MIDLANDS ENGINE

Observatory

MIDLANDS ENGINE
REGIONAL ECONOMIC IMPACT MONITOR

EDITION 14: MARCH 2021

Executive Summary

This month marks the anniversary of when the UK first locked down the nation. The health impact has been devastating globally, and there is a gaping hole in the UK economy now. However, the development and roll-out of a series of vaccines in record time raises hope for many Midlands businesses that are looking to move forward.

Nevertheless, the UK is now in the latter stages of its 3rd national lockdown and GDP growth has remained low in that time. Recent monthly GDP results produced by the Office of National Statistics (ONS) reported 1.2% growth for December, averaging an overall 1% growth for Q4 2020. Overall, **the economy declined by a record breaking 9.9% in 2020.**

There have been **positive signs of an economic bounce back in recent weeks:**
- The West Midlands Business Activity Index increased from 41.5 in January to 51.1 in February, while the East Midlands Business increased from 43.4 to 47.4 in February. The **positive growth** reported was due to clearing of backlogs, reduced uncertainty and projects in the pipeline.
- The most recent CBI and MakeUK surveys suggest Britain's **manufacturers are beginning to move through the gears** as growth prospects become more positive for the rest of the year.
- There has also been a **significant rise in services sector confidence** in February according to BDO.
- This insight reflects the **renewed optimism** after the Prime Minister's Roadmap to Recovery set out a blueprint for recovery, and businesses across the region are welcoming the opportunity of lockdown being lifted.
- The Chancellor's **Budget was also generally welcomed** by local business & business groups in the immediate term, largely due to the extension of business support schemes like furlough and VAT relief.

However, Midlands businesses are still experiencing the negative effects from Covid restrictions and new ways of working, while the longer-term impact on some parts of the economy in the last year is clear to see:
- There were **424,740 claimants aged 16 years and over in the Midlands Engine area in February 2021**, an increase of 20,600 claimants since January 2021. This equates to an increase of 5.1% for the Midlands Engine area, whilst the UK increased by 5.3%.
- Across the Midlands Engine on 31st July 2020 there were 740,000 employments **furloughed**, which has now fallen to **627,400** as of 28th February 2021. The sector with the highest number of employments furloughed currently is accommodation and food services .
- In the West Midlands, **600 chain shops opened and 1,468 closed in 2020**, a net decline of 868. Chain stores in the East Midlands closed at a slightly slower rate in 2020. There were **1,298 closures in total and 611 openings, resulting a net decline of 687.**
- Since March 2020, in the Midlands Engine there were **over 2,000 company insolvencies** up to and including the end of January 2021. While this is a decrease from the year before, experts are suggesting that, once government support is withdrawn, the abnormally low level of insolvencies will go into reverse.

In addition, the impact of leaving the EU on the UK continues to have disruptive effects on the cost of exporting as well as sourcing imports from the bloc. The combined impact of new forms, paperwork, taxes and increasing lead times is resulting in a more widespread rise in prices, both in the domestic and international markets. While regional data for 2021 is not available yet, EU Exit issues may already be surfacing in the 2020 data:
- In the year ending Q4 2020, the Midlands Engine area **exported £45.2bn worth of goods and imported £54.8bn**. This reflects a **trade deficit of £9.5bn**. The West Midlands had the **second fastest year on year decrease in exports** of any UK region.
- Th number of exporting companies fell in 2020 compared to 2019, however there was a larger fall in the number of businesses that exported to EU countries compared with non-EU countries.

As lockdown restrictions begin to ease and the Midlands looks towards a post-Covid society, questions are also being raised of what this might look like in the context of the 'Levelling Up' agenda. While much of the focus on levelling up has been on road, rail and innovative technology, PWC research shows the public's concerns are closer to home: **Affordable and quality housing; Jobs and skills for the future; and Vibrant local communities**. Relevant to this, ongoing work at the West Midlands level is focusing on how global **"megatrends"** will impact the wider region's people and businesses.

Emerging Policy Considerations

THEME	KEY CONCERNS
Budget 2021	The Chancellor's 2021 Budget was generally welcomed by local business & business groups in the immediate term. Particularly: • **Extension of furlough to September** • Additional financial support through **grants and loans & SEISS extension** • 100% **business rates holiday** continues to end of June for hospitality, leisure and retail, and discounted for the rest of the year. As part of the Government's new "Plan for Growth" there are also some interesting new programmes/ policies that businesses will be able to access and benefit from, and businesses are looking forward to seeing more detail about them and their support for businesses including: • **Help to Grow: Management** • **Help to Grow: Digital** • **Super-deduction:** A new 130% first-year capital allowance for qualifying plant and machinery assets Midlands people and businesses will also benefit from the **£492m of Midlands Engine investments** announced at the budget, including **£373m through the Towns Fund and freeports** at East Midlands Airport and Humber.
Covid-19	There is renewed optimism after the Prime Minister's Roadmap to Recovery set out a **blueprint for recovery,** and businesses across the region are welcoming the opportunity of lockdown being lifted. However, many sectors, including hospitality and the visitor economy, are still unable to open and trade fully for a number of additional months and thus **access to continued support must reflect this.** Companies are looking to understand how the current, and latest, support measures may help them, while continuing to navigate the range of existing measures of support and easing of lockdowns. Specific issues include: • Businesses are still facing **financial difficult times and long delays** with grant funding and support financially is taking longer than anticipated. • Many firms are **desperate to know if they have been successful.** Some are receiving anonymous payments from local authorities, not knowing where payments came from and that they were successful. • Lockdown Grants are not being deemed as fair across the scope of businesses, especially those in the B2C arena who are trying to get support digitally and are not eligible in most cases. Midlands businesses are still experiencing negative effects from Covid restrictions and new ways of working: • Increased costs – e.g. due to extra PPE requirements. • Delays and lack of communication about receiving lateral flow testing kits. • Impact on the mental health of staff. • Communication challenges with staff and clients, creating inefficiencies. A key concern locally is the **pandemic's impact on joblessness.** Business leaders describe the rise in unemployment in the Midlands as concerning as the pandemic continues to hamper the labour market. There is particular worry about the state of employment once the furlough scheme ends and the tapering off of Covid support loans / grants, which are likely to be protecting some businesses from permanent closure.
EU Exit	Businesses are still struggling to get to grips with some of the new post-Brexit trading arrangements. While this differs across sectors and businesses, there are some common problems reported in the Midlands: • **Complexity of rules of origin** and knowing whether the goods imported from/exported to the EU qualify • Impact of double duty rates on businesses that import from countries outside the EU and re-export to EU. • UK firms having to take on **additional costs and responsibilities** for shipping goods to and from the EU. • Businesses based in the EU **switching from using UK suppliers to EU suppliers** to avoid bureaucracy. • New requirements for bringing in skilled workers from the EU. Some potential actions suggested by business groups and sector bodies include: • Allocating long-term funding to **the Customs Grant Scheme** to build up capacity • Supporting firms in adapting to the new trading arrangements with the EU through the introduction of a temporary SME 'Brexit' tax credit until 2022-23 • The UK to negotiate with the EU around expanding the list of permitted activities (e.g. Musicians) that qualify for visa-free travel. • More broadly, to help maximise the opportunities of EU Exit, SMEs require more of a '**level playing field'** when bidding for **government procured contracts**.
Enquiries	• There is a continued strong level of Growth Hub enquiries asking for support with **new start-up ventures**; some start-ups looking for premises and are seeking advice on this. • Increasing volumes of capital and green projects, as well as enquiries on digital/online transformation.

Global and National Outlook

Global

The Euro Zone economic activity has surprisingly returned to growth this month as factories ramped up production to its fastest pace in over 23 years, offsetting a continuing slowdown in the bloc's dominant services industry. However, with the third wave of coronavirus infections and renewed lockdown measures, as well as the slow vaccine rollouts, it is likely that these benefits will be subdued in coming months.

The EU has announced plans to roll out a travel certificate before summer 2021, which will enable anyone vaccinated against Covid-19, or who has tested negative or recently recovered from the virus, to travel within the EU.

It appears that the relationship between China and the US continues to worsen, as Biden administration officials and their Chinese counterparts met for their first face-to-face meeting. Ahead of the meeting the BBC reported that US officials stated that this meeting was 'not to create a strategic dialogue', and that there was 'no intent at this point to begin a series of follow-on engagements'.

National

This month marks the anniversary of when the UK first locked down the nation. The health impact has been devastating globally, and there is a gaping hole in the UK economy now. Nevertheless, the UK is now in the latter stages of its 3rd national lockdown and GDP growth has remained low in that time. Recent monthly GDP results produced by the Office of National Statistics (ONS) reported 1.2% growth for December, averaging an overall 1% growth for Q4 2020. Overall, the economy declined by a record breaking 9.9% in 2020.

The Bank of England's latest summary of business conditions (covering mid-January to late-February 2021) suggests that consumer demand remains low but re-emerging in some sectors, while demand for housing remained strong. BoE's findings also suggest price rises for raw materials and a weak yet improving picture regarding company investment and employment. Activity in some sectors held steady or improved, though Covid-related restrictions and the adjustment to new trading arrangements with the EU weighed on activity in some areas.

Regional

On Friday 16th March, the East Midlands Development Corporation submitted a major business case to Treasury. The case sets out how the new regional body could support regeneration schemes that could potentially add £4.8 billion a year to the East Midlands Economy, create an estimated 84,000 jobs and deliver thousands of new homes. The case is highlighted in three key zones – around East Midlands Airport, the planned Toton HS2 hub, and the soon to be decommissioned power station – which supporters say could unlock a new era of green growth for the regional economy.

It was announced this month that the Department for Transport (DFT) has announced the creation of a second headquarters in Birmingham and a northern hub in Leeds as part of plans to create 650 jobs in the cities. This is the latest step in the government plan to move 22,000 civil service roles from the centre of London and into other cities across the UK by 2030. The Birmingham headquarters is also expected to hold ministerial offices, with ministers being expected to spend a significant amount of time there. The hope is that this will provide an economic boost to the cities. This also shows a move away from Whitehall in order to gain a wide breadth of experience and knowledge. DfT has already begun to recruit in Birmingham, with 100 roles created, including senior civil servant positions which would have otherwise been in London.

It was reported this month that the once iconic, but now derelict West Works site in Longbridge, Birmingham is to finally be regenerated following a £6m investment package.

Thorntons announced that it would be closing all of its remaining 61 high street outlets; all stores will now remain closed following the easing of restrictions.

More positively, JCB has launched a fresh recruitment drive to employ and additional 450 agency shop floor staff at its factories in Staffordshire, Derbyshire and Wrexham. Later this year JCB also plans to give an additional 400 agency shop floor employees with more than one year's service permanent JCB contracts. These will include assemblers, welders, fabricators and CNC machinists. The reason for this has been high demand over the last few months, after the market for construction equipment rebounded sharply. The company is also forecasting that it expects demand in mainland Europe and North America to remain strong.

Business Activity

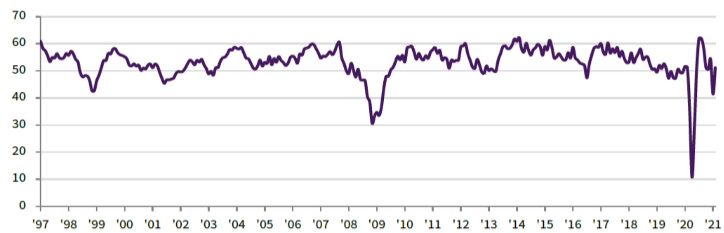
Business Activity Index

The West Midlands Business Activity Index increased from 41.5 in January to 51.1 in February. The growth reported was due to clearing of backlogs, reduced uncertainty and projects in the pipeline.

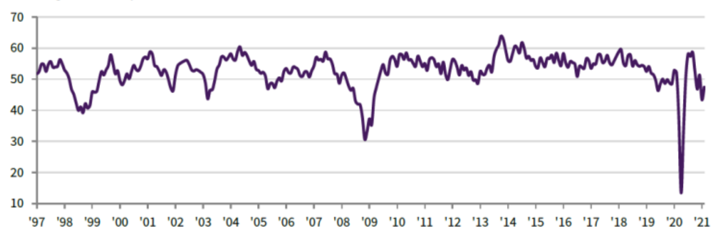
The East Midlands Business Activity Index increased from 43.4 in January to 47.4 in February. The index remains under the 50-mark threshold due to service sector firms where restrictions continue to weigh on demand and also production has slowed due to delays from suppliers.

