts. It particularly highlights, however, evidence to suggest **Brexit has exacerbated, rather than made easier, challenges for Midlands businesses and individuals**. At an economy-wide level, key impacts and ongoing risks are:

- **Trade:** so far, trading with the EU has proved to be harder post-Brexit, with Midlands businesses reporting various challenges related to exporting to, and importing from, the EU – including **VAT requirements, additional customs procedures and new rules of origin requirements**. This is now beginning to be reflected in the data:
    - According to modelling by the Centre for European Reform, in Q3 2021 U.K. goods trade with the EU was 15.7% lower (or £12.6bn) than it would have been had Britain stayed in the EU's single market and customs union.
    - The change in EU exports between the year ending Q3 2020 and year ending Q3 2021 was +1.6% in both the West Midlands and East Midlands. While this reflects rebound growth from the worst of the pandemic, it is among the **lowest recovery in EU exports of all UK regions and below the national average of 4.5%**
- **Labour Market:** with evidence suggesting that Brexit has exacerbated shortages in the Midlands' labour market supply. This is due to tighter immigration restrictions that make recruitment from the EU harder, adding to skill gaps worsened by EU nationals leaving the UK:
    - The number of EU-origin workers on company payrolls fell by about 200,000 in 2020 across the UK.
    - Midlands businesses have described a "Brexit exodus" in key occupations such as HGV drivers, healthcare workers, seasonal pickers and hospitality roles. This is evident in the data and prevalent across skill levels.
- **Other Impacts:** including major changes to UK regulation, future funding and its attractiveness as an FDI destination.

These impacts affect different sectors of the economy differently, and in some cases the Midlands disproportionately due to the region's industrial make-up. Our sector risk / impact analysis matrix highlights the following sectors as particularly high risk to Brexit changes:

- **Advanced Manufacturing & Engineering**, particularly food and drink and automotive; reflecting challenges to trading with Europe and the importance of EU nationals in the UK manufacturing workforce.
    - In particular, research suggests that, the impact of Covid-19 and Brexit shocks in the **automotive** sector is relatively much more acute in the West Midlands than in the rest of the UK. At the UK level, the drop in annual output is estimated between -0.18% to -0.50% compared with -1.24% to -3.3% in the West Midlands. In the East and West Midlands together, it represents around 63% of the UK's output lost estimate.
- **Transport Technologies,** again linked to changes in the ease of transporting goods and shortages of HGV drivers, somewhat exasperated by Brexit.
- **Agriculture:** due in part to the major cost, complexity and requirements of health checks on produce.

These are all sectors of strengths in parts of the Midlands; but its clear that all sectors will be impacted in some way, including the dominant **services sector** – notably in relation to trade, the movement of people and regulatory divergence.

New Brexit changes in 2022, some which are already in force, provide further risk for many businesses in these sectors. In particular, new import controls and greater checks on goods are expected to worsen the barriers to trade experienced, and more widely there remains uncertainty about other policy areas such as regulatory divergence and financial equivalence.

While much of the evidence published and reported is pessimistic about the fortunes - so far and into the future - of Brexit on the economy, **there are also opportunities for the Midlands Engine:**

- New trade deals, of which the UK has signed with over 60 countries (including Australia and Japan), provide businesses with an appetite to explore new markets and maximise **"Global Britain".**
- Furthermore, the potential ability for the UK government, both nationally and regionally, to **control policy and funding allocations could be a step-change**. This has been touted as having particular potential in developing **domestic skills, regional funding / subsidies and regulatory reform**. The UK Government has recently espoused these possibilities and existing progress in a "Benefits of Brexit" document.

Impact on Midlands Engine Trade

Trade Impacts

A year on from the signing of the UK-EU Trade and Cooperation Agreement (TCA), we can start to see some of the changes in how Britain trades.

Trade with the EU rose sharply just before the turn of 2021 as UK businesses stockpiled goods. But then trade dropped immediately at the end of the Brexit transition period in January 2021, with **UK exports to EU countries falling by 45 percent on the previous month and imports decreasing by 33 percent.** Imports from the EU are still tracking below pre-pandemic levels, while 52 percent of all trade in the first 10 months of 2021 was with non-EU countries.

And while EU countries have largely recovered to pre-Covid-19 levels of trade, **the same cannot be said of the UK, where flows in Q3 2021 were the lowest value relative to GDP seen since 2009.** As of October, UK goods trade with the EU was **15.7% lower (or £12.6bn) than it would have been** had Britain stayed in the EU's single market and customs union, according to modelling by the Centre for European Reform, an independent think-tank.

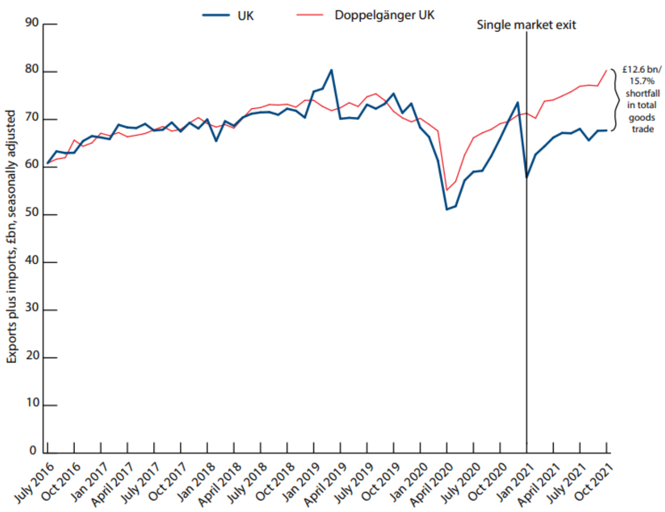
This is consistent with the Office for Budget Responsibility's **initial assumption of a 15% reduction in both import and export intensity as a result of Brexit.** This is reflected in their latest analysis of Brexit impact on trade too and the longer-term gradual decline of UK trade to the EU, both before and after the referendum.

The latest overall trade data from HMRC does show a rebound in international trade after the worst of Covid-19:

- **Imports and exports of goods increased in the three months to November 2021** compared with the three months to November 2020.
- **Specifically, goods exports increased by £2bn in this period, and goods imports by £6.4bn**

Yet in the latest full quarter (Q3 2021) , **England exports to the EU and non-EU fell by £0.8bn (2.9%) and £1.1bn (3.8%) respectively compared with the previous quarter.** Imports from the EU and non-EU rose by £1.3bn (3.1%) and £1.8bn (4.1%) respectively. **The total trade deficit is now £9.3 billion** in the last three months, driven by a falling goods balance.

Figure 1: The cost of Brexit, October 2021



Source: Centre for European Reform and Office for National Statistics

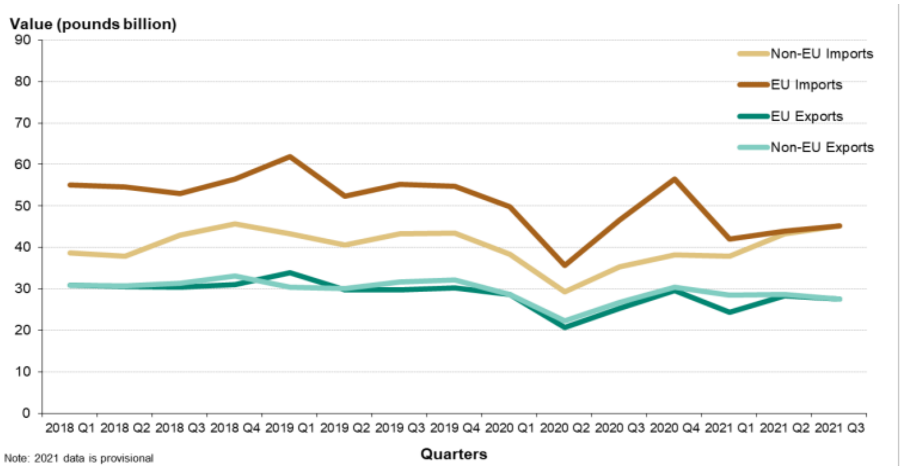
Figure 2: UK trade

Source: ONS and Office for Budgetary Responsibility

Additionally, UK-EU trade has, in this first year of the post Brexit trade deal, failed to rebound **unlike most of the rest of world trade:**

- From Jan-October 2021 there was $627bn in two-way trade between the US and the European Union, up from $532bn in the same months in 2020, a bounce back of **18%.**
- China-EU two way trade in the first 10 months of 2021 was €558bn compared to €479bn in 2020, a bounce back of **17%.**
- The equivalent figure for the UK's two way trade with the EU is **2%.**

Figure 3: England's goods trade, 2018 Q1 to 2021 Q3



Source: Regional trade in goods statistics, HM Revenue and Customs

Trade Impacts

A national survey from the British Chambers of Commerce (BCC) showed **a rise in the proportion of firms reporting difficulties with the various changes brought about to UK-EU trade compared to when BCC last asked the same questions in January.**

Of the firms who reported that they have faced difficulties in adapting to changes, the survey **followed up by asking what the specific problems were.** More than 400 business case studies were collected and showed that while problems are occurring across a wide range of areas, the following areas were consistently referenced:

- **VAT requirements** such as the need for a fiscal representative and delays or returned goods despite VAT being paid.
- Additional **customs procedures** and checks requiring additional paperwork and causing delays.
- **New rules of origin requirements** which have required some firms to change production processes or audit complex supply chains.
- The rules of the Northern Ireland Protocol **causing increased costs and administration for businesses in Northern Ireland** and Great Britain.
- The **loss of equivalence** in areas such as financial services, medical devices, and certification marking has caused increased costs and a loss of competitiveness to EU firms.

Figure 4: Results from the Chamber survey

January 2021

	Very / Relatively Easy	Very / Relatively Difficult	Too Early to Say	N/A
Buying or selling goods	10%	30%	16%	45%
Buying or selling services	10%	14%	19%	58%
Moving people	8%	9%	18%	65%
Transferring data	Not asked in January Survey			

November 2021

	Very / Relatively Easy	Very / Relatively Difficult	Too Early to Say	N/A
Buying or selling goods	15%	45% (+15pp)	9%	32%
Buying or selling services	14%	23% (+9pp)	9%	54%
Moving people	8%	20% (+11pp)	7%	64%
Transferring data	17%	9%	12%	62%

The national data chimes with reports from businesses in the Midlands, including in-depth studies by local business groups and authorities. For instance, the Federation for Small Businesses (FSB) – through their regional networks – have identified the following Brexit trade challenges; aligning with the findings of their national Ready to Launch survey.

