

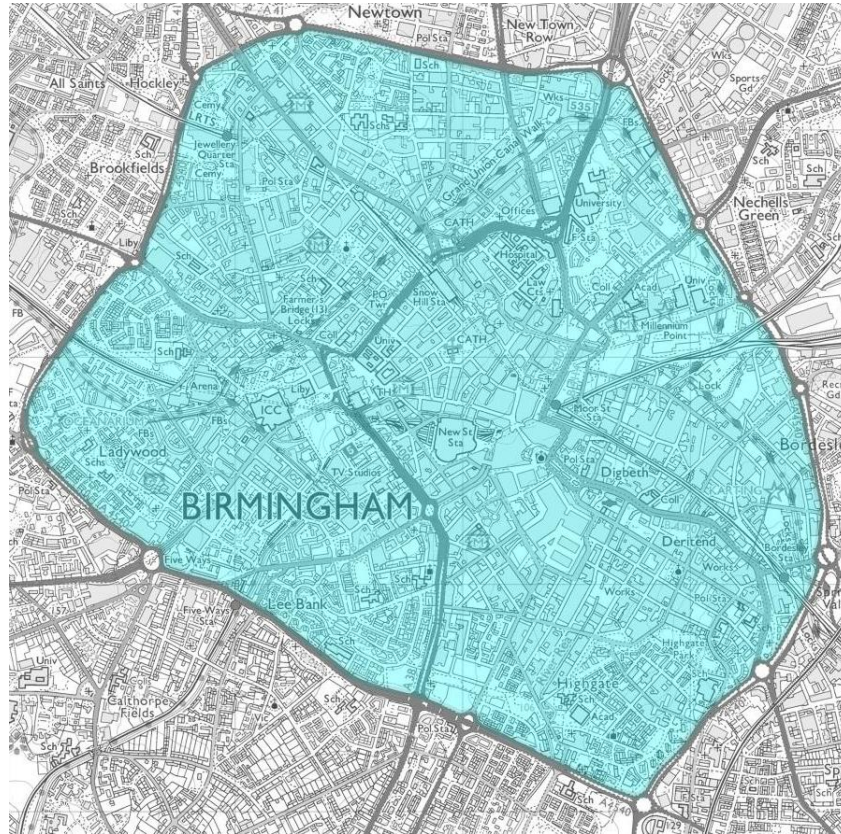
A black and white photograph of a city street at night. The image features long-exposure light trails from cars, creating curved streaks of light on the road. In the background, there are modern buildings with illuminated windows and balconies. The overall atmosphere is urban and dynamic.

W M E M

WEST MIDLANDS ECONOMIC MONITOR

April 2019

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Map of the new Clean Air Zone covering Birmingham City Centre. Image: Birmingham City Council

Birmingham City Council has released details on the new **Clean Air Zone (CAZ)** due to come into force from 1 January 2020 and cover the entire city centre inside the ring road. The CAZ is being implemented as Birmingham is in breach of maximum limits on air pollution. The city faces a fine of £60 million from the European Commission if it fails to reduce pollution to within acceptable levels. Along the lines of the Low Emission Zone in London, drivers in Birmingham will need to pay £8 per day to drive within the CAZ. It is likely that this will cause additional congestion on the ring road and surrounding areas. According to the Campaign for Better Transport, **the West Midlands is the most car-dependent of all regions** in the UK, with heavy traffic volumes and generally low-density developments. Major investment in public transport as a result of HS2 is very welcome to encourage mode-switching from car to sustainable transit.

The West Midlands Combined Authority has secured funding to proceed with the **extension of the Midlands Metro** from Wednesbury to Brierley Hill. Dudley is one of the largest towns in the UK without a connection to the national rail network and it is forecast that the new link could unlock 2,000 new homes per year being built and the creation of 34,000 new jobs. It will also give the DY5 enterprise zone that was featured at MIPIM (see WMEM

for March 2019) a reliable and fast public transport connection to the wider region. As a result of another tram extension along Hagley Road, the Five Ways underpass will be closed to traffic from 3 June – and might never re-open. Five Ways is a key junction on the city's ring road that will also experience greater traffic volumes with the new CAZ.

According to the industry journal Rail Professional, businesses in the West Midlands are **already experiencing the benefits of High Speed 2 (HS2)**. Funds released by the Business Growth Fund have supported over 500 SMEs in expanding their businesses already, leading to 1,600 new jobs and added £100 million to the region's GVA.