The following graphs show the West Midlands and East Midlands Business Activity Index

West Midlands Business Activity Index
sa, >50 = growth since previous month



East Midlands Business Activity Index
sa, >50 = growth since previous month



Source: IHS Markit, NatWest PMI, March 2021

Out of the twelve UK regions, the West Midlands region was the third highest and the East Midlands was the fifth lowest for the Business Activity Index.

Demand

The West Midlands New Business Index has increased from 45.9 in January to 49.7 in February. Although some firms reported lockdown had restricted sales leading to the index remaining under the 50 threshold, other firms reported a reduction in uncertainty, online shopping and restocking efforts among clients underpinned demand growth. The East Midlands New Business Index also remains under the 50-mark threshold, decreasing further from 46.1 in January to 45.4 in February. Decline in new business was due to weak client demand and COVID-19 restrictions.

Exports

The West Midlands Export Climate Index increased from 52.2 in January to 52.9 in February. This was the strongest improvement in the health of the West Midlands export market in four months. The East Midlands Export Climate Index increased from 51.0 in January to 52.0 in February.

Capacity

The West Midlands Employment Index increased from 45.7 in January to 48.9 in February. The Employment Index has stayed below the 50 mark for the last thirteen months. The East Midlands Employment Index increased from 46.0 in January to 50.4 in February - this was the first expansion in workforce numbers since January 2020. The increase was linked to higher staffing levels in an effort to build capacity in anticipation of greater output later this year.

The West Midlands Outstanding Business Index has decreased from 49.6 January to 48.3 in February. The East Midlands Outstanding Business Index has decreased from 49.9 January to 46.6 in February.

Prices

The West Midlands Input Prices Index increased from 64.1 in January to 66.7 in February, which is the eighth consecutive month. The East Midlands Input Prices Index increased from 60.8 in January to 65.9 in February. The higher input prices were linked to PPE, transportation costs, raw materials and a selection of firms also reported increased charges on EU sales.

For the ninth consecutive month, West Midlands companies increased their selling prices. Although, the West Midlands Prices Charged Index decreased from 54.8 in January to 54.6 in February. For the third consecutive month, East Midlands companies increased their output prices and the Prices Charged Index increased from 52.5 in January to 55.1 in February.

Outlook

Approximately 66% of companies surveyed in the West Midlands foresee output growth based on hopes that the vaccination programme will control the spread of infections allowing restrictions to be lifted and a recovery in demand. The West Midlands Future Activity Index registered at 76.1 in February.

Business confidence in the East Midlands was at the highest since February 2020. Optimism was due to hopes of a successful vaccine roll out and rebound in client demand. The East Midlands Future Activity Index registered at 76.8 in February.

Out of the twelve UK regions, the West Midlands came in at seventh place and the East Midlands was fifth highest for the Future Business Activity Index.

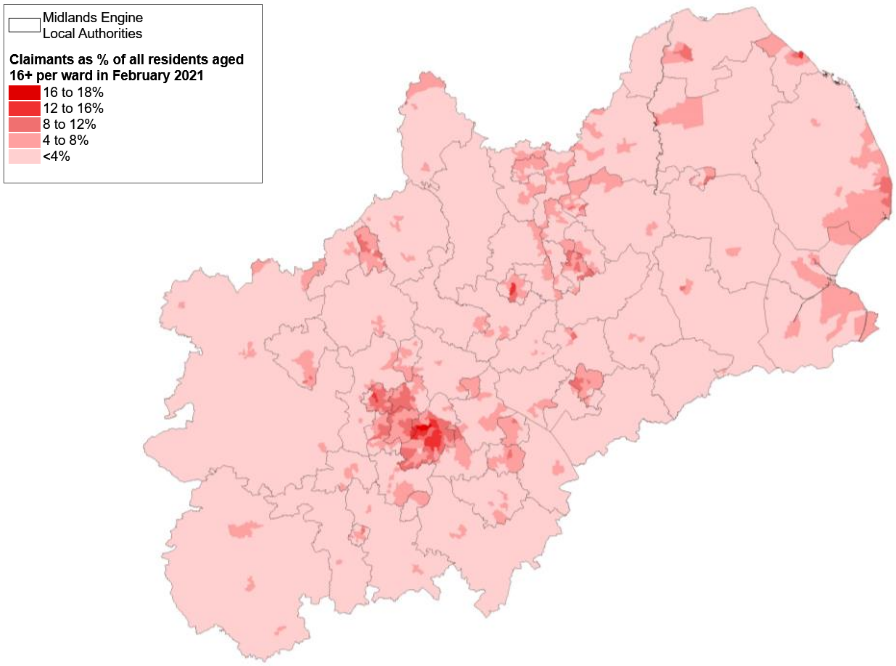
Source: IHS Markit, NatWest PMI, March 2021.

Claimants

There were 424,740 claimants aged 16 years and over in the Midlands Engine area in February 2021, an increase of 20,600 claimants since January 2021. This equates to an increase of 5.1% for the Midlands Engine area, whilst the UK increased by 5.3%. There are 203,200 (+91.7%, UK +112.4%) more claimants when compared to March 2020.

The number of claimants as a percentage of residents aged 16 years and over was 2.7% (UK 2.4%) in March 2020, this has increased to 5.1% in the Midlands Engine (UK 5.0%) in February 2021.

Claimants as Percentage of Residents Aged 16 Years and Over in February 2021:

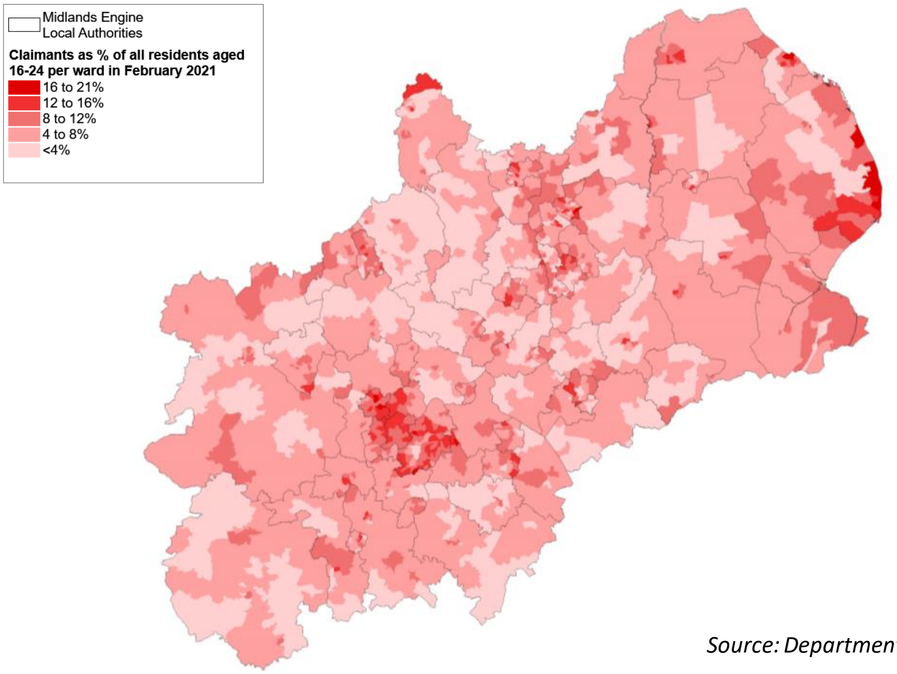


Out of the 1,511 wards within the Midlands Engine, 406 were at or above the UK average of 5.0% for the number of claimants as a percentage of the population aged 16 years and over in February 2021. The top three wards for the number of claimants as a percentage of the population were in Birmingham, with Handsworth the highest with 18.0%. This is followed by Lozells at 17.9% and then Birchfield at 17.1%.

There were 84,290 youth claimants (16-24 years old) in the Midlands Engine area in February 2021 – an increase of 3,650 claimants since January 2021. This equates to an increase of 4.5% with the UK increasing by 3.9%. Since March 2020 (44,195 claimants), the number of youth claimants has increased by 40,095 (+90.7% compared to +112.3% for the UK).

The number of claimants as a percentage of residents aged between 16 and 24 years old was 3.8% (UK 3.4%) in March 2020, this has increased to 7.3% in the Midlands Engine (matching UK proportion) in February.

Claimants as Percentage of Residents Aged 16 – 24 years old in February 2021:



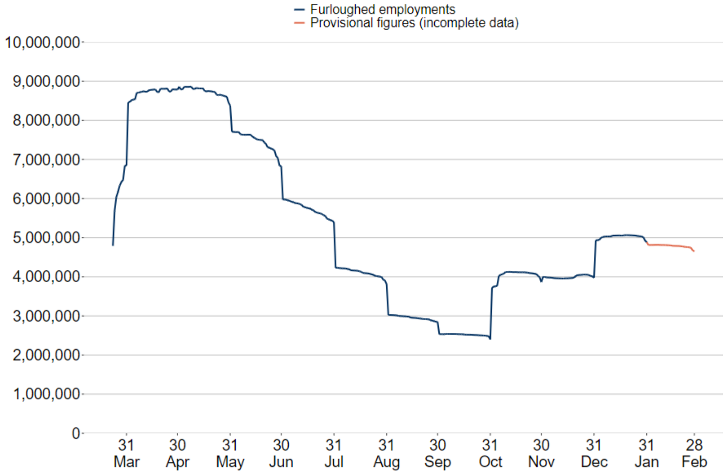
Out of the 1,511 wards within the Midlands Engine, 598 were at or above the UK average of 7.3% for the number of claimants as a percentage of the population aged between 16 – 24 years old in February 2021. The top ward for the number of claimants as a percentage of the population was Winthorpe at 20.7%. This is followed by Ingoldmells at 17.6% and then Mablethorpe at 17.4%.

Source: Department for Work and Pensions, March 2021

Furloughed Workers

UK Summary:

Figures released in March 2021 show the level of demand and application of furlough in the last year. Furlough in the UK peaked at 8.9 million workers on 8th May 2020, with the number of workers furloughed steadily dropping through June to October 2020. However, the number of workers furloughed increased throughout November 2020 to January 2021. Provisional figures show that there was a slightly lower number of employments furloughed at 28th February 2021 at 4.7 million. ***The following chart shows the total number of employments furloughed in the UK between 23rd March 2020 to 28th February 2021:***



Source: HMRC CJRS data

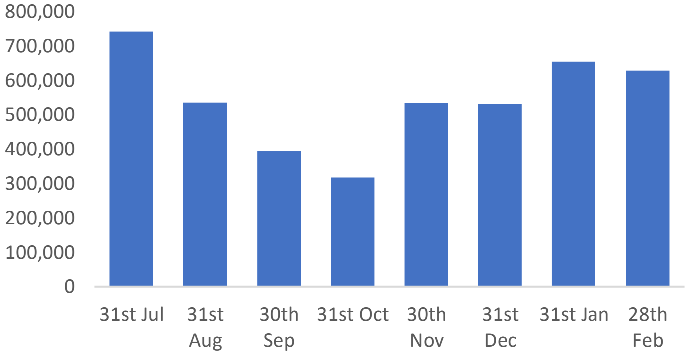
Figures show that, as of 28th February for the UK, those aged 25-34 years old accounted for the highest proportion of the total number of employments furloughed at 21.9% (1,018,100), followed by those aged 35-44 years old at 19.6% (913,600) and then those aged 45-54 years old at 18.5% (861,100).

Across the UK as at 31st January 2021, employers with 20-49 employees were most likely to have claimed under CJRS to support the furloughing of staff, with 61% of employers of this size having at least 1 employee furloughed.

Provisional estimates show this was still true at 28th February 2021 with 62% of these employers having staff furloughed.