- There is a **perceived lack of appreciation of/support for the export of services to the EU.**
- There is a general and growing consensus that most of the **'big' international freight/courier providers are not coping well with the new EU trade arrangements,** with alarming examples of carriers delivering goods ad-hoc and drivers demanding £'000s cash payments for import duties before releasing the goods to the customer.
- Reports of **massively increased costs for importing/exporting 'part containers'** – which disproportionately affects smaller businesses who typically deal in smaller consignments;
- A number of local SMEs have reported that in addition to encountering delays when importing goods, they have **received little or inaccurate information about when deliveries will be made.** This has resulted in deliveries arriving earlier than anticipated and later than specified – both creating challenges in terms of managing business operations, cash flow and customer expectations.
- The increased **costs and delays in importing raw materials, components and finished goods across a range of manufactured products** (including food & drink), is a major concern for Midlands SMEs.

All in all this is **making it harder for Midlands businesses to trade internationally**, disproportionately impacting small firms. This is, according to FSB, **exacerbating pre-existing barriers to importing and exporting** – FSB and Government data indicate that only 10-15% of SMEs actively trade internationally despite the clear benefits. Over the past 12 months, these negative perceptions have been reinforced by **the protracted and persistent issues of increased time, cost and bureaucracy associated with trading internationally and, specifically, with the EU.**

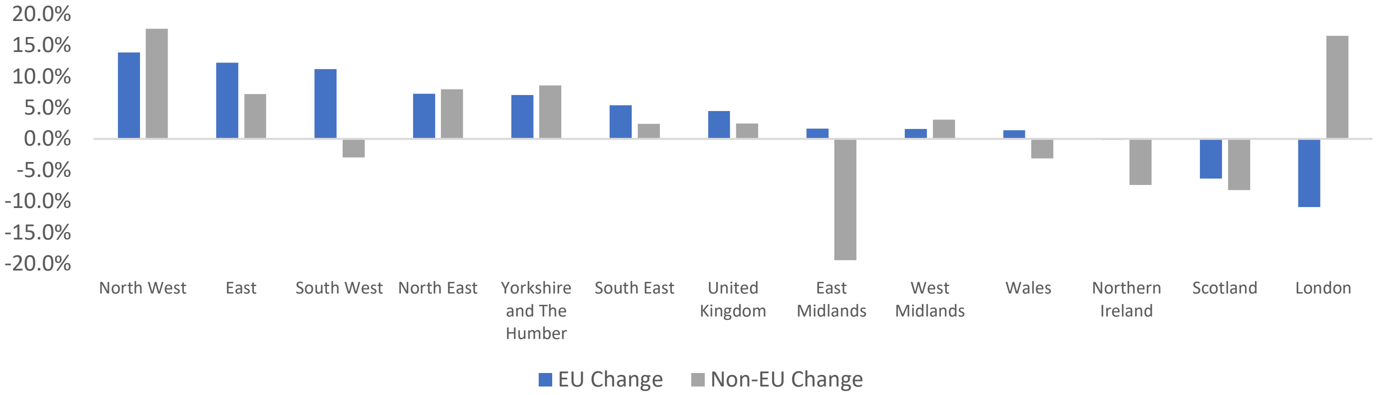
One specific trade-related issue raised by some Midlands businesses relates to **steel safeguarding quotas.** The post Brexit system for import quotas on some steel categories is **causing major cost and uncertainty for downstream users of steel** – many of which are located across the Midlands Engine. When quotas exhaust, **businesses face 25% tariffs on critical materials that they currently cannot source effectively from UK producers.** Through the West Midlands Metals and Materials Forum, Black Country Local Enterprise Partnership (LEP) has responded to the Trade Remedies Authority's steel quotas reconsideration case. The re**sponse was developed in partnership with industry** (Confederation of British Metalforming in particular, and also working with Black Country Chambers of Commerce), following on from **successful collective lobbying on Category 12 steel products** – leading to a change in the way they products are categorised for quotas (splitting products between alloy and non-alloy).

Trade Impacts

The anecdotal evidence of greater barriers to trade is now starting to show in the official data, with a disproportionate impact on the Midlands Engine. For the year ending Q3 2021, goods **exports from the Midlands area were worth £45.7bn,** a **decrease of £1.5bn (-3.1%) since the year ending Q3 2020.** The decrease is largely attributed to £1.8bn (-7.2%) less exports to non-EU locations, driven by a considerable decline in the East Midlands (-19.4%). The **UK increased overall by 3.4% to £305.1bn over the same period.**

Notably, the change in EU exports between the year ending Q3 2020 and year ending Q3 2021 was +1.6% in both the West Midlands and East Midlands. While this reflects rebound growth from the worst of the pandemic, it is among the **lowest recovery in EU exports of all UK regions and below the national average of 4.5%.** As for non-EU exports, the West Midlands reported growth in the same period of just above the UK average (+3.1% vs +2.4%) while the East Midlands plummeted.

Figure 5: Q3 2020 - Q3 2021 % Change in Goods Exports Across Regions



The reason for modest growth or decline in Midlands Engine exports appears **tied to its reliance on trade of machinery and transport related equipment.** This category of goods represents two-thirds of goods exports across the Midlands, much higher than the UK rate (36.4%) and all other regions, and has experienced a challenging trading environment in recent years:

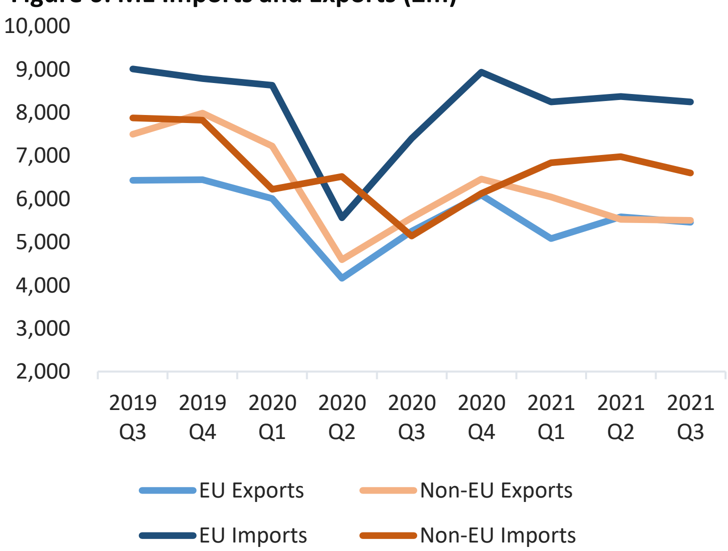
- From Q3 2019, **West Midlands exports of machinery and transport have fallen by an average of -17.6%, reflected in both EU and non-EU exports.**
- In the same period, East Midlands **exports of machinery and transport have fallen by an average of -15.7%,** with non-EU exports particularly hit hard – specifically North America and Asia / Oceania.

Given the falls in both non-EU and EU trade, it is difficult to conclude that Brexit is the underpinning reason for these findings, but it is likely to have **exacerbated a bad situation in industries like automotive** – fighting key challenges such as around semi-conductor shortages – with the Midlands disproportionately affected.

As for goods imports, for the year ending Q3 2021 these were worth **£60.2bn in the Midlands**, an increase of £4.9bn (+8.8%) when compared to year ending Q3 2020. UK-wide total imports increased by 8.2% to £453.4bn over the same period. The **Midlands had a trade deficit of £14.5bn in year ending Q3 2021**. Reliance on EU imports is particularly high, again in the machinery and transport sector in particular.

The official trade data is volatile and reflects a **challenging environment due to many reasons** – not least Covid-19 – but also likely Brexit too. The EU remains a major market for international trade, accounting for 48.6% of Midlands exports, while the region accounts for over 20% of England's exports; above London and the South East. **Maximising opportunities and reducing barriers to international trade will be critical for the Midlands economy moving forward post-Brexit.**

Figure 6: ME Imports and Exports (£m)



Source: HMRC Regional Trade Data, January 2022

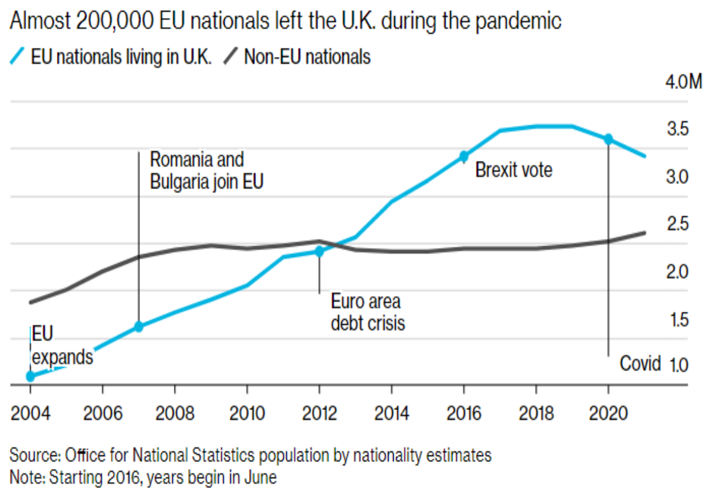
Impact on the Midlands Engine Labour Market

Impact on Labour Market

Evidence suggests that **Brexit has exacerbated shortages in the UK's labour market supply**. This is due to the EU Exit deal moving the UK to a new immigration system with the end of free movement and EU citizens being treated in the same way as non-EU citizens. The Midlands and wider UK has record numbers of vacancies, and while these labour shortages are a global issue caused by the pandemic, there is also **likely to be a considerable Brexit effect**.

The number of EU-origin workers on company payrolls (which omits the self-employed) fell by about 200,000 in 2020 across the UK. **While the exodus of EU workers in 2020 was primarily driven by the pandemic, their failure to return (or to be replaced by new migrants) is likely to be driven by Brexit.** This is further drawn out by Migration Observatory data that shows the non-EU born working population remained relatively stable in the same period.

Figure: 7a Quitting Britain

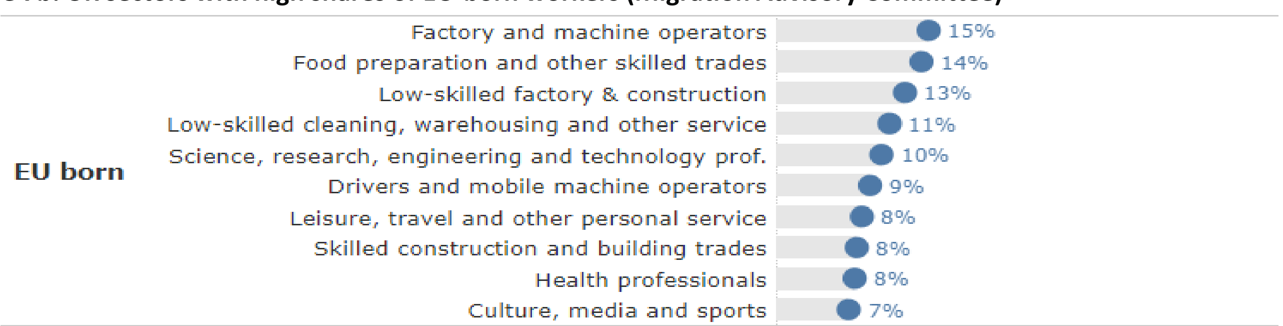


The effects have been particularly apparent in sectors that have historically relied on EU workers, such as **hospitality, warehousing, healthcare, construction and agriculture.** For example:

- Pre-pandemic, a quarter of workers in hospitality and tourism in the UK were non-British, and almost half of those were from EU countries.
- Almost all of 70,000 seasonal agricultural workers in fruit picking and vegetable harvesting were from eastern Europe in 2017, according to evidence by the National Farmers Union (NFU).
- The Migration Advisory Committee (AC) stated in late 2021 that over 50% of EEA care workers stating they came to the UK for employment.