Virgin Trains, which runs the West Coast Main Line between Birmingham and London, is set to disappear from the railways. This comes after the Department of Transport banned Virgin's partner, Stagecoach, from bidding on rail franchises owing to the bids not complying with pensions rules. What remains to be seen is how Virgin's customers will respond. Back in 2012, 100,000 people signed a petition to allow Virgin to retain control of the WCML after franchise was won by FirstGroup, with many of those who signed saying they perceived Virgin to offer a more reliable service than First does on the routes it operates, most notably TransPennine Express in the north of England.

The Economist has opened its first location outside of London in Birmingham city centre. The magazine's Technology Innovation Unit will support it in developing innovative ideas, marketing tools and tech products to support its journalism, which is read by over 1.1 million people per week. The new base on Church Street will house 45 staff and adds to Birmingham's growing tech industry. As was featured in March's WMEM, the West Midlands region was recently chosen as the national testbed for new 5G internet.

A new report from the Society of Motor Manufacturers and Traders claims that the UK has the potential to be the global market leader for **Connected and Autonomous Vehicles**. The sector could contribute £62 billion to Britain's economy by 2030 and create 20,000 new automotive jobs. According to the report, the regulatory environment in the UK is favourable to the industry, there are a number of testing sites already and it is estimated that up to 20% of the country's roads could potentially be automated. However, the report notes that uncertainty around Brexit is hitting the development of the sector hard, with international investors cautious to invest until they have more clarity on the UK's future trading relationships.

The government has chosen two sites in the West Midlands to be part of a network of 12 national '**Institutes of Technology**', dedicated to skills training along the lines of the German *Technische Hochschulen* that focus on the development of engineering, STEM and digital skills in demand in industry. Aston University and Dudley College of Technology will host the institutes, from autumn 2019, which will be backed by £170 million of government

funding and supported by employers including Microsoft, Siemens and Nissan. The new T Levels will also be rolled out from 2020, which seek to raise the profile of vocational qualifications to be on par with academic A Levels.

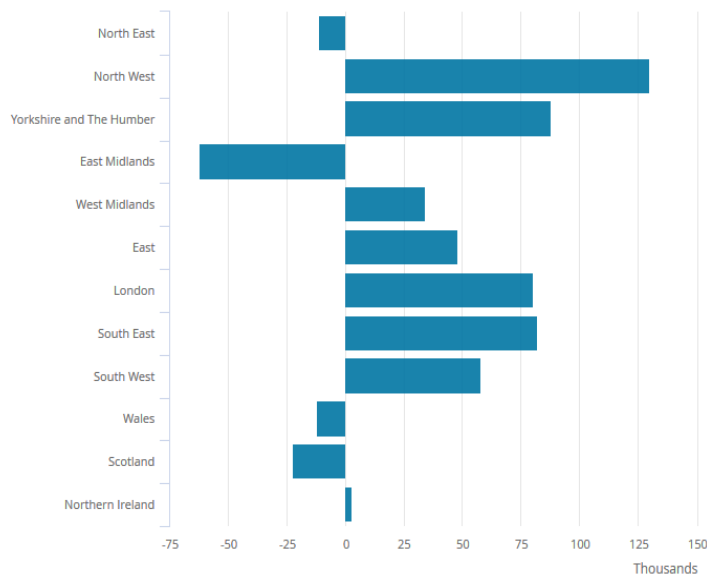
The number of **tech startups** in the West Midlands is growing, with an 11% increase in 2018 to 563 firms. However, this is at a slightly slower rate than the national figure. According to Companies House there was a 14% increase last year in the number of tech companies in the UK to 11,864, with a massive part of the growth being driven by London and the South East. Encouraging highly-skilled graduates to stay in the area after they have finished their studies is key to unlocking the region's start-up potential in this sector.

Birmingham continues to attract large numbers of students from across the UK and overseas but **struggle with graduate retention**. The city is currently sixth in the UK for its graduate retention rate, at 49%. However, much of the retention is driven by students attending newer institutions such as University College Birmingham (60% retention), Newman University (74%) and Birmingham City University (52%). The rates for the city's elite institutions tell a different story. For example, only 25% of Aston graduates stay in the area, and only 30% of graduates from the University of Birmingham stay in the city once their course has finished. This tells us that **while the city is an attractive place to study, more needs to be done to make it attractive for graduates** of leading universities to start their career. London continues to be by far the most common destination for Birmingham's graduates.