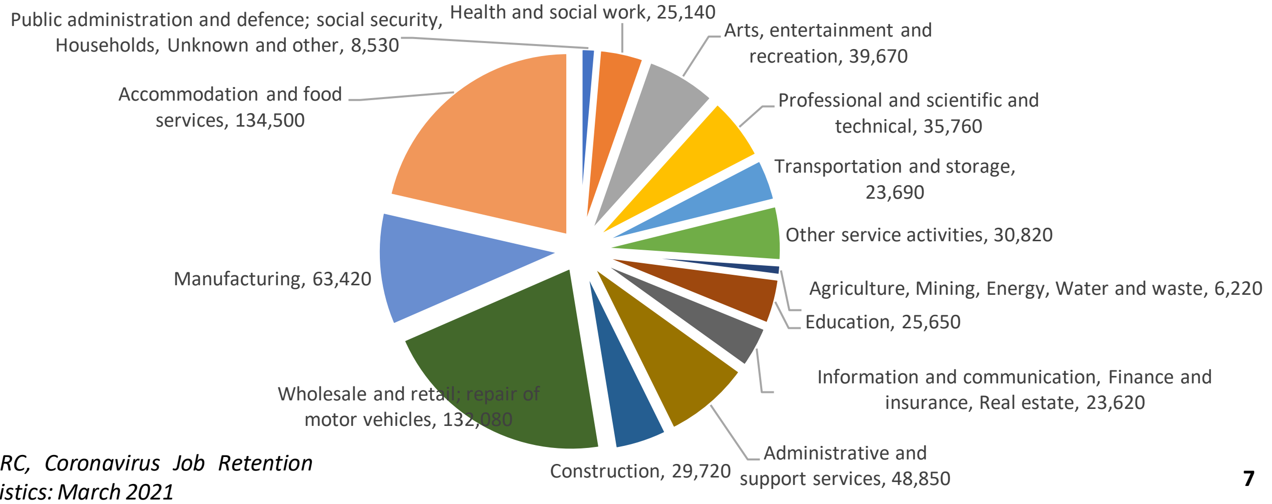
Midlands Engine Summary:

Analysis over time shows that across the Midlands Engine on the 31st July 2020 there were 740,000 employments furloughed, this decreased between August to October 2020. There was an increase in the number of employments furloughed between November 2020 to January 2021 and the latest provisional data shows for February 2021 a decline in the number workers furloughed and was at 627,400 on the 28th February, this equates to a 13.9% take-up of eligible employments for the scheme, compared to the UK average of 15.4%. . ***The following chart shows the total number of employments furloughed in the Midlands Engine:***



As of 28th February 2021, there was a higher percentage of females furloughed, 14.7% (330,200), compared to males, 13.1% (296,000). Matching the UK trend at 14.8% for females and 14.3% for males.

Across the Midlands Engine area, as of the 28th February 2021, the sector with the highest number of employments furloughed was accommodation and food services at 134,500. **The following chart shows the total number of employments furloughed by broad sector for the Midlands Engine area on the 28th February 2021:**



Source: HMRC, Coronavirus Job Retention Scheme statistics: March 2021

Company Closures

From March 23rd 2020, companies in every sector closed by order and people had to work, educate and shop from home to contain the spread of Covid-19. Nothing has really been the same since – especially for businesses.

BusinessRescueExpert has analysed data from the past 12 months for its 'The Year of Lockdown report', which reveals the state of businesses, the liquidation rate and the sectors and regions most likely to undergo an insolvency event.

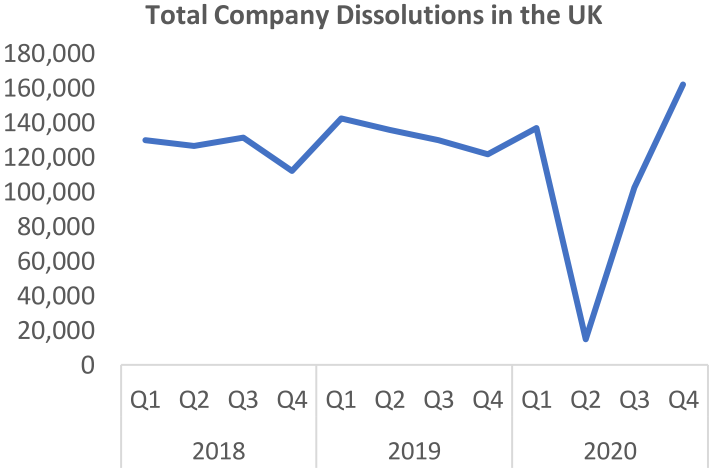
Company Insolvencies and Dissolutions

The Insolvency Service reported that since March 2020 there were 8,205 company insolvencies up to and including the end of January 2021.

Broken down by individual industrial sector they were:

- Construction – 1,634; Hospitality – 1,378; Retail – 1,355; Administrative & Support – 1,200; Manufacturing – 930; All others – 1,708

The total number of corporate insolvencies actually fell in 2020, to their lowest recorded levels since 2007, **as shown in the graph below – which covers all Company Dissolutions in the UK (not just insolvencies).**



The main reasons for the fall are the variety of Government-backed Covid-19 support measures and easements, with experts suggesting that, once government support is withdrawn, the abnormally low level of insolvencies will go into reverse. This may already be showing in the latest data as displayed by the recent spike.

Regional Impact

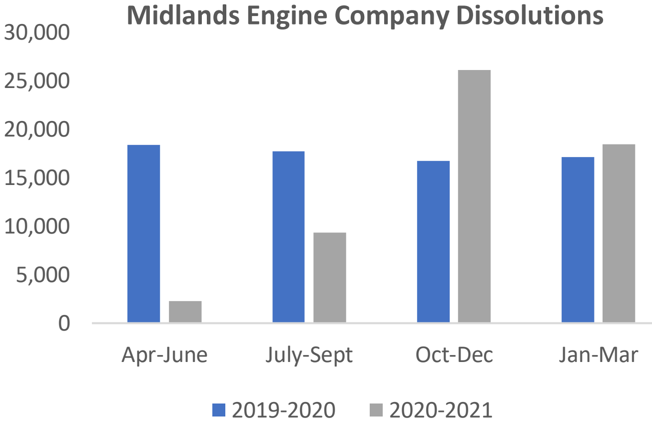
BusinessRescueExpert have looked deeper into the regional insolvency statistics for 2020 and produced a comparative figure – the Corporate Insolvency Ratio – showing the likelihood of insolvency based on the numbers of active businesses in a region/nation.

The table below **displays the UK regions with the highest insolvency ratios.**

Region	Active Firms	Insolvencies	Insolvency Ratio
Yorks & Humber	189k	1,642	1 in 115
North West	267k	2,130	1 in 125
North East	71k	426	1 in 167
West Mids	222k	1,285	1 in 173
London	531k	2,874	1 in 185
East Mids	184k	737	1 in 249
East	271k	1,016	1 in 267

The figures show that a business in the Yorkshire and Humber region was statistically most likely to undergo an insolvency event than in any other region (1 in 115). The West Midlands has the 4th highest ratio (1 in 173), at greater risk compared to the national average (1 in 207). The East Midlands had the 6th highest ratio (1 in 249), less at risk than the national average.

Additional exploratory data for overall company dissolutions supports a better understanding on the impact of Covid. According to the FAME database, there were 72,000 company dissolutions across the Midlands Engine in the year before Covid (Mar 2019-Mar 2020). This fell to 59,000 during the pandemic (Mar 2020-Mar 2021), reflecting the national data and the unprecedented government support to businesses. However, displayed in the figure below, in Q4 2020 and Q1 2021 there has been a considerable uptick in dissolutions. Whether this reflects a backlog or is the start of a business closure crisis is remains to be seen.



Source BusinessRescueExpert; BCEIU Analysis of FAME Data

Retail

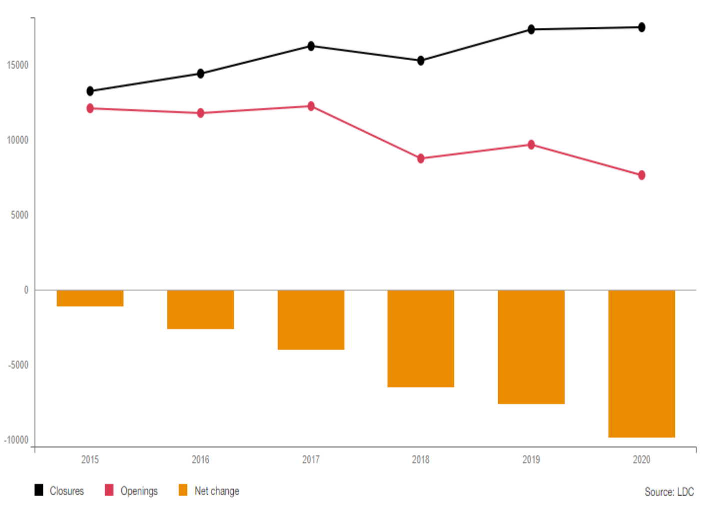
UK-wide Shop Closures

Recently produced data from the Local Data Company and PWC reflects on the level of damage inflicted on the retail sector in the last year. While the Store Openings and Closures survey only looks at multiple operators (stores with 5 or more outlets) it paints a detailed picture of all retail locations in Great Britain.

Almost 10,000 chain stores disappeared from Great Britain's retail locations in 2020. In total, 7,655 shops opened, compared to 17,532 closures, a net decline of 9,877. That is the equivalent to an average of 48 chain stores closing every day, and only 21 openings.

And the big concern is that we're still to see the real impact of the pandemic - it's likely to get worse before it gets better. With the primary research methodology assuming "temporarily closed" stores remain open, it is expected that the full effect over the next couple of surveys, as those temporary closures return or disappear.

The following chart shows UK chain store closures, openings and the net change in recent years.



Even before the pandemic struck, UK high streets were in long-term decline and relative crisis, but Covid-19 has clearly exaggerated the difficulty in shops remaining open.

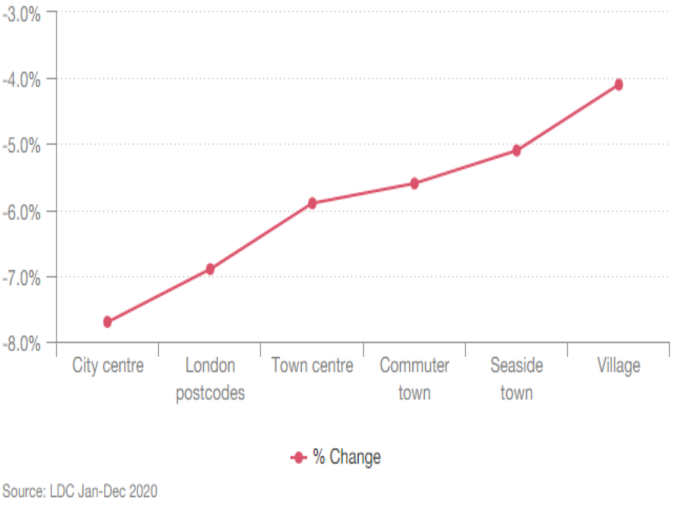
A City Exodus?

The shift towards working from home is driving how retail locations have been most affected by closures: City centres are now faring worse than suburbs and commuter towns, and shopping centre shops are twice as likely to close as retail parks.

Large city centres - such as Birmingham, Bristol, Leeds and Newcastle - have been heavily impacted by the change of working behaviours. With fewer people visiting city centres, these areas have seen an almost 8% decline in multiple stores. While London does fare slightly better on this measure (-7%), its performance is inflated because of the inclusion of its prosperous suburbs.

Suburbs across the UK have done better, as have commuter towns in North, South, East and West of the Capital, such as Welwyn Garden City, Orpington, Harlow and Slough. This is a reversal of historical trends. For years, multiple operators have opened more sites in cities and closed units in smaller towns. As consumer behaviours and location preferences change, retailers are preserving locations with more potential in any post-pandemic environment.

The following chart shows the multiple retailers closures by town type, 2020



The drop off in high-street footfall has affected those multiple retailers located on high streets, particularly those in populous areas. Furthermore, shopping centres have fared worst of all. Not only are they often poorly located for this new type of consumer behaviour we're seeing (i.e. increased local shopping, decreased city centre travel), but they're also affected by the resident operators, such as comparison retail that can easily be done online. Footfall in retail parks has held up though, and they have the smallest number of net closures of any location.