These **higher risk sectors are reflected in the top occupations with the highest share of EU-born workers (2020), as displayed below,** including factory and machinery operators, drivers and health professionals.

Figure 7b: UK sectors with high shares of EU-born workers (Migration Advisory Committee)

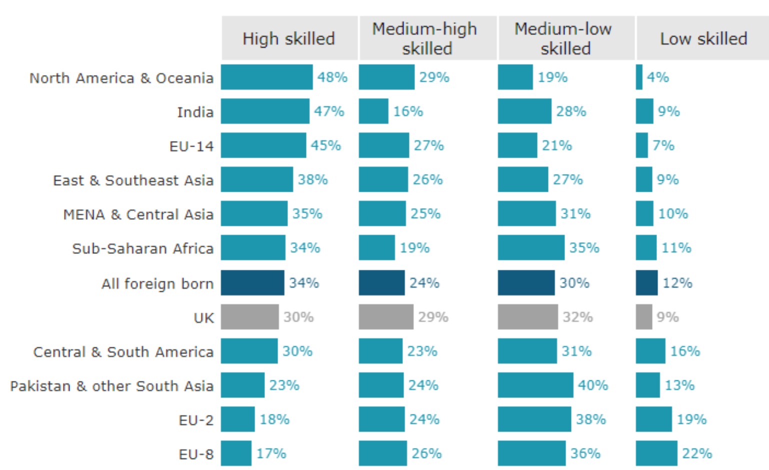


However, despite common misconceptions, EU-born workers in the UK **undertake jobs across all skill levels.** This however **varies depending on the group of origin countries**:

- **45% of workers born in EU-14 countries** (EU members before its enlargement in 2004, including Germany, France, Spain and Italy) **are in high skilled roles in the UK**. This is considerably higher than the UK economy-wide average.
- Much lower skilled levels are reported in **EU-8 (17% high skilled) and EU-2 countries (18% high skilled),** countries later access to the EU. This includes Poland, Romania, Hungary and Bulgaria amongst other Eastern European states.

Figure 8: Job skill distribution by country of birth, 2020 (MAC)

Employed and self-employed, age 16 to 64



Impact on Labour Market

Midlands businesses and business groups **constantly reported issues related to skills and labour shortages in 2021.** This is a complex problem with many causes, not least the pandemic and structural issues within local areas and sectors. It **also reflects a disconnect between high levels of unemployment and a record number of vacancies for both jobs and apprenticeships**. Skills shortages and mismatches are one key part of this; namely:

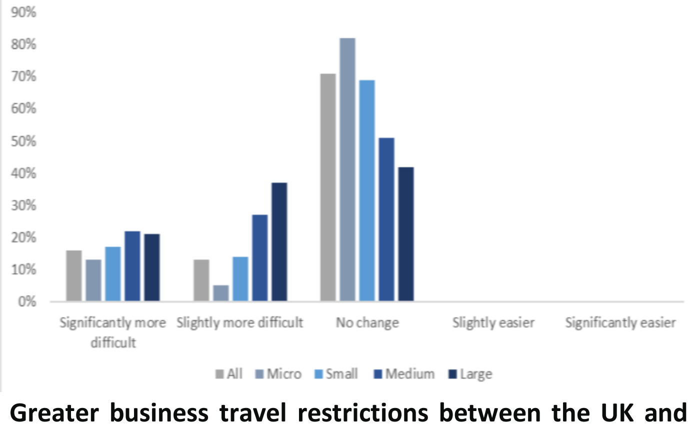
- New technology requires new skills by employees.
- Higher demand on high qualifications.
- Reduced flexibility of employers to recruit in particular at the lower end of the labour market.
- Implications of the EU exit and changing immigration policy on less desirable vacancies.

Simply by making recruiting from the EU harder, freedom of movement changes from Brexit have affected businesses' access to labour. Aligning with the national data, **businesses in some sectors have described the "Brexit Exodus"** as having an unprecedented impact on their operations and competitiveness. For example, shortages within:

- HGV drivers
- Healthcare workers
- Construction roles
- Hospitality roles including chefs and waiting staff
- Agriculture staff (particularly seasonal but also specific roles such as abattoir workers)
- Security staff
- Manufacturing

Overall, the Institute of Directors found that, nationally, over a quarter of companies said Brexit had caused difficulties hiring staff. This is mirrored in local findings from Greater Birmingham and Solihull Chambers of Commerce, which found that **29% of respondents had found it slightly or significantly more difficult to recruit workers from the EU since the Brexit transition period.**

Figure 9: Recruiting workers from the EU (GBSCC)



Greater business travel restrictions between the UK and the EU and a lack of mutual recognition on professional services provide further operational difficulties for Midlands firms. Additional costs associated with this activity provides another inflationary pressure.

Reflecting the variety of sectors and roles affected by labour issues, the CBI have identified:

Figure 10: Examples of current shortages (CBI)

	RQF level 1, or equivalent	RQF level 2	RQF level 3+
Logistics		Forklift drivers LGV drivers HGV driver	
Food & Drink	Food & meat processing operatives Livestock & arable workers Fruit & flower pickers		Butchers
Retail & hospitality	Front of house Retail shop floor Warehouse operatives Laundry operatives Cleaners & housekeeping	Chefs	Administration
Construction		Scaffolders Carpenters	Welders Electrical engineers
Manufacturing	Fabricators Production operatives Factory assembly workers	Machine operatives	Mechanical engineers

CBI suggest the following to alleviate short-term pressures:

- **Marrying skills policies to roles** with the highest unfilled vacancies.
- Adding greater **flexibility to the Apprenticeship Levy.**
- Using the Government's own **skill-focused immigration levers.**

This is to tackle what is considered a **long-term problem that threatens the growth of the Midlands**. Evidence of this is provided by both British Chambers and through BDO's Rethinking the Economy survey. The latter found that staffing is the biggest concern amongst regional business leaders, with more than a **quarter (28%) citing recruitment as the most significant barrier to growth**.

The impact of Brexit is likely to be contributing to labour market volatilities nationally and in the Midlands, particularly given the **region's reliance on some of the sectors highlighted** – notable food & drink, manufacturing and logistics – and EU-born workers therein.

Work is being undertaken to tackle the skills and labour market challenges, both nationally and regionally. Together, **technological change, Covid-19 and Brexit are altering the skills that people require to succeed in work**, and what the Midlands Engine requires to deliver high-wage and sustainable employment.

Upskilling of the Midlands workforce is critical to successful Covid-19 and Brexit recovery, something which can be done by employers and the public sector in partnership. Yet research shows that the prevalence of employer provided training has fallen in recent years, and **that Brexit caused firms to cut back on training expenditures**. LSE researchers suggest that to incentivise employer-led upskilling the focus should be on the **specific support needed, rather than trying to identify the cause** (e.g. Brexit, Covid-19, technological change). And that other specific interventions – like tax **credits or apprentice schemes** – should be used in direct response.

Impact on Labour Market

Midlands-level analysis of in-demand occupations via the EMSI platform shows how Brexit may have already increased labour and skills shortages in some sectors.

Figure 11: Sought after occupations in the Midlands Engine between January 2021 and January 2021 (EMSI)

Occupation (SOC)	Total/Unique (Jan 2021 - Jan 2022)	Posting Intensity	Median Posting Duration
Nurses	673,891 / 83,071	8 : 1	36 days
Elementary Storage Occupations	333,445 / 60,771	5 : 1	33 days
Care Workers and Home Carers	372,825 / 60,549	6 : 1	34 days
Sales Accounts and Business Development Managers	270,530 / 54,551	5 : 1	34 days
Van Drivers	241,832 / 53,681	5 : 1	33 days
Other Administrative Occupations n.e.c.	191,203 / 45,065	4 : 1	29 days
Primary and Nursery Education Teaching Professionals	254,755 / 43,466	6 : 1	34 days
Programmers and Software Development Professionals	270,225 / 39,207	7 : 1	36 days
Metal Working Production and Maintenance Fitters	237,167 / 37,943	6 : 1	35 days
Book-keepers, Payroll Managers and Wages Clerks	222,470 / 37,268	6 : 1	37 days

The data presented (and for previous years) shows that:

- There is significant **correlation between the most sought-after occupations in the Midlands Engine and the occupations identified as higher risk sectors with the highest share of EU-born workers.** Reflecting 'Health Professionals', Nurses, Care Workers and Home Carers are two of the top three most in-demand occupations.
- Indeed, looking back to 2019 and through 2020 to the present, Nurses remain the most sough-after occupation both in-terms of volume and intensity, up 28% to 83,071 whereas demand has increased by 51% for Care Workers and Home Carers – **driven in no small part due to the on-going pandemic and reliance on EU-workers.**
- Likewise, Elementary Storage Occupations which includes **low-skilled cleaning, warehousing operatives** and other services which has moved from being the nineth most sought-after occupational class to the second, with job adverts more than doubling from 30,242 in 2019 to 60,771 in 2021 (+101%).
- These trends are also mirrored to an extent for both **drivers and factory and machine operatives**, up 31% and 23% respectively.