Fewer than a third University of Birmingham students stay in the city once they graduate. Image: University of Birmingham

Change in estimated workforce jobs, by UK region, seasonally adjusted, December 2017 and December 2018



Changes in workforce by UK region. Image: ONS

Figures released by the ONS for the state of jobs in 2018 show that the **West Midlands' employment growth is higher than the UK average**, but that the region continues to lag overall. For example, economic inactivity (a group that includes among others students, people who are short-term and long-term unwell and retirees) was 24.2% in the West Midlands Combined Authority area, compared to 21.7% for the UK. This figure decreased by 0.5% last year, whereas the national figure decreased by only 0.1%.

The latest figures on the West Midlands labour market show that **employment in the region is increasing faster than the national average**, with a 1.1% increase up to the end of February 2019 compared to a UK-wide increase of 0.4%. However, there is still a distance to go for the region to catch up; the West Midlands employment rate (16-64 years) currently stands at 74.3%, whereas the national figure is 76.1%. At the same time, the unemployment rate for the region is the second highest in the UK, with 5.2% of people being unemployed versus a national figure of 3.9%.

Figures from the Department of Education show that school-leavers in the West Midlands Combined Authority area are **less qualified than the national average**. 63.3% of 19-year-olds are qualified to Level 2 in English and Maths in the WMCA, which covers Birmingham, Solihull, Coventry, Sandwell, Dudley, Walsall and Wolverhampton. Level 2 is equivalent to achieving a grade C in GCSE, demonstrating the ability to do everyday Maths and professional proficiency in English. The national figure of young people reaching this level is 68.2%.

West Midlands Police have revealed that **homophobic hate crimes** increased by 53% in the West Midlands in 2018. This figure is significantly higher than in England and Wales as a whole, where there was a 27% increase. The release of these figures come as protests against LGBT inclusion in relationship and sexual education in schools have spread across Birmingham. These protests were sparked by an anti-LGBT campaign at Parkfield Community School in Alum Rock, a predominantly Muslim area of the city. Police attribute part of this increase to more victims reporting crimes. Stonewall, an LGBT charity, estimates that only 1 in 5 homophobic hate crimes are reported, with young people being particularly reluctant to go to the police.

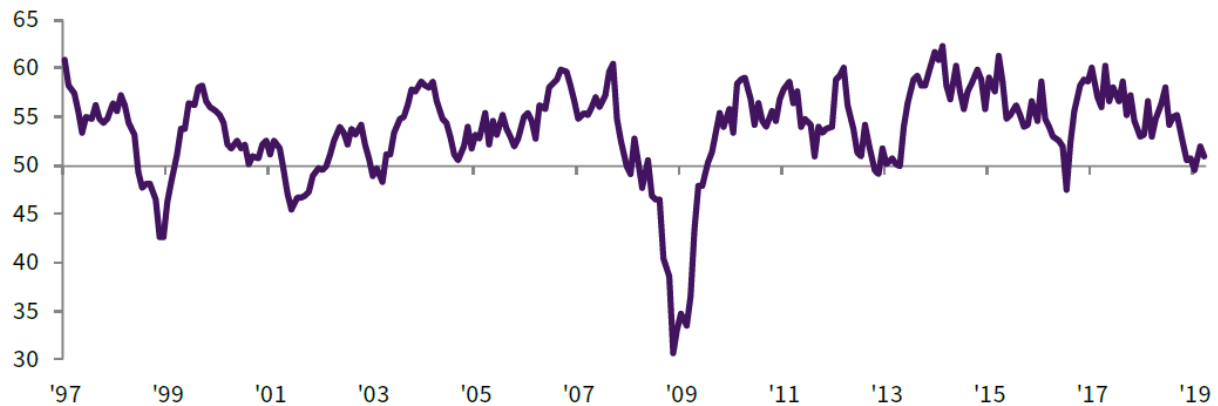
A new report by Salford Business School and national law firm Shoosmiths identifies **risks to the 30,000 mid-sized businesses in the UK**. MSBs have 50-499 employees and turnover of between £10-149 million per year, and despite only comprising 1.5% of businesses in the UK they contribute a third of national turnover and 22% of tax receipts. Beyond macroeconomic uncertainty fuelled by Brexit, there are several other key threats to these businesses. A skills and talent shortage is their number one issue. The report also claims that a serious **lack of age, gender, sexual and ethnic diversity at board level is also a major disadvantage** to these businesses as it constrains their perspectives and potential for innovation.