Source: PWC and Local Data Company: Store Openings and Closures

Retail

Midlands Closures

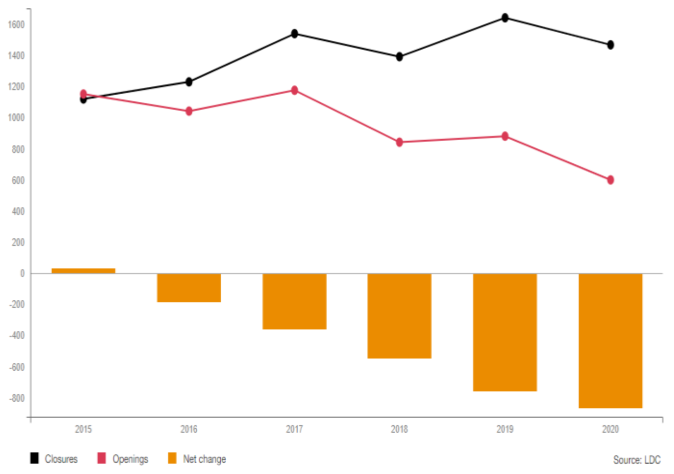
There is regional disparity within the 2020 findings. Looking at absolute figures, London, South East and the North West have seen the most closures, unsurprising given those regions have more chain stores. However, London has undoubtedly been hit harder than other regions, with a record 5.8% increase in net closures this year. Conversely, Wales, Scotland, East of England and South West have been more protected from closures.

In the West Midlands, 600 chain shops opened and 1,468 closed in 2020, a net decline of 868. The findings starkly compare to five years ago in 2015, which saw West Midlands shop openings at 1,152 and closures at 1,120, showing a net growth of 35 and the last time it saw growth over the last 5 years. Retail parks saw the smallest number of net closures of any location (93) in the West Midlands, compared to shopping centres (285) and faring worst of all, high streets (487).

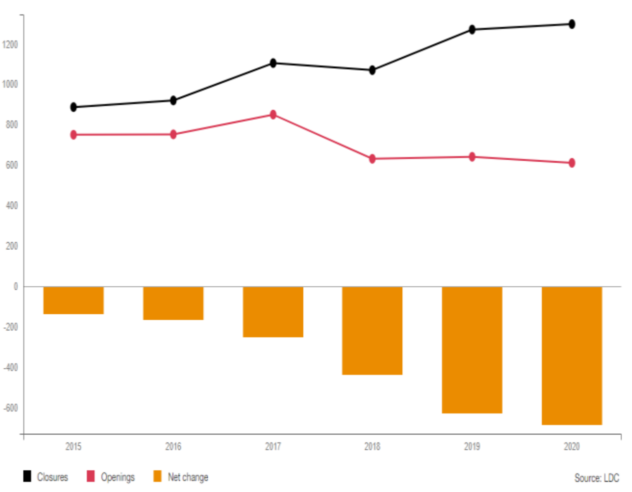
Chain stores in the East Midlands closed at a slightly slower rate in 2020. There were 1,298 closures in total and 611 openings, resulting a net decline of 687. This is only a slight in increase on the 2019 net decline of 630, while a clear longer-term decline in retail is evident: in 2015 the East Midlands recorded 750 chain store openings and 887 closures, a net decline of 137. Retail parks had seen the smallest number of net closures in the region, with 77, compared to shopping centres (159 closures), with high streets in general faring worst of all (490).

The below graphs show chain store closures in the West Midlands and East Midlands regions, as well as openings and the associated net changes in recent years

West Midlands



East Midlands



Difference Across Shop Types

The images below demonstrate the top five fastest and declining growing multiple chain types by net change across the UK. The success stories include coffee shops, takeaways and supermarkets – all characterised by convenience, necessity and a local service structure. The declining categories are made up of a mix of retailers, hospitality operators and services affected by either online or overexpansion. More notable was the speed of the decline in certain sectors, fashion in particular, which saw an average of -3 net stores per day.

Top 5 Fastest Growing

2019	2020
Tradesmen	Supermarkets
Value retailer	Tradesmen
Supermarkets	Coffee shops
Cars & motorbikes	Takeaways
Repairs & locksmiths	Cake shops/ patisseries

Top 5 Fastest Declining

2019	2020
Banks & financial services	Fashion retailers
Estate agents	Betting shops
Chemists	Restaurants
Fashion retailers	Pubs & bars
Betting shops	Mobile phone shops

Source: PWC and Local Data Company: Store Openings and Closures

Manufacturing

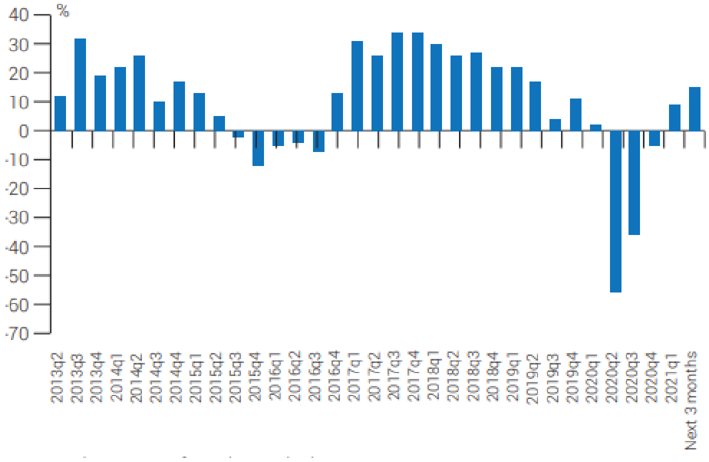
Summary:

The **Make UK/BDO Manufacturing Outlook** Q1 2021 lays bare the brutal impact of the pandemic with the sector having seen a 10% fall in output in 2020. In contrast, as the vaccine programme gathers pace and major markets recover Make UK has upgraded its growth forecast for 2021 from 2.7% to 3.9%, though this shows that it will take some time to recover the 10% fall in output seen last year.

Output:

The latest Manufacturing Outlook survey for Q1 2021 reported an output balance of 9%, up from -5% last quarter. The improvement in the output balance far exceeded what businesses predicted last quarter (-3%), a result of the boost to confidence provided to business owners thanks to the speedy vaccine rollout. The industry has continued to do business in uncertain times and despite the trade deal with the EU being less than ideal, new work is gradually returning. In addition, the improving output may also be a consequence of stockpiles having been depleted for many firms, therefore resulting in new production.

% balance of change in output



The latest survey reports mixed results for individual subsectors. Despite the positive performance, some subsectors have subdued activity.

SECTOR	PAST 3 MONTHS	NEXT 3 MONTHS
Basic Metals	-27%	9%
Metal Products	-6%	9%
Mechanical	3%	22%
Electronics	55%	17%
Electrical	6%	-13%
Rubber & Plastics	0%	0%
TURNOVER		
£0-9m	-11%	7%
£10-24m	10%	19%
£25m and over	36%	35%

Orders:

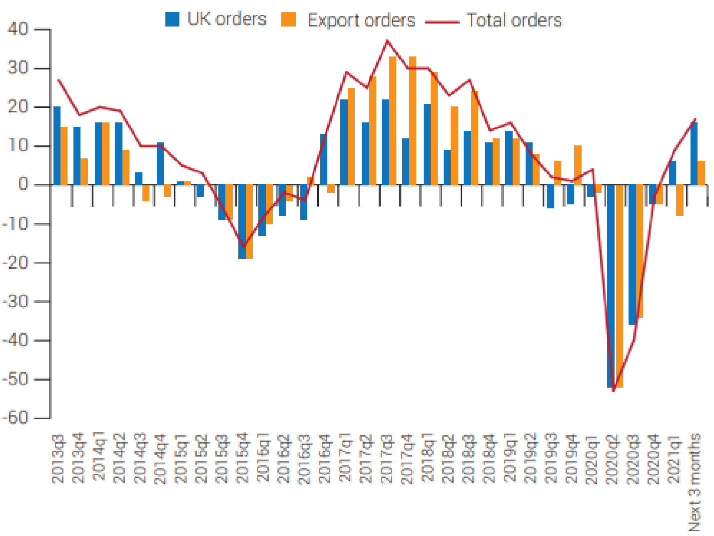
The survey reports that a balance of 9% of manufacturers have reported an increase in total orders over the last three months, this is up from a negative 3% balance last quarter. The figures highlight the process of reopening and restarts for manufacturers across the nation which is less subject to lockdown restrictions. The sector itself is complex in nature by way of supply-chains as demand returning from a small number of (large) firms can have propagative indirect effects that result in orders and output improving through these networks. One particular issue that will dominate the rest of the year, besides the pandemic, is the impact of leaving the EU on trade.

UK Orders:

UK orders balance improved to 6% this quarter, the result indicates on balance a larger share of manufacturers saw an increase in domestic orders relative to those that saw a fall. It is surprising to report a positive UK orders balance as domestic orders have been negative since Q3 2019.

It is not obvious what resulted in the sudden surge in domestic sales but the possibilities include an increase in UK confidence resulting in greater spending by manufacturing customers. In addition to the confidence boost, the increased difficulties in sourcing components from the EU has resulted in some substitution between foreign and domestic inputs. In order to avoid the increased cost of moving goods across borders it is relatively cheaper for some to source alternative goods locally.

% balance of change in orders



Source: Make UK Manufacturing Outlook 2021 Q1

Manufacturing

Employment and Investment:

This quarter's research shows that, while the balance figure for employment is still marginally negative, our metric for employment is trending upward in an encouraging fashion. To compound the positive story emerging here, manufacturers' expectations for employment in the next quarter are reported to be positive. In the sectoral and turnover breakdowns of these employment intentions it is apparent that there has been a significant degree of variability depending on the type of industry the employer is engaged in and the firm's size, with some subsectors and firm sizes reporting positive balance figures for this first quarter.

% balance of change:

	EMPLOYMENT		INVESTMENT
SECTOR	PAST THREE MONTHS	NEXT THREE MONTHS	NEXT TWELVE MONTHS
Basic Metals	-64%	-18%	-36%
Metal Products	-14%	6%	-14%
Mechanical	-4%	19%	-13%
Electronics	9%	26%	32%
Electrical	-19%	6%	-25%
Rubber & Plastics	0%	0%	-14%
TURNOVER			
£0-9m	-15%	10%	-5%
£10-24m	12%	22%	0%
£25m and over	-3%	24%	7%

Prices and Margins:

The impact of leaving the EU on UK manufacturers is having disruptive effects on the cost of exporting as well as sourcing inputs from the bloc. The combined impact of new forms, paperwork, taxes and increasing lead times is resulting in a more widespread rise in prices, both in the domestic and international markets.

The higher input costs are partially being priced into new contracts between suppliers, but the total incidence (or burden) of increased bureaucracy and taxation is likely being shared between the manufacturer and its customer. This is reflected in the latest figures for margins, which indicates some improvement on Q4 2020 due to improving levels of new work but remains negative on balance. The data reports a negative balance of 16% of manufacturers reported a fall in UK margins.

Further evidence of the impact on leaving the EU on prices is also seen subsector wise. Almost all key intermediate subsectors, excluding Rubber & Plastics, reported rising export selling prices.

Export prices increasing for intermediate goods:

Economic Environment:

Make UK's recent Manufacturing Monitor survey indicates approximately half of manufacturers believe they will return to their pre-COVID operating levels by the end of the year. However, during this time businesses are also tackling the red tape of trading with their most important economic partner, the European Union (EU). For most it is a matter of adjusting to new processes, however the additional costs will eventually be priced into contracts which will negatively impact the manufacturing sector's competitiveness on the global stage.

In order to ensure that Government support aligns with the expected timeline of the pandemic the JRS has been extended till September 2021. Make UK research has shown that 55% of manufacturers are still using the scheme, and for those that are, the majority (37.8%) is furloughing less than 10% of their workforce.

How the UK continues to proceed with its relationship with the EU, now that a Trade Cooperation Agreement (TCA) has been signed between both parties, will determine the UK manufacturing sectors performance. As an independent nation there will be opportunities for many subsectors to benefit from new arrangements assuming the UK's relationships with non-EU nations strengthens.