More broadly, the Midlands Engine has a particular **reliance on many of the sectors highlighted as at most risk to a reduction in EU workers.**

11.8% of Midlands Engine jobs are in **Advanced Manufacturing & Engineering,** much higher than the 7.7% UK average, while **Retail** (16.0% vs 15.0%), **Healthcare & Life Sciences** (13.7% vs 13.2%) and **Transport Technologies & Logistics** (5.9% vs 5.2%) jobs are all also over-represented in the Midlands. This suggests areas which the Midlands may be **disproportionately affected as the full impacts are revealed.**

Figure 12: Jobs by sector (ONS)

	Midlands Engine 2020	Midlands Engine % of 2020 Total	Eng. 2020	Eng. % of 2020 Total
Advanced Manufacturing & Engineering	520,000	11.8%	1,998,000	7.7%
Transport Technologies & Logistics	261,000	5.9%	1,340,000	5.2%
Healthcare & Life Sciences	601,000	13.7%	3,394,000	13.2%
Energy & Low Carbon Technologies	103,000	2.3%	475,000	1.8%
Business Professional & Financial Services	830,000	18.9%	5,889,000	22.8%
Creative & Digital	128,000	2.9%	1,195,000	4.6%
Construction	306,000	7.0%	1,841,000	7.1%
Retail	702,000	16.0%	3,861,000	15.0%
Public Sector Inc. Education	579,000	13.2%	3,395,000	13.2%
Visitor Economy	362,000	8.2%	2,419,000	9.4%
Total	4,390,000	100%	25,805,000	100%

Investment, Regulation & Funding Impacts across the Midlands Engine

Investment, Regulation & Funding Impacts

Foreign Direct Investment

Falling levels of FDI is another recent trend that is difficult to pin down to one specific cause. In 2020–21, UK FDI project numbers declined by 17% compared with the previous year. The **UK's investment attractiveness took a hit in the fallout from Covid-19, but also uncertainty surrounding a no-deal Brexit** before the EU-UK free-trade agreement was signed in late 2020. FDI projects in most of the UK's key source markets declined in 2020–21. Projects from the US dropped by 15.8%, India by 17.5% and Germany by 19.1%

Regionally, there were **217 FDI projects into the Midlands in 2020-21, a decrease of 10.3%** (-25 projects) compared to 2019-20. Between 2016-17 to 2020-21, **43.6% (500 of 1,147 total projects) of Midlands Engine FDI projects were from EU countries**, higher than the UK average of 35.7%. The longer-term impact of Brexit on FDI remains to be seen, and there is optimism that the UK will remain attractive to foreign investors. It will be important, though, to focus on the **regional distribution of this investment** to ensure balance across the country, including the Midlands retaining high EU FDI levels.

Figure 13: FDI projects and new jobs by region

	FDI Projects			New Jobs		
	2018-19	2019-20	2020-21	2018-19	2019-20	2020-21
Multiple UK sites	52	58	49	12,288	8,916	14,855
North East	59	73	51	2,188	2,979	1,373
North West	142	154	139	4,663	5,013	4,309
Yorkshire and The Humber	98	104	86	2,244	2,264	1,412
East Midlands	**69**	**85**	**72**	**1,823**	**2,425**	**2,149**
West Midlands	**155**	**157**	**145**	**5,044**	**3,883**	**4,443**
East of England	87	79	72	1,513	1,709	2,066
London	627	638	492	14,875	12,989	13,832
South East	202	211	163	3,905	6,434	2,538
South West	79	70	76	1,945	1,472	2,242
Scotland	126	121	92	3,348	2,946	3,245
Wales	51	62	72	2,314	2,736	1,529
Northern Ireland	35	40	29	1,475	2,351	1,326
Midlands	**224**	**242**	**217**	**6,867**	**6,308**	**6,592**
Total	1,782	1,852	1,538	57,625	56,117	55,319

Department for International Trade, Inward Results; 2021

Regulation

It is likely to take years for the UK to transition into a fully post-Brexit regulatory environment, making it difficult for businesses and individuals to adapt in changing circumstances. In its December 2021 version of a "UK-EU Regulatory Divergence Tracker", UK in a Changing Europe identify **19 cases of divergence, 14 of which are 'active' – meaning new UK law replacing or amending EU rules.**

These will affect Midlands business variably dependant on their business and sector operation. Notable changes that have been raised as potentially harmful, over and above aforementioned trade changes, include:

- **The UK establishing its own chemical regulation programme, UKREACH, after leaving EU REACH.** Industry leaders, including Midlands-based companies, have **urged the government to radically rethink the post-Brexit chemicals regime,** amid warnings it could cost £1bn to implement, drive business away and lead to "additional and repetitive animal testing".
- The **UK establishing its own UKCA system for conformity assessment and markings on industrial and electrical goods.** In a British Chambers Survey in October 2021, almost two thirds of respondents for whom certification marking was applicable said their preference would be to permanently revert back to the EU's CE certification marking system.
- **Regulatory divergence in other sectors including for medical devices and data flows**.

Future Funding

Midlands Engine Observatory analysis suggests that, between the 2014-2020 funding period, the 9-LEP Midlands Engine area received **£1.35 billion from EU Structural Investment Funding (EUSIF) and an additional £536m from Horizon 2020 funding.** This amounts to a**lmost £2 billion in regenerative and research funding** to directly benefit the whole region.

While aspects of replacement funding have been announced, namely through the Levelling Up Fund, Community Renewal Fund and through UK's retained place in Horizon 2020, **certainty over filling European funding gaps is still required for the Midlands and across the UK.** This is critical for many regeneration projects and business support programmes.

Figure 14: EU funds in the Midlands Engine, 2014-2020

EU Fund	ME Total 2014-2020 (£)
EUSIF	**£1.35bn**
HORIZON 2020 (2014-2020)	**£536m**
Total	**£1.9bn**

Midlands Engine Sector Impacts

Sector Risks

Midlands Engine Observatory have developed a standardised sector risk and impact matrix for both Brexit and Covid-19. This page highlights the **latest risk analysis for the UK's new relationship with the EU**. The pages thereafter in this section of the monitor provide deeper sector-level analysis, highlighting the key challenges faced by businesses due to Brexit.

The findings of the matrix are based on a mix of quantitative data and qualitative insight from businesses across the region, taking advantage of the **Midlands Engine's industry links via relationships with local trade bodies and business groups.** The final column in both matrices provides an **overall risk to each sector.** The Red, Amber, Green (RAG) traffic light rating does not represent **the fortunes or risks of all businesses in all sub-sectors where indicated, but rather provides a general overview of how much of a risk certain features are across sectors.** Likewise, a green rating does not mean there is no risk at all, but relatively low compared to other sectors. The specific EU Exit issues outlined have been identified by reviewing risks captured through ongoing intelligence regionally. Their description and risk exposure definitions can be shared on request.

Figure 15: Perceived business environment for sectors and sub-sectors as of February 2022

Black Country Consortium Economic Intelligence Unit	VAT	Financial Equivalence	Travel	Prices / Costs	Customs Paperwork	Prof. Quals.	R. of Origin	Standards / Regulation	Data Sharing	Skills / Labour Shortages	2022 Changes	Loss of EUSIF Funding	Overall Risk of Reduced Competitiveness
Advanced Manufacturing & Engineering													HIGH
Aerospace													MEDIUM
Metals & Materials													MEDIUM
Food & Drink													HIGH
Automotive													HIGH
Rail													MEDIUM
Construction													MEDIUM
Retail													MEDIUM
Visitor Economy													MEDIUM
Culture													MEDIUM
Hospitality													MEDIUM
Business, Professional and Financial Services													LOW
Financial Services													MEDIUM
Legal & Accountancy Services													LOW
Real Estate, Property & Consultancy													LOW
Energy & Low Carbon													LOW
Creative, Design and Digital													MEDIUM
Creative & Digital													LOW
Arts & Ent'ainment													MEDIUM
Healthcare & Life Sciences													MEDIUM
Health & Care													MEDIUM
Life Sciences													MEDIUM
Transport Technologies													HIGH
Public Sector inc. Education													MEDIUM
Agriculture													HIGH

Impact on Midlands Manufacturing

In recent years UK manufacturers have seen the single greatest change in how they do business in the EU in more than four decades. These effects and their knock-on impacts are particularly important for the Midlands:

- The Midlands Engine represents **21% of all UK manufacturing** and 20% of the UK manufacturing workforce (**over 500,000 jobs**).
- There are **25,000 manufacturing businesses** in the Midlands Engine, a higher concentration than the UK average. It is a key industry and the backbone of our current and future economy.

Manufacturers have been reporting ongoing challenges to trade with the EU for both **imports, exports and business travel.** The TCA has also created a wider negative perception within the EU on doing business with the UK due to the above issues and the administrative challenges or cost this adds. The administrative pressure has often led to delays in the shipping of goods and issues at the border – reducing efficiency of UK-EU trade and customer relations when compared to pre-TCA.

A MakeUK report in July 2021 ("TCA 6 months in") presented that **96% of firms faced challenges, almost half had difficulty with customs processes initially but has eased with better understanding of the rules**. Over 1/3 (mainly SMEs) are still struggling with customs procedures and paperwork and more than 1/4 said demonstrating the origin of products is a challenge.

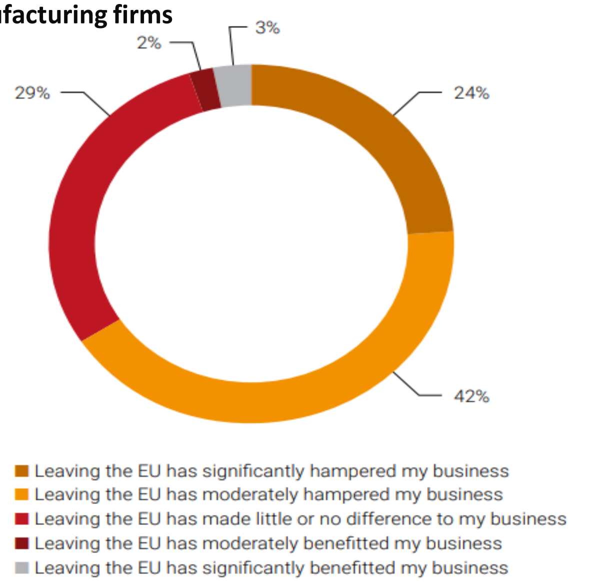
One of the largest issues for the sector is the **implementation of the UKCA / CE product labelling**. A significant proportion of firms do not understand the requirements and/or have not been prepared for the change (the lack of UK testing houses has created a capacity problem). Thus the one year extension has been very welcome for time to comply with labelling on the appropriate markets. Additionally this is an added cost to firms.

Delays at customs owing to impending new rules (shipping and/or receiving) are seen as the biggest risk to manufacturing by an overwhelming 37% of respondents. Even without the impending changes, **30.7% of firms say they will face major challenges next year just based on the current difficulties their goods face when being imported and/or exported through customs clearance.** Insufficient capacity owing to increased admin around processing and dealing with customs requirements is a risk anticipated by 15.4% of firms surveyed.

In a sign of the effect Brexit is having on British industry, the **increased cost of meeting EU regulations, such as the REACH directive**, comes in second highest on the list of expected challenges this year according to 28% of UK manufacturers. Adding to the impact of changes that have resulted from Brexit, access to domestic labour and/or skills in the contest of a more restrictive UK immigration system is joint second on the list for 57.5% of respondents. Unsurprisingly, **access to labour and/or skills from outside the UK comes next with 15.4% citing it as a top concern.**

UK manufacturers continue to be resolute and are trading and working with European partners with emerging optimism that some of the processes are becoming more 'business as usual'. **66% state that leaving the EU has hampered their business.** Only 29% believe that leaving the EU has made little to no difference to their business.