Source: Make UK Manufacturing Outlook 2021 Q1

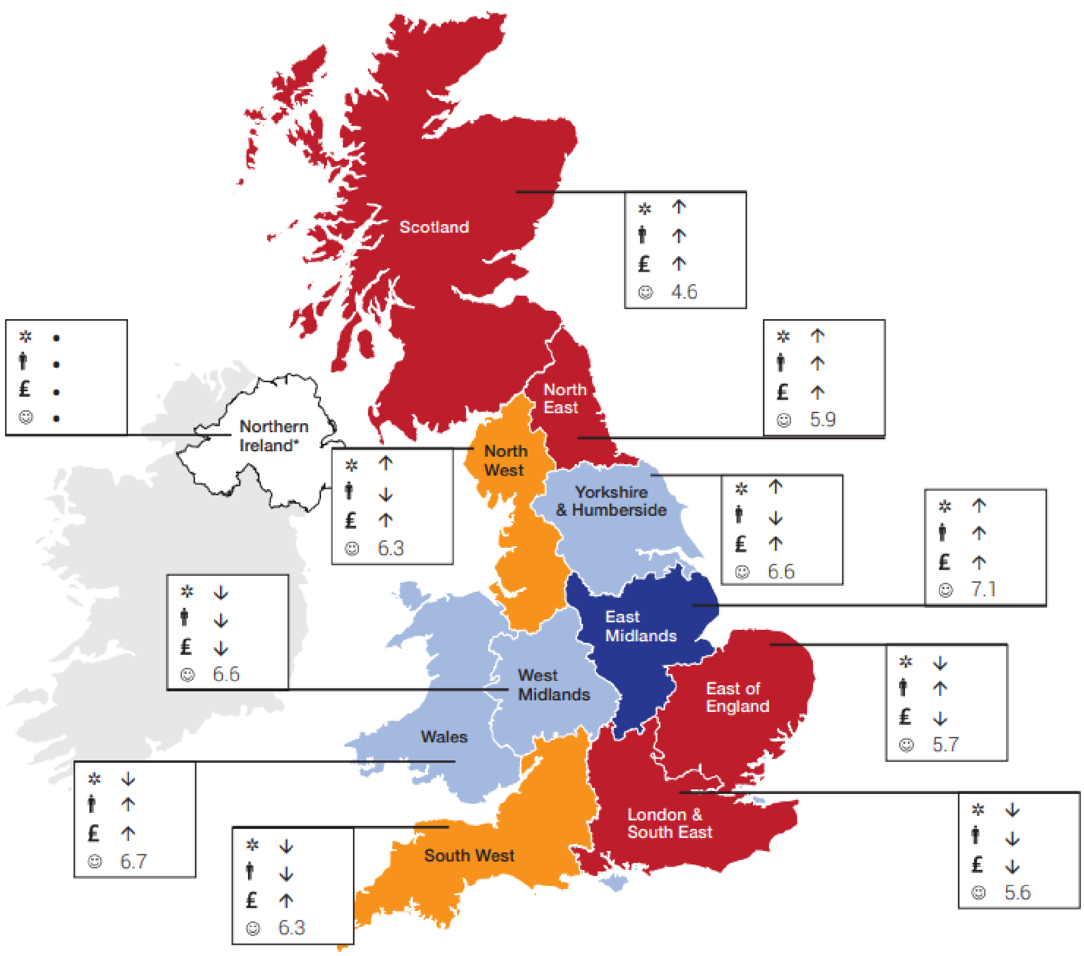
Manufacturing

Regional Business Confidence:

Business confidence is perhaps the most volatile metric in response to socio-political events. All regions and nations have reported improvements in their business confidence in this first quarter, with the exceptions of Scotland, the North East and the South East & London reporting slight declines. Despite this, all are reporting positive business confidence. The East Midlands and the West Midlands report higher business confidence levels than confidence in the UK economy.

Confidence in the next 12 months 1 = substantially worse, 10 = substantially better

National and Regional Business Confidence:



KEY:

↑/↓ INCREASE/DECREASE ON PREVIOUS QUARTER

✲ OUTPUT

EMPLOYMENT

£ INVESTMENT

☺ BUSINESS CONFIDENCE

● INSUFFICIENT NI DATA FOR CALCULATION IN THIS INSTANCE

HIGH CONFIDENCE

LOW CONFIDENCE

Source: Make UK Manufacturing Outlook 2021 Q1

ONS - Business Impact of the Coronavirus

Final results from [Wave 26 of the Business Impact of Coronavirus Survey (BICS).]()

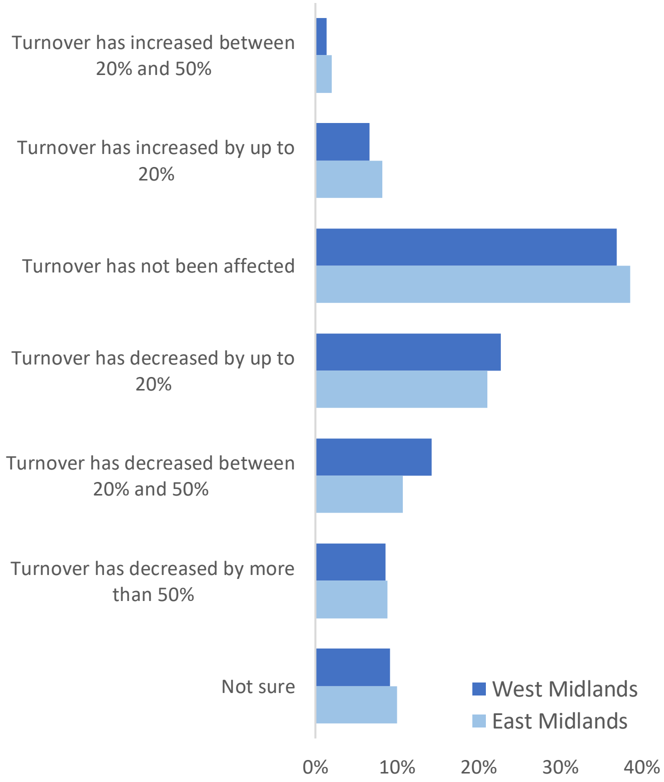
In the West Midlands there was a response rate of 26.0% and in the East Midlands a response rate of 26.5% where businesses have a presence in the region. There was a response rate of 25.3% (WM) and 26.9% (EM) where businesses are headquartered in the region. The following data is based on the period between 8th February to 21st February 2021. Please note the data used is unweighted and should be treated with caution when evaluating the impact of COVID-19. Due to weighted data being available for the UK a comparison has not been included.

Trading and Financial Performance

For the East Midlands and West Midlands figures show that fewer than 1% of businesses have permanently ceased trading, while 90.0% of West Midlands businesses and 89.1% of East Midlands businesses have continued to trade. 9.8% of West Midlands businesses and 10.2% of East Midlands businesses have temporarily closed or temporarily paused trading.

22.7% of trading businesses in the West Midlands and 22.1% of East Midlands businesses reported their turnover had decreased by at least 20%.

The following chart shows how business turnover has been affected in the West Midlands and East Midlands:



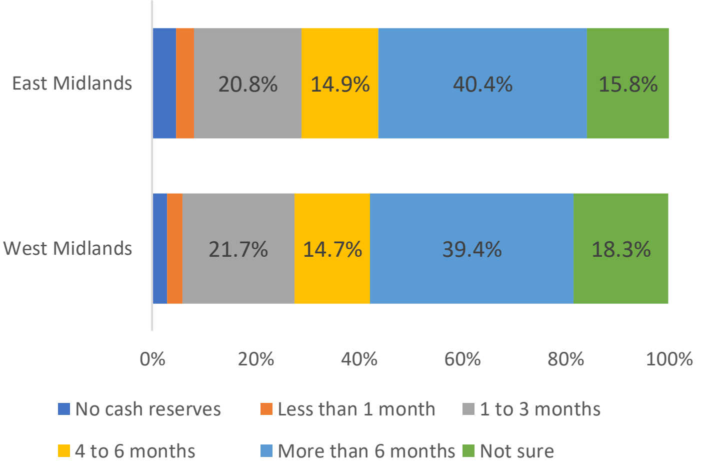
Profits

Businesses were asked in the last weeks if the Coronavirus had affected profits when compared with normal expectations for the time of year. 19.3% of businesses in the West Midlands and 18.0% of East Midlands businesses reported profits had decreased by at least 20%.

Cash Flow

2.9% of West Midlands businesses and 4.6% of East Midlands businesses have no cash reserves.

The following chart shows for West Midlands and East midlands businesses how long their cash reserves would last:



International Trading

3.5% of West Midlands and 3.7% of East Midlands businesses continuing to export found that within the last two weeks they had not been able to export, while 2.1% of businesses in the West Midlands and 1.9% of East Midlands businesses had not been able to import within the last two weeks.

34.3% of exporting businesses in the West Midlands, and 36.1% for the East Midlands reported their businesses were still exporting but less than normal. Of those businesses who continued to trade and import, 24.9% in the West Midlands and 28.7% in the East Midlands were importing less than normal.

47.1% of West Midlands businesses and 47.2% of East Midlands businesses who were exporting reported that they had not been affected and 55.3% of West Midlands importers and 53.4% of East Midlands importers said that importing had not been affected.

2.8% of businesses in the West Midlands and 1.9% for the East Midlands are exporting more than normal. The figures for importing more than usual are 3.7% for the West Midlands and 3.1% for the East Midlands.

Source: ONS, Business Impact of Coronavirus Survey

ONS - Business Impact of the Coronavirus

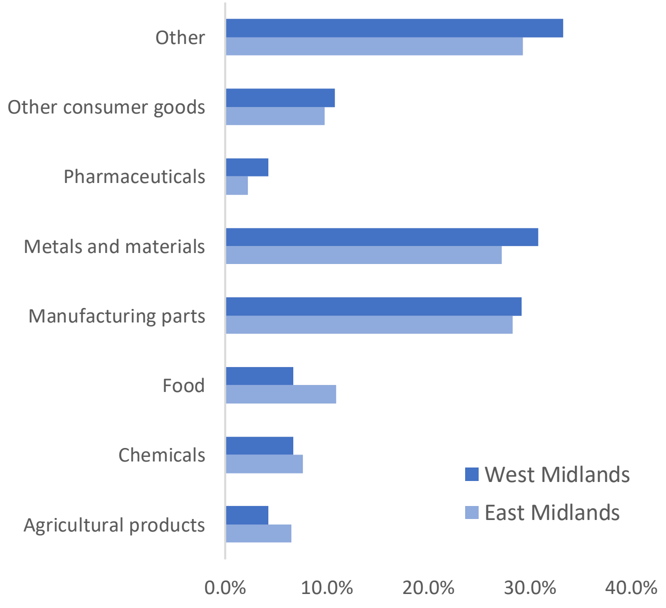
Capital Expenditure

4.7% of businesses in the West Midlands and 3.6% of East Midlands businesses reported capital expenditure was higher than normal. 40.6% of West Midlands businesses and 43.8% of East Midlands businesses reported capital expenditure had not been affected. 21.5% of West Midlands businesses and 20.8% of East Midlands businesses reported capital expenditure was lower than normal. 10.3% of West Midlands businesses and 8.8% of East Midlands businesses reported expenditure had stopped.

Stockpiling

54.2% of West Midlands businesses and 48.9% of East Midlands businesses reported they were stockpiling goods or material from UK suppliers. 60.8% (WM) and 63.0% (EM) were stockpiling from EU suppliers. 26.7% (WM) and 15.2% (EM) were stockpiling from non-EU suppliers.

The following chart shows what goods or materials West Midlands and East Midlands businesses were stockpiling:



Insolvency

1.1% of responding West Midlands businesses and 1.4% of East Midlands businesses reported they were at severe risk from insolvency. 12.3% of West Midlands businesses and 11.1% of East Midlands businesses reported they were at moderate risk. 50.3% of West Midlands businesses and 51.9% of East Midlands businesses reported a low risk of insolvency. 25.8% of West Midlands and 25.8% of East Midlands businesses reported no risk.