Figure 16: The UK's full exit from the EU has been felt by manufacturing firms



Source: Make UK / PwC Executive Survey, 2022

An update report on manufacturing and Brexit from UK in a Changing Europe (Bailey and Rajic), confirms these adverse impacts of Brexit. While stating that the **TCA helped avoid tariff barriers for manufacturers and could have longer-term opportunities across the world, they found that**:

- The TCA **does not fully replace the frictionless** trade and market integration that existed before, resulting in:
  - Administrative barriers to trade (customs, rules of origin).
  - Disruptions to labour flows.
- The adverse impacts are mainly showing through **reduced exports and imports to and from the EU.**
- The ongoing **conflicts around Northern Ireland probably represent the biggest risk** to UK-EU relations.
- The impact of Brexit on manufacturing is likely to be **most profound in the North and Midlands**, given they are most dependant on the EU for both their exports and imports.

Impact on the Midlands Automotive Sector

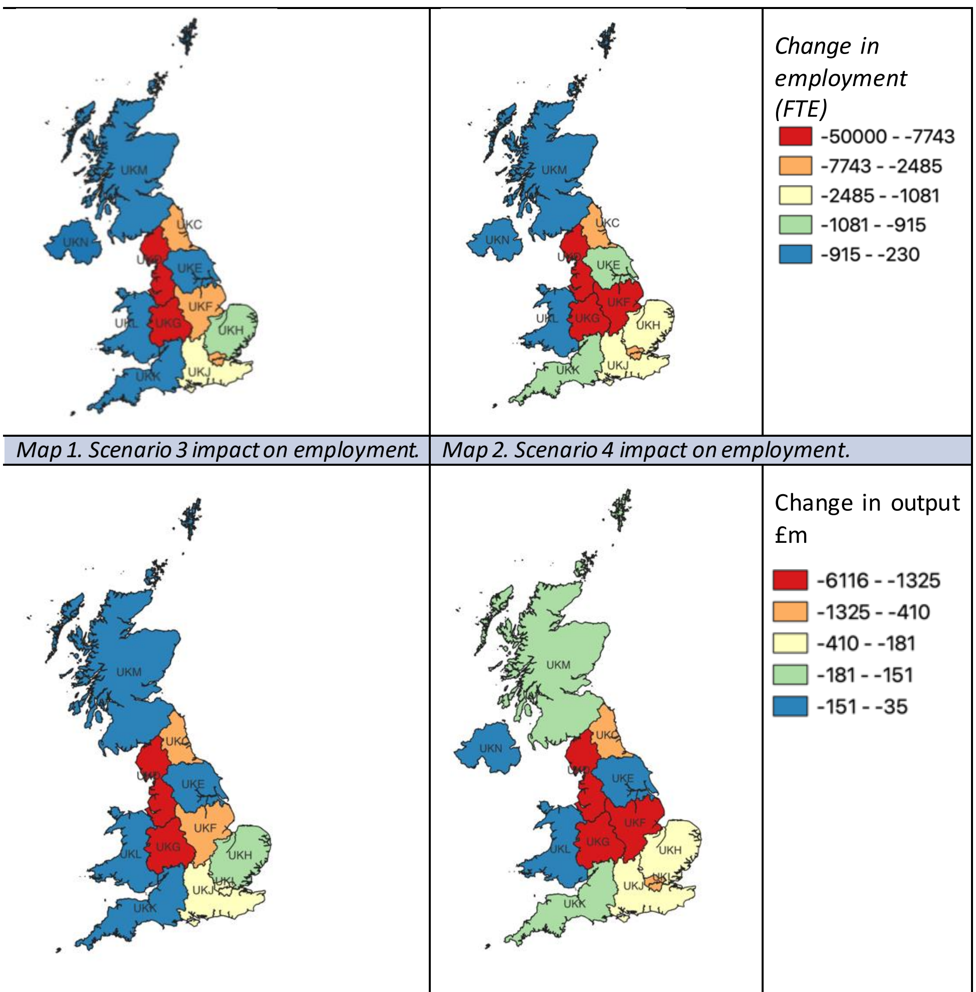
In a specific deep-dive, City-REDI/WM-REDI have prepared a brief to provide insight into the **economic impact that Brexit and Covid-19 pandemic** have had on the **automotive sector** in the Midlands during 2020. This is a critical sector in the region, with [over half of the UK's £16 billion value-added arising in the Midlands.]() The research uses City-REDI's SEIM-UK economic model to estimate the economic impact in terms of output, GVA and employment.

Disentangling the economic impact of Covid-19 throughout the UK economy in 2020 is challenging due to the concurrent economic impacts associated with Brexit. Given the high degree of uncertainty that surrounds these shocks, the estimates use six different scenarios. The scenarios constructed are from **-14% (optimistic) -19% (realistic) to -28% (pessimistic) for both the defined automotive sector** (scenarios 1,3,5) and the broader definition.

Interregional Impacts

An **economic shock to the automotive sector in one region will spillover into other regions** due to the interconnectedness of industries across the UK. **There is an estimated 19% drop in automotive sector demand for the four NUTS regions (West Midlands, East Midlands, North East and North West).** Maps 1 and 3 below show the impacts on the narrowly defined automotive sector while the Maps 2 and 4 show the broader automotive cluster. Maps 1 and 2 show the change in employment due to the changes in demand by geography while Maps 3 and 4 on the bottom show the changes in output.

Figure 17: Interregional impacts of the shock scenarios on the automotive sector



Map 1. Scenario 3 impact on employment. *Map 2. Scenario 4 impact on employment.*

Map 3. Scenario 3 impact on output. Map 4. Scenario 4 impact on output.

Comparing maps 3 and 4, we can see the **change between a focus on the narrow and broader automotive sector**. The broader sector sees a greater fall in output, affecting broader geography.

Looking between maps 1 and 3, we can see a broadly similar pattern between changes in employment and changes in output. Scotland, Wales, Northern Ireland and the South West and Yorkshire and the Humber are all grouped in the lowest impact categories. While the **worst affected areas in terms of output and employment loss are found to be the West Midlands and the North West.** This is expected as they are the regions with the largest share of automotive sector employment (35% and 12%, respectively).

The **impact of Covid-19 and Brexit shocks in the automotive sector is relatively much more acute in the West Midlands than in the rest of the UK**. At the UK level, the drop in annual output is estimated between -0.18% to -0.50% compared with -1.24% to -3.3% in the West Midlands. **In the East and West Midlands together, it represents around 63% of the UK's output lost estimate. In FTE terms, the Midlands is estimated to lose between 14,948-68,548 FTE approximately 42-69% of the UK total FTE lost.**

Impact on the Midlands Automotive Sector

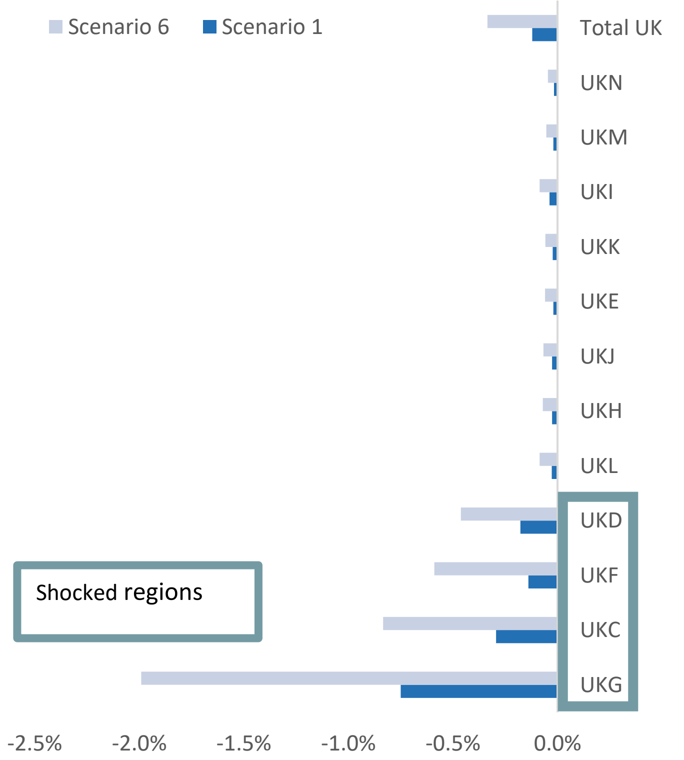
The table below shows the change in output by region based on the best- and worst-case scenarios. Outside the directly shocked regions we can see the spillover into other regions in the UK. **Wales, is notably the most significantly impacted followed by the East and South East of England.** However, even Scotland and Northern Ireland feel the impact of the lost output.

Figure 18: Output percentage change for the best and worst case scenarios by NUTS 1 region

NUTS 1 Region	Scenario 1 Output change %	Scenario 6 Output change %
UKG West Midlands	***-1.24%***	***-3.30%***
UKC North East	*-0.54%*	*-1.41%*
UKF East Midlands	***-0.24%***	***-0.98%***
UKD North West	*-0.29%*	*-0.74%*
UKL Wales	-0.05%	-0.15%
UKH East of England	-0.04%	-0.10%
UKJ South East	-0.04%	-0.10%
UKE Yorkshire and the Humber	-0.03%	-0.09%
UKK South West	-0.03%	-0.09%
UKI London	-0.04%	-0.09%
UKM Scotland	-0.03%	-0.09%
UKN Northern Ireland	-0.02%	-0.07%
Total UK	**-0.18%**	**-0.50%**

Shocked regions in italics

Figure 19: Change in employment by NUTS 1 Region (as a percentage of total region employment) due to a change in demand for the automotive sector -14% and -28%

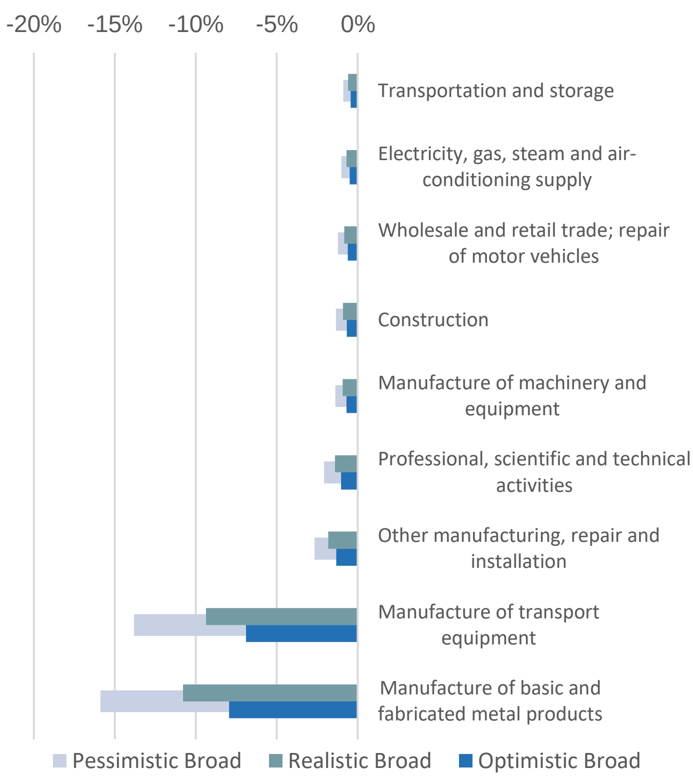


The change in employment by region follows a similar pattern to output change. Figure 11 shows within the shocked regions the **West Midlands (UKG) sees the biggest impact with a loss of FTE between -0.75% and -1.99% throughout the economy.** Once more we can see that no region is unaffected by the shock.