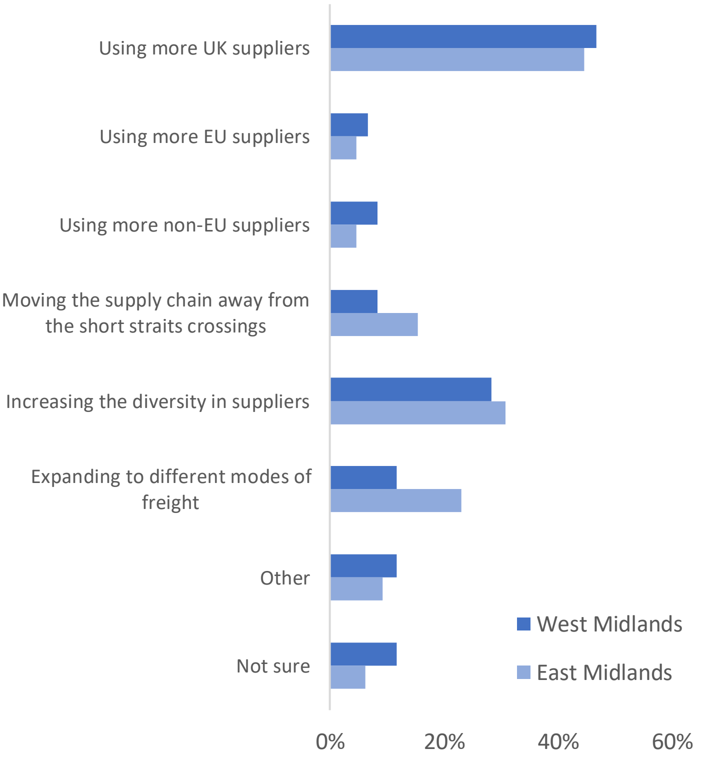
Expected Redundancies

7.2% of West Midlands businesses and 7.1% of East Midlands businesses expected redundancies to happen within the next three months. 6.2% of West Midlands businesses and 12.3% of East Midlands businesses expected redundancies to occur within the next two weeks. 12.5% of West Midlands businesses and 16.0% of East Midlands businesses expect redundancies between two weeks and one month. 76.0% of West Midlands businesses and 66.7% of East Midlands businesses expected redundancies between one and three months. 8.3% of West Midlands businesses and 11.1% of East Midlands businesses were unsure when redundancies would occur.

Supply Chains

Businesses were asked if they had made changes to supply chains due to the end of the EU transition period. 5.0% of responding West Midlands businesses and 6.2% of East Midlands businesses reported they had. Where businesses stated they had made changes, 46.7% of West Midlands businesses and 44.6% of East Midlands businesses reported they were using more UK suppliers.

The following chart shows where West Midlands businesses and East Midlands businesses had reported they had made changes to supply chain, what the change was:



Source: ONS, Business Impact of Coronavirus Survey

Levelling Up

Public Priorities for Levelling-Up

While much of the focus on levelling up has been on road, rail and innovative technology, PWC research shows the public's concerns are closer to home and that social divisions have grown during the pandemic.

As part of PWC's Future of Government programme, they asked 4,000 members of the UK public about their concerns around geographical inequality and what they would prioritise in the levelling up agenda.

When asked to rank the most important factors regarding the place they live, the public put the quality of healthcare, community safety and green space at the top of the list.

But their priorities for levelling up were revealed as those with the biggest gap between importance and satisfaction:

1) **Affordable and quality housing**

2) **Jobs and skills for the future**

3) **Vibrant local communities**

COVID-19 has highlighted the need for a more focused approach on these areas by exposing and exacerbating the deepening health, societal and economic divisions across the UK. This is requiring Government to reaffirm its commitment to levelling up and reducing geographical inequalities.

PWC's survey data helps to draw out the detail on how COVID-19 went from a leveller to a divider:

- **Growing social divisions**
- **Places to live and start a business**
- **Tackling regional inequality**

Public trust in institutions is also explored, with only 8% of respondents agreeing that central government 'listens to people like me'.

Clear opportunities for greater roles and responsibilities are identified for:

- **Local government**
- **Charities and community groups**
- **Private business sector.**

Regional Spotlight

Differences across residents of different regions are identified in the survey.

People living in the East Midlands were less likely to recommend their local area as a place to live and start a business than the UK average, but more likely to recommend their local area as a good place to bring up a family. There is also a higher than average feeling of being treated unfairly.

- 61% of people in the East Midlands recommend their local area as a place to live (UK average - 62%)
- 34% of people in the East Midlands recommend their local area as a place to start a business (UK average - 36%)
- 60% of people in the East Midlands recommend their local area as a good place to bring up a family (UK average - 59%)
- 41% agree that society treats 'people like me fairly' (UK average - 38%)
- 36% feel their area has been fairly treated by the Government during the COVID-19 pandemic (UK average - 39%)

In contrast, the West Midlands sample produced the highest % response for the feeling of being treated fairly, both in society as a whole and in the context of Covid-19. However, the West Midlands results suggest a lower percentage of the local population would recommend their local area as a place to live.

- 57% of people in the West Midlands recommend their local area as a place to live (UK average - 62%)
- 38% of people in the West Midlands recommend their local area as a place to start a business (UK average - 36%)
- 56% of people in the West Midlands recommend their local area as a good place to bring up a family (UK average - 59%)
- 41% agree that society treats 'people like me fairly' (UK average - 38%)
- 45% feel their area has been fairly treated by the Government during the COVID-19 pandemic (UK average - 39%)

Source: PWC: Rethinking 'Levelling Up'

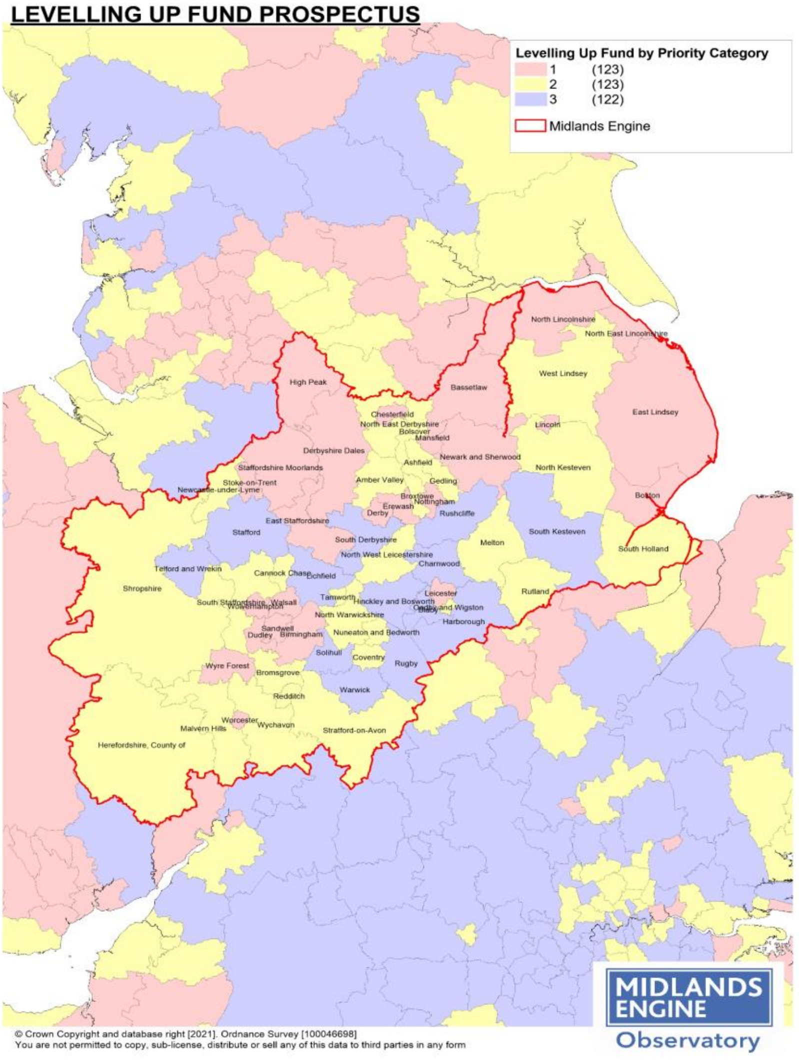
Levelling Up

The Government's Levelling-Up agenda now has some detail behind it through the announcement of the Levelling-Up Fund, Community Renewal Fund and Plan for Growth Strategy. The implementation of these policies and funds will have major implications for places across the country.

A competitive yet prioritised approach is being taken; for example for the Levelling-Up Fund has divided every local authority area in the UK into three "categories of need".

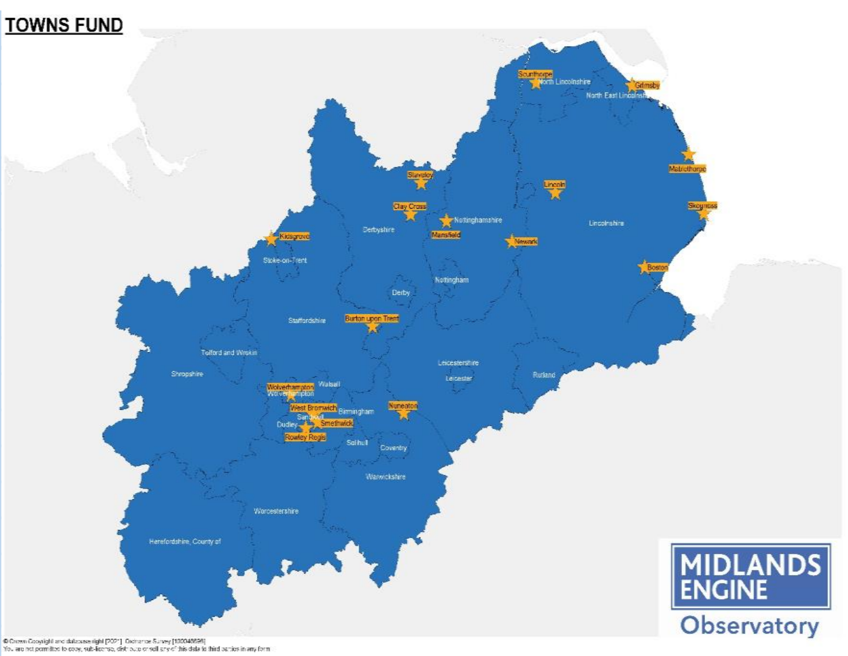
An index was developed to categorise all local authorities in this way, based on 3 core indicators. See the map across that shows the categorisation across the Midlands Engine, with category 1 representing places that are in most need.

The £4.8bn Levelling-Up Fund builds on other place-based regeneration funding announced at the 2021 Budget, namely through the latest round of Towns Fund investments.



As highlighted in the map below, the Midlands Engine received £373m through the latest Towns Fund announcement, representing 37% of the Fund's investment in March 2021.

Town	£m
Boston	**21.9m**
Burton-upon-Trent	22.8m
Clay Cross	24.1m
Grimsby	20.9m
Kidsgrove	16.9m
Lincoln	19m
Mablethorpe	23.9m
Mansfield	12.3m
Newark	25m
Nuneaton	23.2m
Rowley Regis	19m
Scunthorpe	20.9m
Skegness	24.5m
Smethwick	23.5m
Staveley	25.2m
West Bromwich	25m
Wolverhampton	25m



Source: Black Country EIU Analysis of Budget 2021

Regional Trade / Exports

HMRC has released Regional Trade in Goods statistics for Q4 2020, covering the final period before the UK and the EU signed a trade deal for implementation in 2021.

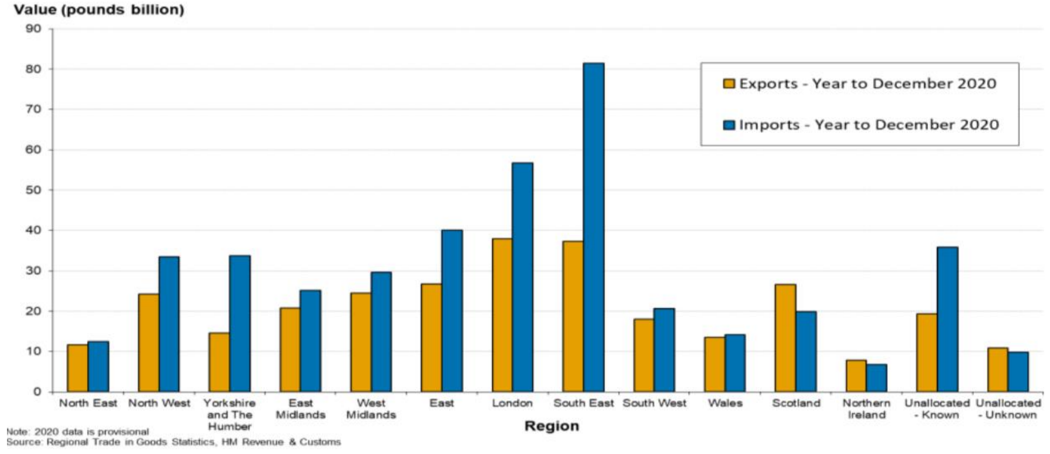
UK Overall

The total value of UK exports in goods decreased by £54.2 billion (16%) to £294 billion in the year ending December 2020 compared with the previous year. The total annual value of UK imports decreased by £68.0 billion (14%) to £420 billion in the year ending December 2020 compared with the same period of the previous year.

Midlands Regions

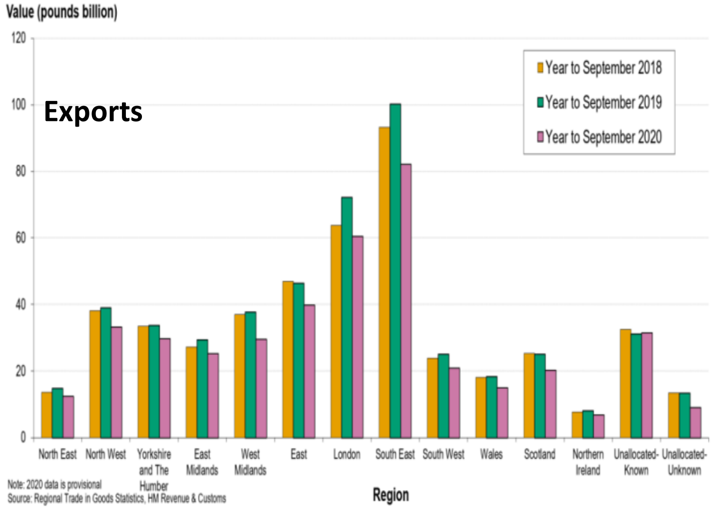
In the year ending Q4 2020, the Midlands Engine area (in this case defined by the West Midlands and East Midlands regions) exported £45.2bn worth of goods and imported £54.8bn. This reflects a trade deficit of £9.5bn, a decrease from the trade deficit in the year ending Q4 2019 which was £9.9bn. In 2020, the West Midlands exported £24.5bn and imported £29.6bn – a trade deficit of £5.2bn. The East Midlands exported £20.8bn and imported £25.2bn – a trade deficit of £4.4bn.

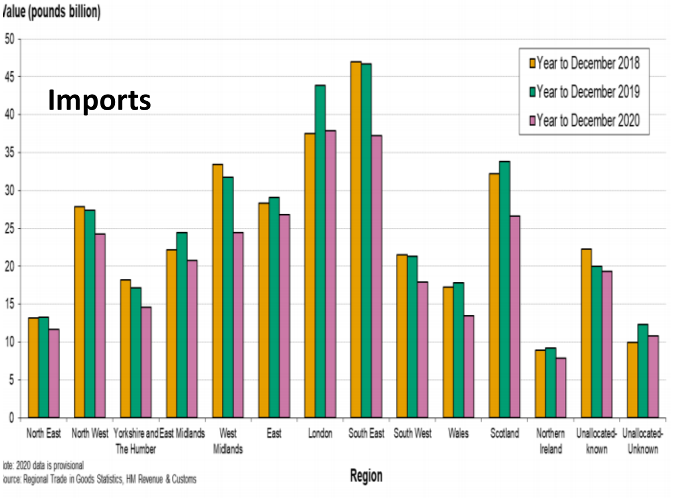
The following chart shows the value of imports and exports by region in the year ending Q4 2020:



The Midlands Engine area accounts for 15.4% of UK exports (8.3% WM and 7.1% EM) which is above London and the South East, at 12.9% and 12.7% respectively. In 2020, all the English regions experienced a decrease in export values compared to the year ending Q4 2019. The highest value decrease in exports was in the South East by £9.4bn (-20.2%) to £37.2bn. This was followed by the West Midlands by £7.2bn (-22.8%) to £24.5bn, which had the second fastest rate of decline. The value of the West Midlands region imports decreased by £7.1bn (-19.3%) when compared to year ending Q4 2019 down to £29.6bn in the year ending Q4 2020. East Midlands imports decreased by £4.2bn (-14.2%) since the year ending Q4 2019 to reach £25.2bn in the year ending Q4 2020.

The following figures show UK exports and imports by region for 2018, 2019 and 2020:





Source:

Regional Trade / Exports

Industry Breakdown

The largest Standard International Trade Classification (SITC) section for 2020 exports in the Midlands Engine area was machinery and transport at £29.6bn – 65.5% of total. Compared to the year ending Q4 2019, this has decreased by £8.6bn (-22.5%). 10.9% (nearly £5bn) of goods exported from the Midlands Engine area comes from miscellaneous manufactures, followed by 9.9% (£4.5bn) for manufactured goods. The largest SITC section that was imported across the Midlands Engine area was machinery and transport at £23.3bn, which was 42.6% of total imports. This has decreased since the year ending Q4 2019 by £7.0bn (-23.0%).

The following table shows a breakdown of exports and imports by SITC section and the percentage change between year ending Q4 2019 and Q4 2020

Figures in £ million	Midlands Engine			UK		
Exports by SITC Section	**Year Ending Q4 2019**	**Year Ending Q4 2020**	**% Change**	**Year Ending Q4 2019**	**Year Ending Q4 2020**	**% Change**
0 Food and Live Animals	£1,695	£1,596	-5.8%	£15,733	£14,885	-5.4%
1 Beverages and Tobacco	£122	£121	-0.8%	£7,989	£6,405	-19.8%
2 Crude Materials	£1,287	£1,058	-17.8%	£6,850	£6,365	-7.1%
3 Mineral Fuels	£311	£218	-29.9%	£31,666	£20,634	-34.8%
4 Animal and Vegetable Oils	£64	£60	-6.3%	£523	£517	-1.1%
5 Chemicals	£3,277	£3,020	-7.8%	£53,996	£52,037	-3.6%
6 Manufactured Goods	£5,396	£4,477	-17.0%	£31,825	£33,007	3.7%
7 Machinery and Transport	£38,257	£29,642	-22.5%	£135,920	£107,724	-20.7%
8 Miscellaneous Manufactures	£5,595	£4,925	-12.0%	£54,500	£42,784	-21.5%
9 Other commodities nes	£116	£126	8.6%	£8,830	£9,232	4.6%
Total Exports	£56,118	£45,241	-19.4%	£347,831	£293,589	-15.6%
Imports by SITC Section	**Year Ending Q4 2019**	**Year Ending Q4 2020**	**% Change**	**Year Ending Q4 2019**	**Year ending Q4 2020**	**% Change**
0 Food and Live Animals	£5,725	£5,675	-0.9%	£40,892	£40,202	-1.7%
1 Beverages and Tobacco	£497	£477	-4.0%	£6,581	£6,624	0.7%
2 Crude Materials	£1,339	£1,313	-1.9%	£10,939	£11,487	5.0%
3 Mineral Fuels	£998	£538	-46.1%	£43,954	£26,330	-40.1%
4 Animal and Vegetable Oils	£148	£176	18.9%	£1,403	£1,483	5.7%
5 Chemicals	£4,696	£4,318	-8.0%	£57,487	£53,177	-7.5%
6 Manufactured Goods	£11,405	£9,242	-19.0%	£56,651	£52,921	-6.6%
7 Machinery and Transport	£30,308	£23,347	-23.0%	£183,765	£150,082	-18.3%
8 Miscellaneous Manufactures	£10,887	£9,682	-11.1%	£78,944	£70,805	-10.3%
9 Other commodities nes	£17	£21	23.5%	£6,989	£6,450	-7.7%
Total Imports	£66,022	£54,790	-17.0%	£487,605	£419,561	-14.0%

Country Breakdown

The highest value of exports from the Midlands Engine area was to the European Union at £21.2bn - accounting for 46.9% of the total. However, this has decreased by £5.5bn (-20.5%) from the year ending Q4 2019. This is followed by Asia & Oceania at £9.1bn, accounting for 20.2%. Exports to Asia & Oceania decreased by -£1.7bn (-15.5%) compared to the year ending Q4 2019.

The highest value of 2020 imports to the Midlands Engine area was from the European Union at £31.1bn - accounting for 56.8% of the total. This is a decrease of £7.9bn (-20.3%) when compared to the year ending Q4 2019. This is followed by Asia and Oceania at £14.7bn accounting for 26.8% of the total. This has decreased by £878m (-5.6%) from the year ending Q4 2019.

Accompanying HMRC data on the number of exporters and importers reports that there are almost 150,000 exporting companies in the UK, and over 250,000 importing companies. The data estimates there are 13,706 exporters in the West Midlands and 11,621 in the East Midlands – over 25,000 across the Midlands overall.

Unsurprisingly the number of exporters fell in 2020 compared to 2019, however there was a larger fall in the number of businesses that exported to EU countries compared with non-EU countries. In the East Midlands, 9,075 companies exported to the EU in 2020, a 12% fall from the previous year (10,317), while the West Midlands reported a 10.4% fall in the number of exporting companies (from 12,061 in 2019 to 10,809). The UK fall was in-between at 11.1%. In contrast, for non-EU exports decreases of below 5% between 2019 and 2020 were reported for the West Midlands, East Midlands and UK overall.

Source: HMRC Regional Trade in Goods Statistics, Quarter 4 2020

Megatrends

The 2020 West Midlands Annual State of the Region identified a number of major trends which will affect the region in the future. These have been explored in more detail through a number of themes workshops with key local stakeholders, led by University of Birmingham. The emerging findings and trends, outlined below, will be relevant to understanding what the wider Midlands like look like in years to come. **The key megatrends identified by each workshop are set out in the following boxes and the key cross-cutting trends to emerge from the workshops are as follows:**

Future mobility

- *Networking Hubs* - City centres become networking hubs – many professional workers in private services work from home for at least 3 days per week and only come to city centres for networking.
- *15 Minute City* - The 15 minute city and increased urban living drives a more 'urban village' environment, where people work and live locally. Services move to be nearer clients and travel is reduced and more considered.
- *Reduced Rush Hour Peaks* - Smaller Public Transport Fleets with changing working patterns there is reduced demand for public transport at peak rush hours.

Health and Wellbeing

- *Active Ageing Populations* - More people are living longer. The NHS Long Term Plan Community Teams model helps many to stay active and mentally resilient, remain independent at home for longer. The expense of comorbidity on the health system is deferred.
- *Mental Health Escalation* - COVID-19 leaves a lasting scar on the mental health of millions, with self-reported anxiety rates rising. Women, those in social housing, and BAME communities report a disproportionate impact.
- *Prevention and Wellness* - More advanced, personalised diagnostics align with growing societal and political pressure to drive the much called for shift to proactive prevention in preference to expensive cure of disease.