Interindustry Impacts

Figure 12 shows the supply chain effects of the three different demand shocks (-14%, 19% and -28%) on the broad automotive cluster in the Midlands. Unsurprisingly the **most vulnerable sectors are the manufacture of vehicles and fabricated metals.** Under the most severe economic scenario (-28%) manufacture of basic and fabricated metal products observes a 16% fall in GVA compared with an 8% fall in the least severe scenario. Outside of the shocked sectors (see Figure 12), the spill-over impacts are in the broader manufacturing sectors, professional and technical services, construction, trade of motor vehicles, electricity, transportation and storage.

Figure 20: Change in GVA as a percentage of total region GVA for the Midlands (scenarios 2, 4 and 6) in 2020



The estimated impact scenarios suggest a broad range of possible impacts. This is due to uncertainty and the **difficulty of disentangling the concurrent shocks of Brexit, systemic supply chain issues and Covid-19 policy interventions.**

Impact on Services Sector

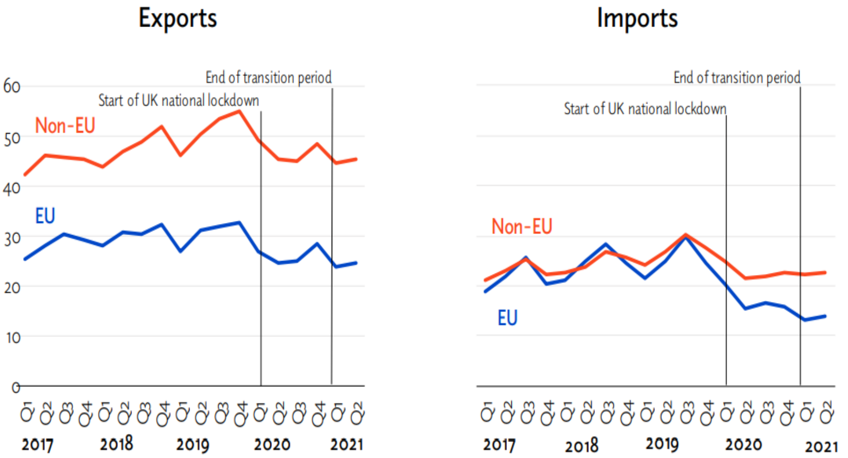
The UK is a services economy, and while the Midlands has a disproportionate reliance on production-based sectors, services is still dominant. From financial services to sales, law and travel, **services-based sectors represent a predominant part of the Midlands economy. Business Professional & Financial Services is the largest sector of the economy, employing 830,000 across the Midlands Engine**; while other services-driven sectors like the public sector, retail, creative & digital, healthcare and visitor economy together employ **an additional 1.7 million.**

As part of the UK in a Changing Europe, University of Nottingham researchers have carried out a comprehensive report on the impact of Brexit on UK services. The report identifies four main ways in which the UK's new relationship with the EU is having an impact on the UK, and thus the **Midlands', services sector:**

1) Trade in services between the UK and the EU is now more difficult than it was during UK membership

UK service exports globally in 2Q 2021 were down 14.2% on the same quarter in 2019. The equivalent figure for imports is 29.3%. However, there are signs that **larger declines are impacting UK-EU trade as compared with UK-non-EU trade,** suggesting that Brexit is having an impact. Over the same two-year period, **UK service exports to the EU were 20.3% lower compared with 10.5% for trade with non-EU countries.** Imports of services from the EU were down 43.7% over the same period. Services imports from non-EU countries were down 16%.

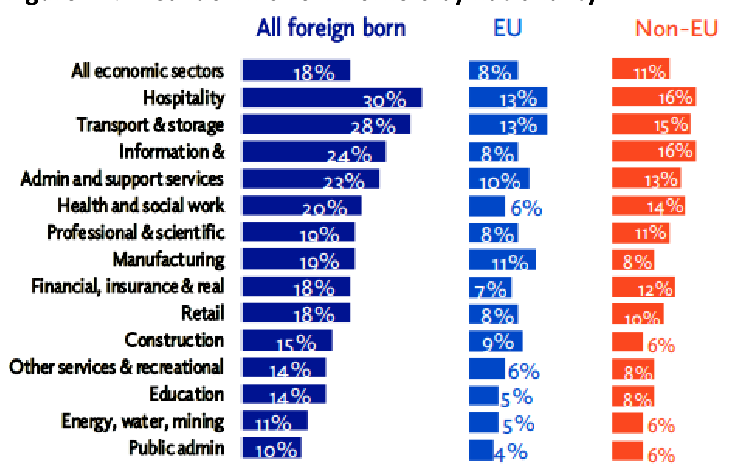
Figure 21: UK service exports and imports



2) The profound effect of the post-Brexit migration system on the UK labour market, not least on service sectors that are used to employing a large number of EU workers

The new migration system is making **it more difficult for some parts of the services sector to employ EU nationals,** and more difficult for UK citizens to travel to sell their services in the EU. In the short-term, this has contributed to **visible labour shortages in accommodation and food services, transport and storage and social care, while the long-term implications are harder to predict.** In this respect, it is important to remember that the new immigration regime represents a **considerable liberalisation for non-EU migrants, with lower salary and skill thresholds**, and no overall cap on numbers. Alongside the potential of upskilling domestically, this offers a substantial increase of opportunity.

Figure 22: Breakdown of UK workers by nationality



3) Adjustments due to regulatory divergence, in particular related to financial and digital services, and haulage

Outside the single market, the UK can now set its own regulatory frameworks for services. The report suggests that government intends to use this freedom to increase the UK's competitiveness by tailoring regulation to the specific needs of the UK economy. As yet though, it is **too early to assess the success of this strategy but the more the UK diverges from the EU,** the less likely the prospects for building on the Trade and Cooperation Agreement and for deepening trade with the EU.

4) The potential (or not) opportunity of non-EU trade deals

The UK can now sign new free-trade and bilateral agreements with other countries. However, **trade agreements do not typically liberalise trade in services to the same extent as in goods, and services trade is typically greatest with geographically proximate partners**. As a result, offsetting any EU trade lost as a result of Brexit with non-EU countries will be a challenge.

Impact on Other Sectors

All sectors have their challenges, exacerbated by the uncertainty of the last two years. Disentangling the reason for different impacts across sectors – and **successfully concluding the "Covid-19 or Brexit" question is especially difficult.**

For example, the **shortages of HGV drivers in the logistics and transport** industry, with dire knock-on effects across the wider economy. While the evidence suggests Brexit is not the only cause, it has seemingly **aggravated an existing problem by reducing the attractiveness of HGV work in the UK** – due to immigration policy, new border controls and other restrictions. Large lorry queues building outside UK ports in January 2022 are again thought to be a consequence of Brexit rules, according to business groups and unions. As shown in 2021, such congestion and driver shortages can have a tangible impact on people's lives and the ability for businesses to operate effectively. For instance, the **retail, hospitality and construction sectors** being **unable to access food and materials as quickly as required.**

Wider impacts of Brexit on **construction** have also been reported, again in the context of attempting to disentangle Covid-19 and Brexit effects. In particular:

- **UK demand for construction materials from the EU is outweighing supply.** This is for a range of reasons:
- A rise in material prices due to unexpected customs duties and additional paperwork at the border.
- Delays in delivery of materials to suppliers or projects due to delays at ports caused by additional paperwork required under the terms of the Trade and Cooperation Agreement.
- Project delays due to a shortage of UK based EU workers in UK construction.
- Industry has warned that **plans to introduce a new post-Brexit "UKCA" safety and quality mark will cause shortages of key building products and materials** and damage the government's levelling up agenda. The warning from the Construction Leadership Council, a joint industry and government body, came despite the full introduction of the UKCA mark already being delayed by 12 months to January 1 2023.
- A **lack of skilled workers** after Brexit has also pushed up wages in the sector.

Sector challenges that are much more clearly a cause of Brexit include:

- **Arts and Entertainment:** due to the **damaging effect of additional travelling for work restrictions and its impact on cultural and entertainment tours** and events in Europe.
- The Brexit deal **failed to negotiate visa-free travel and Europe-wide work permits for musicians and crew.**
- New Brexit rules have also seen a "m**assive" amount of jobs and taxable income lost to the EU due to it making touring "nigh-on impossible" for road crew**. **Cabotage rules** currently mean that trucks travelling from the UK are only allowed to make one stop in an EU state before having just seven days to make a maximum of two more before returning home.
- Touring aside, UK independent artists and labels are also experiencing the devastatingly "outrageous" impact and "**spiralling costs" of sending music and merchandise to Europe** in the wake of Brexit – leading to more huge losses of income.
- **Agriculture and Farming:** due in part to the cost, complexity and requirement for **veterinarian signature of EHCs caused** significant hardship for agri-food exporters in 2021, particularly SMEs.
- The TCA rules were based upon the relevant WTO rules, but with little more in the way of facilitation for smoother trade. In the absence of an equivalence relationship, **or a wider veterinary agreement with the EU, the UK in respect of GB had a weaker relationship with the EU on sanitary and phytosanitary (SPS**) checks on these foodstuffs and plant products, than goods coming from New Zealand – more than 10,000 miles away.
- GB exporting businesses and their customers in the EU have **paid the price through delays**, wastage of food and higher costs as a result.
- Furthermore, research by the National Farmers Union has found that **500,000 of the four million people who work in the food supply chain have left the sector during the coronavirus pandemic**. The decrease in EU seasonal workers in the UK since Brexit has accelerated these labour shortages.

Additionally, Brexit-related challenges for other important Midlands Engine sectors include:

- **Energy and Low Carbon** has more low carbon business support programmes funded through EU Structural Funds (EUSIF), potentially leaving a gap in the sector's ecosystem. While government policy commitment may counteract this, there is no certainty that this will be tangibly realised.
- **Healthcare and Life Sciences**, with risks associated with UK-EU trade and standards / regulations (life sciences sub-sector). In the health and care sub-sector there are potentially severe skills shortages issues arising from EU Exit, while the sector in general has previously received a decent amount of EUSIF funding for innovation and skills programmes.
- **Public Sector**, drawing out the potentially severe and ongoing impact of losing EU funding, and the strain on resources associated with additional requirements for standards, regulation, customs paperwork and supporting businesses with rules of origin.

2022 Threats and Opportunities

2022 Threats

As of the 1st of January 2022, **full customs controls have been introduced for goods moving between Great Britain and the EU, and for goods exported from Great Britain to Ireland**. The new changes which have be implemented are:

1. Full customs import declarations will be required at the point of entry alongside payment of the relevant tariffs.
2. Customs controls at all ports and other border locations.
3. Requirement for proof of origin must be met for those trading with zero tariffs.
4. UK commodity codes changing.
5. Goods Vehicle Movement Service (GVMS) will become operational for EU-GB goods movements.
6. Pre-notification required for imported animal products, and high-risk food and feed not of animal origin.

Prior to this, HM Revenue and Customs allowed for a 175-day delay on companies submitting customs declarations. **Now all checks and forms must be filled and filed at least four hours before goods can arrive here**, or they risk being turned back at the border. However, **checks are set to be phased in and will be relatively minimal until July 2022**, when all goods will undergo stricter checks, similar to those taking place on food being shipped from Britain to the EU. Rules on country of origin documents will also get marginally stricter, with declarations needing to be made when goods arrive here. Those rules will be ramped up later in the year.

The UK currently imports five times the amount of food it exports to the EU, as a result it is expected that there will **likely be delays when importing goods from the EU, especially in the short-term as businesses adjust and streamline their business models to meet the new rules**. The British Frozen Food Federation has warned there will likely be delays at ports, they say not enough planning has been done to ensure the new requirements are understood by businesses within the food supply chain. The full list of changes this year are as follows:

JANUARY 1 2022

- **Full customs declarations** Import declarations to HMRC for goods from the EU can no longer be deferred by up to 175 days. UK businesses must complete import declarations in “real time” as products enter the UK.
- **Food and plant products pre-notification** Businesses importing food goods that require so-called sanitary and phytosanitary checks must enter these into the UK’s import of products, animals, food and feed system (IPAFFS). They will still not need export health certificates or physical veterinary inspections on arrival.
- **EU hauliers to be pre-authorised** Lorry drivers entering from the EU will need to show they have the above documentation to obtain a pre-authorisation code to board ferries. They will obtain this via the goods vehicle movement service (GVMS).
- **Rules of origin requirements enter into full force** UK businesses wanting to take advantage of zero tariff access for EU imports will need to ensure products from the EU are supported by suppliers’ declarations proving the goods are sufficiently EU-made to qualify for tariff-free access. And vice-versa for EU importers of UK goods.

JULY 1 2022

- **Physical checks and certification introduced** Plant and meat products from the EU will need to be accompanied by export health certificates and will be liable for physical inspections by UK port health authorities.

SEPTEMBER 1 2022

- **Dairy products** Will require export health certificates and be liable for physical inspections by UK health authorities

NOVEMBER 1 2022

- **Composite products and fish products** Will require export health certificates and be liable for physical inspections by UK port health authorities.

Business groups have warned that the new import controls, which were delayed by one year in order to keep trade flowing, will **put considerable new pressure on small businesses in the Midlands in 2022 as they continue to adjust to trading outside the EU single market**. And according to the British Chambers of Commerce (BCC), **government should fix post-Brexit red tape over customs and trade processes.**

The new rules introduced from January 1 had initially caused extra turmoil, with industry sources telling the BCC that about 30 per cent of trucks were being turned back at Calais in the first week of this year; but BCC have said this had stabilised at about 10 per cent. **However, recent reports and images of long lorry queues outside Dover are concerning.** The BCC called on the government to provide further financial help for companies needing to adapt to the rules by bringing back the **SME Brexit Support Fund**, which was set up to help small businesses handle the confusion and paperwork associated with leaving the EU, and increasing its maximum payments to more than £2,000.

Manufacturing firms are expected to be impacted in particular: **56% of UK manufacturers surveyed by MakeUK state that the impending changes to rules concerning UK customs arrangements and the further planned changes will present significant challenges to their business.** While importing farm shops and delis are also hit hard, resulting in a lack of stock and increased prices. All of these new challenges are on top of problems experienced before the turn of the year.

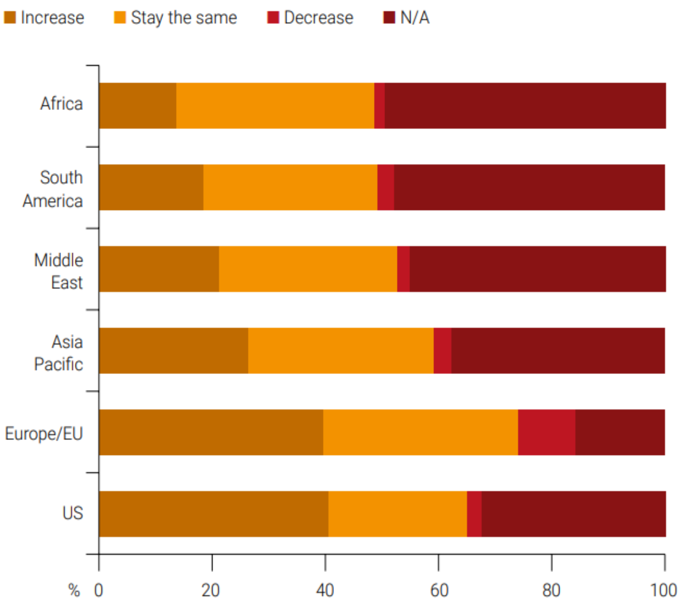
2022 Opportunities

In terms of Brexit positives and future opportunities, from a trade perspective much hinges on **making a success of "Global Britain" – reaching international markets outside of the EU.** By July 2021 the UK had rolled over deals with over 60 countries, including some larger markets such as Canada and Mexico. It also signed a trade deal with Japan that differs slightly from the EU–Japan agreement, and has recently **secured a trade deals with Australia.**

The new trade deals provide businesses an "appetite to explore new markets". While the EU is likely to remain the significant export market, **many manufacturers and other businesses are exploring new markets**, with more firms exporting to the USA, India, China, Brazil, the UAE, and Canada than in previous years. It's possible that manufacturers, having had to adjust to the new rules in trading with the EU, have used that trade administration **knowledge to export into other countries.**

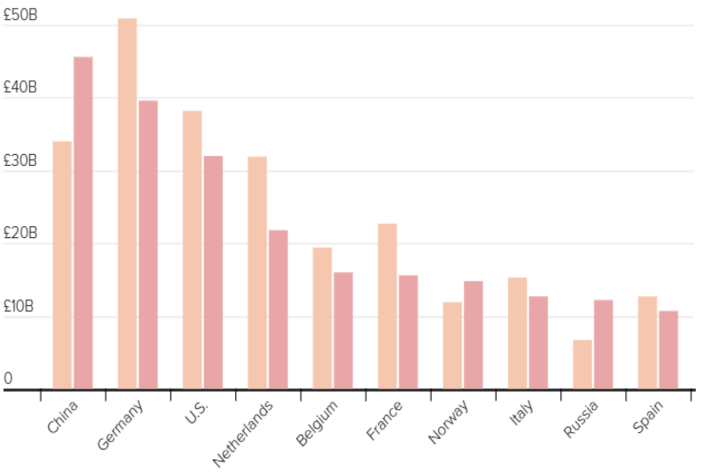
Making the details of further trade agreements between the UK and third countries more comprehensible and relevant to business is ongoing, as is **ensuring that trade agreements reduce and then eliminate technical barriers to trade in goods and services**, such as regulatory and market standards. MakeUK data supports growth of non-EU markets as well as EU: **40% of manufacturers expect that their trade with the US will increase in 2022**, a further 26% expect to see an increase in trade in the Asia Pacific region and 21% expect to see growth in the Middle East. FSB have reported similar trends too.

Figure 23: Exports to US and EU set to pick up in 2022



Furthermore, UK imports from some non-EU countries are increasing at the expense of EU imports. **Imports from China to the UK in the year up to October were up by over a third on the same timespan in 2019**, making it the country from which Britain imported the most. Imports from Russia have also increased considerably, compared to **large falls from Germany, France and the Netherlands**.

Figure 24: Imports to the UK from top countries (£bn) Q1-Q3 2019 vs Q1-Q3 2021



Another possible Brexit opportunity is for the UK to **"reshore" production of some goods.** This appears to be on the agenda for British manufacturers and the government. MakeUK survey results show that **almost one in five (18.9%) of UK manufacturers say they plan to reshore some or all of their overseas operations to the UK within the coming year**. A further 16.7% plan to do so within the next two years. In addition, 12.7% are considering reshoring or onshoring overseas activities but have yet to decide.

This is an opportunity that is very relevant to the Midlands and can support growth and recovery if successful. However, it is noted that reshoring faces many barriers – including access to finance, wage and energy costs and the availability of land. It would require much more supportive **industrial policy,** led centrally from government and making a success of existing initiatives such as **freeports.**

The end to freedom of movement may also provide central and regional government the impetus to develop and deliver a **holistic skills system for the domestic workforce.** This could help solve a **reliance on low-wage EU labour in some sectors,** but the risk is clearly that vacancies cannot be filled by UK workers alone.

An alternative approach is to **tap-into the non-EU international labour market.** The new immigration regime represents a considerable liberalisation for non-EU migrants, with lower salary and skill thresholds, and no overall cap on numbers. Approximately 68% of UK employees work in occupations requiring RQF3 level skills or above. The requirement for new migrants to be paid at or above the lower quartile of earnings for an occupation implies **about half of all full-time jobs would, in principle, qualify an applicant for a visa.**

This example of **greater flexibility is also true of regional development funding.** Outside the EU, the UK can design this appropriately through funds like the UK Shared Prosperity Fund and Levelling Up Fund.