Megatrends

Hybrid Workplaces

- *The Office as a Networking Space* - The function of the office changes as it becomes a space for social interaction, collaboration and co-creation. On their days in the office, workers relish mixing work and leisure.
- *Digitalisation of Working* - Ubiquitous workplace automation hands over repetitive and dangerous jobs to robots. AI provides information to workers to help them perform tasks but also monitors their performance, so creating a surveillance workplace
- *Working Longer For Many* - retirement at age 65 is economically infeasible. Few workers can fund a 30-year retirement with a 40-year career. Neither can societies. 'Career breaks' offer opportunities for (re)training and recharging of batteries

Adjusting business models

- *Bye Bye to the 9 to 5* - Covid 19 accelerates the homeworking trend for individuals in professional services - an option many business leaders support, as it decreases costs through reductions in office space and running and maintenance expense
- *Resource Scarcity* - Over the next 30 years, finite energy resources such as coal and oil will be less economic to extract. Businesses switch to solar and wind renewable energy resources while, simultaneously, significantly reducing consumption
- *Cyber Vulnerability* – Individuals and organisations are progressively vulnerable to cyber attacks. As technology is ubiquitous and easier to access through the back door and human password errors multiply, hackers increasingly target SMEs, large companies and public systems

Attitudes, behaviours and values

- *Work Re-imagined and Non-Work* - As work intersperses with leisure time, the working day and working week, the nature of employment and unemployment and how they are viewed in society also changes. Zoomers and Millennials 'job-hop' regularly
- *Cities for People not Cars* - Changes to accommodate social-distancing in cities (such as 'pop-up' bike lanes and the widening of pavements) provide evidence of how urban space could be if the environment and people are prioritised over cars. Momentum is sustained
- *Polarised Workers* - Knowledge workers gain more advantages as digital skills, networking, problem solving and information handling are valued. Higher wages and more flexibility seed greater division in the workplace, so creating a new 'occupational-ism'

Place function and functioning

- *Hybrid Working* - Many office workers returned to city centres but only 2-3 days per week. When in the city the focus is on the physical and social as well as the digital – connecting with colleagues, customers and wider networking
- *The Rise of Neighbourhood Centres* - Sustained working near home makes local neighbourhood centres the 'go-to' destination for shared hubs, shopping, socialising and light industry. Urban planning is focused on more active development of '15-minute cities.'
- *Differentiated Places* - Second tier cities seek new roles so that they have an offering distinct from those of the largest cities and rural towns. They think more about 'place attractiveness' and their function within the urban and regional system

Business districts

- *Hybrid Working* - Many office workers returned to offices but only for 2 days per week. When in the city the focus is on the physical and social– connecting with colleagues, customers and wider networking. Businesses reduce footprint and costs in city centres
- *Re-imagining the office* – To retain high quality city centre office, but with a reduced headcount, there is increased facility sharing. But businesses still value retention of their own identity. New approaches amplify innovation potential and use space more efficiently
- *The Urban Experience Economy* - The potential for 'connecting', 'experiencing' and 'cultural consumption' comes into greater focus. City centre businesses embrace promotion of these developments to help increase footfall and the central city ecosystem

Local Business Intelligence

This section draws on contributions from the East Midlands Chamber, Make UK, the NFU, FSB, Growth Hubs and Universities across the region (sourced from Midlands Innovation and Midlands Enterprise Universities networks).

East Midlands Overview - EMC

Manufacturing is reported as being in the strongest position for some time – with lots of investment primed to come forward and very strong order books.

Prices are an issue, particularly driven by raw material costs (and particularly in manufacturing) – many expect to start passing these on to customers in the next quarter.

Delays with EU importing still a problem, however, work arounds are starting to bed in. Most firms when asked whether the issues are structural or part of a learning curve still say learning curve and hope it will improve further, even if the way margins are constructed may have changed slightly.

There is still a strong element of people working down stockpiles. The next set of official trade data will be important. 40% of members saw a reduction in their EU trade, but this was partly (not wholly) off-set by gains in North American and Asian markets.

Return to the office plans are starting to firm up. Chamber members expect to see greater flexible and part-time working, but people are hoping to be back in workplaces over the next couple of quarters.

Manufacturing - Make UK

Manufacturing in the Midlands (and particularly the East Midlands) is looking more positive than has been the case for some time – this is reflected in order books and planned investment.

85% of midlands members report some form of disruption to their operations as a result of EU exit.

Evidence is growing of upward pressure on materials costs – particularly for manufacturers reliant on international supply chains for raw materials and/or components. Specific concerns have been raised in relation to supplies of polypropylene and glass.

Some members report evidence of profiteering in supplies that have been subject to disruption associated with increased border friction.

Competitors based in Europe are actively seeking to take market share from UK manufacturers where border friction has resulted in interrupted or delayed supply to European customers.

Shipping charges have risen markedly in recent months as have costs associated with the administration of border checks/associated paperwork on goods for export.

Concern is growing about the impact of the week-long Suez Canal blockage in the last week of march on international supplies.

Some manufacturers have reported problems in recruiting new staff (even unskilled). It has been suggested that this may be, in part, an unintended consequence of the continuation of the Furlough scheme (necessary though this was) that may have dampened activity in the labour market.

Small Business – FSB

At the beginning of March, the main focus for FSB was the Budget, not least because the preceding weeks saw FSB lobbying Government hard to deliver "the most ambitious budget in modern history". In the event, it fell a little short of that but FSB did welcome the positive responses to a number of 'FSB asks' including:

- help for the newly self-employed;
- the extension of flagship support schemes;
- the extension of furlough;
- the continuation of business rates and VAT extensions; and
- the £20 million Brexit Support Fund – a direct result of our call for 'transition vouchers' to help small businesses buy in the tools and expertise needed to navigate the new EU trade arrangements.

Excluded groups, including directors of limited companies, were once again denied any substantive support. FSB are working with stakeholders at all levels to inform decisions about future support needs as we switch the primary focus from survival to growth.

FSB have continued to receive positive feedback from local members who have received various COVID-19 related grants.

While this support has been crucial and has contributed to thousands of small businesses remaining viable up to this point, local FSB members are raising concerns about their levels of debt and how this is being/will be viewed by banks and other finance providers going forward. As repayments start to fall due in the coming months, lenders should remember that these loans were only made possible by the Government in order to help firms in need, and treat borrowers accordingly.

Demonstrating the scale of the challenge, in March the British Business Bank's latest Small Business Finance Markets report showed that gross bank lending (excluding overdrafts) to smaller businesses rose to £104bn in 2020, 82% higher than in 2019.

The report also confirmed that, of the small firms that have recently accessed finance, four in ten now describe their debt as "unmanageable". Many of those are in the very hardest hit sectors, which are significant players in the Midlands, such as events and travel. Furthermore the report highlights that three quarters of small firms are accessing finance to help manage cashflow. This demonstrates how COVID-19 linked disruption is exacerbating the late payment crisis, a crisis which destroys 50,000 firms a year at a cost of at least £2.5bn to the economy.

FSB has long campaigned on the issue of late payment and in March stepped it up further by joining the Good Business Pays movement as part of the ongoing campaign for shorter payment terms for small businesses. An additional information hub has been launched, focusing on dealing with late payment and explaining why 'good business pays'.

In fact this was one of two new information Hubs launched during the reporting period. The second was a 'Start Your Business With FSB' hub, which provides expert and detailed advice on all aspects of starting up, or scaling up, a small business.

In terms of providing free, accessible information and support to Midlands-based small businesses, FSB have continued to deliver a busy and broad ranging programme of virtual business networking and support events, with attendance levels rising and feedback being overwhelmingly positive.

In March, these included a number of events to celebrate International Women's Day, Women in enterprise and a half-day Business Bootcamp featuring a range of renowned speakers who provided tools and tips that attendees could use to boost their business with immediate effect.

Another hot topic for March concerned business connectivity and the Government's ultra-fast broadband roll out. FSB expressed concern at the watering down of the Government's original manifesto pledge to increase ambition in the UK's broadband programme, rolling out gigabit capable connections to all homes and businesses in the UK by 2025. Only £1.2bn of costs have been budgeted for use until 2025, which means the upcoming Spending Review is important to bring back the ambition and funding required.

FSB evidence suggests that the experience of COVID-19 has hammered home to small businesses the importance of reliable and fast broadband connections:

- 78% of small firms recognise the benefits of faster broadband for the economy, their business or their employees working from home
- 25% are not happy with their current broadband
- 32% say they do not have the skills or experience to take advantage of gigabit broadband
- 56% cannot afford to spend any more than they currently do

There remain many parts of the Midlands that have sub-standard connectivity. At this critical time for economic recovery, the UK's small businesses are more reliant than ever on broadband.

Farming – NFU

Farmers have coped with lockdown and the requirements of COVID-19 safe operation better than was the case at the time of the first national lockdown. Seasonal influences may also be relevant in that demand for PPE in the sector are said to be lower in the winter months.

The sector is anticipating positive impacts associated with the phased re-opening of hospitality and tourism in line with the Government 'road map'. The former will benefit farmers supplying the hospitality/catering sector; the latter will benefit the many farm businesses that have diversified into tourism – particularly the 'staycation' market.

The prospect of 'opening-up' the countryside after lockdown is leading some in the sector to highlight the importance of visitors abiding by the Countryside Code – particularly as it applies to ensuring dogs do not 'worry' livestock – especially during lambing.

Concerns are being voiced within the sector about the impact that the UK's new immigration system will have on the availability of seasonal labour later in the year. Specific concerns are being raised about the exclusion of the ornamentals sector from the Seasonal Worker Pilot.

Lamb and milk producers are reported to have benefited from strong prices in recent weeks.

A key issue for the future development of rural economies post-Brexit/RDPE will be the shape of the Shared Prosperity Fund and the manner in which it addresses the needs of agriculture and the wider rural economy.

Local Business Intelligence

SECTOR	KEY CONCERNS
Advanced Manufacturing & Engineering **Logistics & Transport**	**Outlook** According to new CBI figures, UK factories have seen their **strongest order books for nearly two years** this month as the economy fights back after a year of Covid-19 restrictions. The Industrial Trends Survey showed the balance for total order books improved from minus 24% in February to minus 5% this month – the best result since April 2019. These findings chime with MakeUK's latest quarterly survey that suggests Britain's **manufacturers are beginning to move through the gears** as growth prospects become more positive for the rest of the year. **EU Exit** Manufacturers and logistics businesses are still struggling to cope with **crippling delays moving goods in and out of EU** according to Make UK research. Almost **three-quarters (74%) of companies have experienced or are experiencing delays** in the past 3 months • 1 in 3 (28%) are experiencing delays of between 1 to 2 weeks • Over half (51%) say this has led to **increased costs** • Over a third (35%) have lost revenue with one in five losing potential business • Manufacturers have cited various Government interventions that would help mitigate the impacts – from **assistance with export documentation, better trained customs staff and clearer guidance on import/export paperwork.** Some Midlands businesses have however reported on the **opportunities provided by the post-EU Exit** environment, citing the global opportunities and the reshoring of manufacturing operations. **Initiatives** • A blueprint setting out the compelling opportunities for the Midlands to position itself as a **world leader in advanced ceramics** has been launched. Businesses and academics from across the region have collaborated on the Advanced Ceramics Sector Profile, commissioned by the Midlands Industrial Ceramics Group (MICG) in partnership with the Midlands Engine Observatory. Highlighting the global opportunities presented in the rapidly growing industry, the report sets out the fundamental importance of advanced ceramics to the performance of high-tech sectors worldwide.
Business, Professional & Financial Services	**Outlook** • The continued success of the UK's vaccination rollout programme led to a **significant rise in services sector confidence in February**. That's according to the latest Business Trends report from accountancy and business advisory firm BDO LLP. • The BDO Services Optimism Index surged from 86.60 in January to 94.13 in February – a 12 month high - as the number of people vaccinated continues to rise. • Birmingham should be nurtured as a **hotbed of the fintech sector,** according to a newly published government report into the industry. The Kalifa Review makes key recommendations including fostering Birmingham as one of the key fintech (financial technology) "clusters" across the UK.
Construction	**Outlook** • According to the EMSI data platform, demand for jobs and skills is beginning to increase across most of the region's priority sectors, with **construction already back above pre—pandemic/lockdown levels.** Demand is higher than at the same comparable point in 2019.
Hospitality and Entertainment	**Outlook** • Hospitality bosses across the region have cautiously welcomed "crucial" VAT and business rates support from the government Budget announcement but have warned there is **still a long road of recovery for the sector.** • The wider hospitality and entertainment / tourism sectors are still facing a difficult time however, with limited financial support available. Some Midlands tourist venues have warned that they **cannot afford another lockdown**, saying they are on the brink financially as they prepare to reopen.
Agriculture **Food & Drink Manufacturing**	**EU Exit** Business voices from across the agriculture and food production / manufacturing sectors have raised ongoing concerns about the current and future status of trade with the EU, now supported by data: • British food and drink exports to the EU took a substantial plunge in January **(-75% from Jan 2020).** • This is influenced by issues associated with new rules required by the UK-EU trade deal, particularly related to **health certification and documentation for food and livestock exports.** • Farm organisations such as NFU and the National Pig Association have **criticised the government's decision to delay post-Brexit checks on EU imports for a further six months.**

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