2022 Opportunities

The UK Government recently published a [“Benefits of Brexit”] **paper to outline what is being undertaken to grasp the opportunities of a UK outside the EU**. Starting by setting out some of the achievements so far, the report then sets out how the UK is, and intends to further, take advantage of Brexit and in the government’s words its “**world of future opportunities”:**

Perceived achievements of the government’s Brexit policy so far include:

- **Ending free movement** and taking back control of the UK’s borders, focusing on skilled workers and the best global talent.
- **Restoring democratic control** over law-making.
- **Restoring fair access to the welfare system.**
- Giving UK regulators the ability and the resources to make **sovereign decisions** about globally significant mergers.
- **No longer paying EU Budget** contributions.
- Establishing our own **subsidy regime.**
- Reforming and simplifying our **public procurement rules** so that the public sector can buy more local goods and services.
- Delivering **Freeports, including in the East Midlands.**
- Rewriting the rules on support for **places and regions to deliver on levelling up.**
- Setting out a new UK pro-competition **regime for digital markets**.
- Reforming EU **financial services regulations.**
- Attracting the most **innovative and successful firms** and helping companies access the finance they need to grow.
- Reviewing our **Product Safety Regime.**
- Using our new UK Emissions Trading Scheme to **deliver net zero.**
- **Agreed trade deals with 70 countries** plus the EU.
- Established a **strategic partnership with Australia and the USA** (AUKUS).
- Agreed more ambitious provisions for **digital trade.**

While the future focus sections of the report particularly relate to:

1) Delivering the Best Regulated Economy in the World
- Delivering an improved regulatory system, nesting the reforms that we are introducing under the Government’s five regulatory principles:
- A sovereign approach.
- Leading from the front.
- Proportionality.
- Recognising what works.
- Setting high standards at home and globally.
- Taking steps to ensure that any retained EU law on the UK statute book meets the UK’s priorities for unlocking growth and is tailored for the UK market.

2) A World of Future Opportunities
- **Data, Science and Technology**: including using Brexit to harness how the UK spends money to better invest in innovation, and to take a global approach with heightened agility.
- **Business and Industry**: particularly related to reforming financial, legal and wider business / professional services regulation and utilising the new domestic subsidy control regime to support the whole economy and business base.
- **Infrastructure and Levelling Up:** taking a faster approach to regulate the future of transport and mobility, and changing regulations on aviation, nuclear and construction / housing sectors. Procurement and subsidies can also be simplified.
- **Climate, the Environment and Agriculture:** reforming environmental regulation to deliver cleaner air and reduce waste, while taking advantage of being outside the Common Agricultural and Fisheries policies.
- **Global Britain:** harnessing new control over customs and border processes to restrict immigration, and maximising trade deals around the world to maximise global trade and opportunities.

In the document, the Government commits to going “further, faster and forward” to achieve their vision for the UK in these areas. There are many cross-overs to the strengths of the Midlands and the priorities of Midlands Engine.

Reflections on Brexit & Covid-19

Looking Back, Looking Forward: Reflections on Brexit & Covid-19

Analysis from Will Rossiter, Associate Professor of Regional Policy & Development, NTU.

A year-on from the end of the transition agreement covering the UK's exit from the EU and roughly two years from the start of the Covid-19 pandemic is a timely point at which to reflect on the economic and wider significance of these experiences for the Midlands. This opinion piece will **try and take stock of the experience of the last 2 years, drawing together many of the recurring themes that have featured in the last 20 Midlands Engine Economic Monitors**. In so doing it will consider some of the implications for the future development of the Midlands economy.

One of the main challenges in reviewing this tumultuous period is the difficulty in attributing causality for the phenomena that we have witnessed to Brexit and/or Covid-19. Brexit was always likely to cause a degree of economic dislocation that would require adaptation from both businesses and consumers – though views varied as to the likely scale and significance of these impacts. Similarly, a global pandemic and the associated public health response cannot occur without economic consequences - a direct result of the necessary policy response – but also as a function of behavioural change in the population at large. The **juxtaposition of Brexit and Covid-19 makes it difficult to attribute causality and precisely apportion degrees of responsibility for specific economic outcomes to these contingencies**, but there is a very real sense in which the **co-evolution of Brexit and the Covid-19 pandemic have exacerbated the scale and significance of the challenges faced by the businesses, people and communities of the Midlands**. Nowhere is this more evident than in relation to trade and supply chains.

Trade and supply chains

Arguably some of the first economic impacts of the pandemic to affect the UK early in 2020 were felt through international **supply chains as lockdowns and other restrictions in China disrupted manufacturing operations and the onward supplies of goods and materials to the West.** From a consumer perspective, supply chain issues first came to prominence in March 2020 with the well documented 'run on toilet rolls' coupled with shortages of eggs and flour on supermarket shelves as a result of a lockdown home-baking boom.

As time passed shortages spread. A boom in bicycle sales stimulated by lockdown fitness drives was followed swiftly by a bicycle drought as retailers exhausted their stock. From a business perspective, the challenges presented by supply chain problems were various.

ME Monitors over the last two years have documented business experience of supply problems in relation to finished products (e.g. Bicycles and PPE); materials such as **wood, steel, cardboard and polypropylene; and specialist components such as semiconductors used widely in manufacturing**. These supply chain problems have disrupted production while also contributing to rising input cost pressures on businesses.

Problems in supply of materials and products have been further exacerbated by **dislocation in international logistics operations.** Costs of international shipments (container prices) have risen dramatically over the course of the pandemic. The pandemic did not happen everywhere at once. Successive waves of infection reached different countries at different times. Containers gravitated towards the more open economies, meaning that when other countries reopened, containers were not available when required to facilitate a resumption of international goods movements. **And then there is Brexit.**

It is particularly challenging, in the context of pandemic related disruption to international trade, to be categorical about the specific impacts of Brexit on trade volumes. Nevertheless, analysis published by the OBR (October 2021) suggests an **overall decline in UK goods trade of around 15% is associated with the implementation of the Trade and Cooperation Agreement (TCA) with the EU at the end of the transition period and the UK's departure from the EU customs union and single market**. It is noteworthy that this is prior to full implementation of the TCA scheduled for later in 2022. Brexit has clearly resulted in greater friction at the borders.

Business insights reported in the ME Monitors suggest that the burden of these new, largely administrative trade barriers, has fallen disproportionately on smaller export active businesses that have been less able to bear the resulting costs. **Costs of phytosanitary and health checks have made small scale exports of food products direct to consumers in the EU all but impossible**. Full implementation of the TCA later this year, including **customs checks on inbound goods and certification of origin requirements for exports to the EU, represent a significant downside risk as we move into 2022.**

Taken together, these diverse experiences of supply problems demonstrate the complex interplay between policy responses to pandemic (lockdowns) and behavioural responses to pandemic . These experiences have also **raised questions about the continuing viability of some of the Just-in-Time (JIT) approaches to production and supply that have come to dominate key manufacturing sectors** for the Midlands such as automotive and aerospace.

Looking Back, Looking Forward: Reflections on Brexit & Covid-19

If manufacturers can no longer rely on the certainty of supply necessary to make JIT production viable, they will need to consider alternative means to **re-establish the resilience of their supply chains.** None of these means will be cost free. Possible responses include a return to holding more 'buffer-stock' in inventory as a means of enhancing supply chain resilience. More fundamentally, some may reconsider the balance between on and offshore manufacturing and procurement within their supply chains. We can hope that any resultant '**re-shoring' will create opportunities for the Midlands, but the cost advantages associated with manufacturing for mass markets in places like South Asia and China remain.**

Work, employment and labour supply

Turning to work, employment and questions of labour supply, the story of the last two years is complex and nuanced. On one level, we can say that the **unemployment impact of the pandemic has been far less pronounced than many commentators were anticipating early in 2020**. This is in no small part due to the single most important and successful (if imperfect) economic measure implemented by the Government in response to the pandemic – furlough – the Coronavirus Job Retention Scheme. Indeed, at the time of writing, ONS report that UK payrolled employees stand at 29.5 million. This is m**ore than 400,000 higher than the level in February 2020.** Nationally the unemployment rate has dropped to 4.1% (ONS, January 2022).

The picture is more nuanced if we look beneath these headline numbers. **Economic inactivity rates have risen over the course of the pandemic.** This is a reversal of the long-term trend since the early 1970s. In recent months these increases have been driven by those in the 50-64 age group (ONS, January 2022).

The picture is also more complex if we take a sectoral perspective. In general, economic **sectors characterised by social consumption such as retail, hospitality and tourism have fared far worse** than those less affected by the combination of lockdown type restrictions and associated behavioural change on the part of consumers. Figures collated by the Centre for Retail Research for 2020-21 suggest that **more than a quarter of a million jobs and over 25,000 stores have been lost in retail since the start of the pandemic**. Here we may be seeing evidence of one of the longer-term legacies of behavioural change associated with the pandemic.

The shift to homeworking has been one of the most commonly remarked behavioural changes associated with the pandemic. It is important to remember that while this has become the norm for many office workers, it has never been practicable for much of the workforce.

Nevertheless, research on employer and employee attitudes to future homeworking suggests that there is growing evidence that the **shift to home or hybrid working is one behavioural change that is likely to stick** (ONS June 2021).

A further labour market issue that has featured with greater prominence in recent editions of the ME Economic Monitor are the **labour supply problems now being widely reported by many businesses**. This is a general problem, but also one that is particularly **evident in sectors that were reliant on EU migrant labour prior to Brexit.** ONS reported that the number of job vacancies in October to December 2021 rose to a new record of 1,247,000, an increase of 462,000 from the pre-coronavirus (Covid-19) pandemic level. Similarly, the ratio of vacancies to every 100 employee jobs reached a record high of 4.1 at the end of 2021 (ONS January 2022). Labour shortages in particular sectors can quickly become more general economic (and social) problems as was seen in autumn 2021. Notable examples including **HGV drivers, meat processing workers and seasonal farm workers. Unfilled vacancies in health and social care are a longstanding problem.** ONS reports of the largest sectoral rise in vacancy numbers for the final quarter of 2021 being in health and social work may add to these concerns.

Energy costs, input prices and inflation

The big story of late 2021 has been rising inflation, falling real wages and prospects of a cost of living crisis for 2022. But in truth, this is **a story that has been building for some time.** Business surveys by organisations including the BCC, CBI, FSB and Make UK have been consistent throughout 2021 in reporting rising input costs as a major concern. It can be no great surprise therefore that these costs have now fed through into the prices paid by consumers as evidenced by the **highest level of CPI (at 5.4% in December 2021) since the early 1990s.** What we have in common with that period is a pronounced energy price spike that is expected to see CPI inflation exceed 6% by around Easter 2022. By historic standards these levels of inflation are not extreme. CPI inflation reached 20% in the early 1980s and a peak of some 27% in 1975. Average earnings were rising at the end of 2021 (4.2% was reported by ONS for the period to November), but not enough to allow wages to keep pace with inflation. What makes this decline in real wages such a concern now is that (**1) it comes after an unprecedented decade of stagnant real wage growth in the UK**. Indeed, this is the third time over the last decade when real wages have fallen. **(2) It comes after the economic privations of a pandemic which we know has already disproportionately borne on those with the least**. The Joseph Rowntree Foundation reports (January 2022) bleak prospects for poverty levels in general but particularly for the many families in receipt of benefits and those in low paid work.

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