A Birmingham man has been detained under the Mental Health Act following **attacks on five mosques in the city**. Mosques were vandalised and had their windows smashed across Aston, Perry Barr and Erdington, north of the city centre. When taken with other recent events, such as the protests outside primary schools, the likelihood is that these will have a negative impact on perceptions of Birmingham beyond the city, which brings with it potential economic challenges.

There has been a significant increase in the number of **people in Birmingham relying on food banks** to survive. Figures show that 20,432 people depended upon food banks from August to September 2018, made up of 13,567 adults and 6,865 children. This is a 41% increase over the same period in 2017. The Trussell Trust, the charity running these food banks, says the new Universal Credit system is to blame, because the first payment is five weeks after the initial claim meaning there is a significant period where people may not have any money to live on.

West Midlands Business Activity Index

sa, >50 = growth since previous month



PMI figures show that business activity is more or less static for the third month of 2019. Image: IHS Markit

The latest Purchasing Managers Index figures for the West Midlands show that **business conditions have remained subdued** in March 2019. The latest score was 50.9, showing a very small positive increase in business activity (down slightly from 52.0 in February this year). Given the threat of a no-deal Brexit that was very real in March, it is likely that this is at least in part due to businesses waiting for certainty before committing funds into investments. There were also some **reports of customers stockpiling supplies** to prepare for a possible crash out of the European Union. As the threat of this has now receded until at least the end of October it is possible that there may be an uplift in business activity over the summer.

Along with the rest of the country outside of London and the South East, the West Midlands continues to be **less productive than the UK average**. Recent ONS figures show that productivity in the region, measured in output per hour worked, was 88.9% of the UK average. By contrast, productivity in the South East was 107.1% above the average and the figure for London was 130.4% the average.

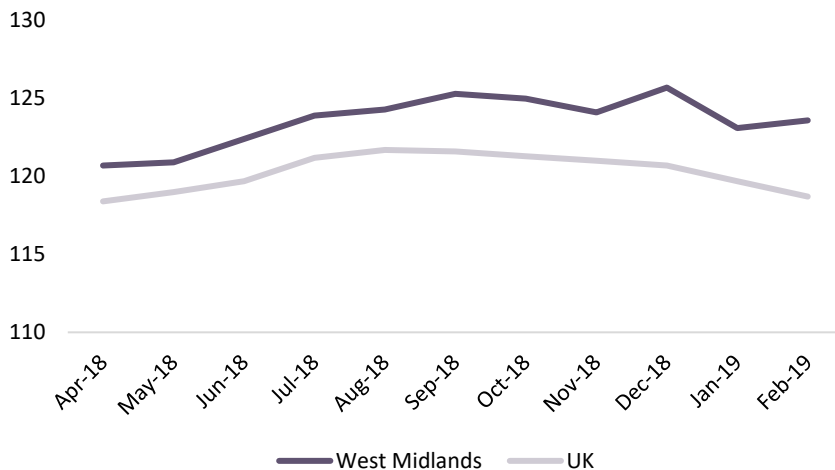
In the decade following on from the 2008 financial crisis, the manufacturing sector has **heavily depended upon growth in just four industries**: namely, the manufacture and processing of food, automobiles, the production of other transport equipment and machinery repair. The West Midlands region has particular strengths in each of these industrial sectors. According to the ONS, removing these 4 from the 24 manufacturing industries it categorises would result in the value of the sector still being below its

worst point during the 2008 recession. The worst performing industries include printing, basic pharmaceuticals, metal production and the manufacture of metal products such as weapons and ammunition.

Earlier in April **Jaguar Land Rover began a week-long shutdown** of its production facilities at Castle Bromwich, Solihull and Wolverhampton in the West Midlands, along with its site at Halewood near Liverpool. The extension was intended to enable JLR to prepare for a no-deal Brexit and comes amid changes to its business, as it seeks to shed 4,500 staff from its 40,000-strong workforce. At present, JLR is primarily seeking to reduce the number of people employed in management roles. There has also been a weakening of demand for its products in key markets, most notably a 34% reduction in sales in China.

Job creation in the West Midlands is at a five-month high and **business confidence is at a ten-month high**. This performance, while still below historical levels, shows that businesses are becoming more optimistic that Brexit uncertainty will start to reduce. In terms of business growth, the West Midlands is middle of the pack for regions of the UK – the monthly output index shows it is ranked 5th out of 12 regions for growth since the previous month. However it is also important to note that this means that the West Midlands is one of the 5 regions of the UK where output is actually growing at present. London has seen its sharpest decline since July 2016 in the aftermath of the Brexit referendum, which again may signal that this is due to macroeconomic and political factors.

House Prices Index



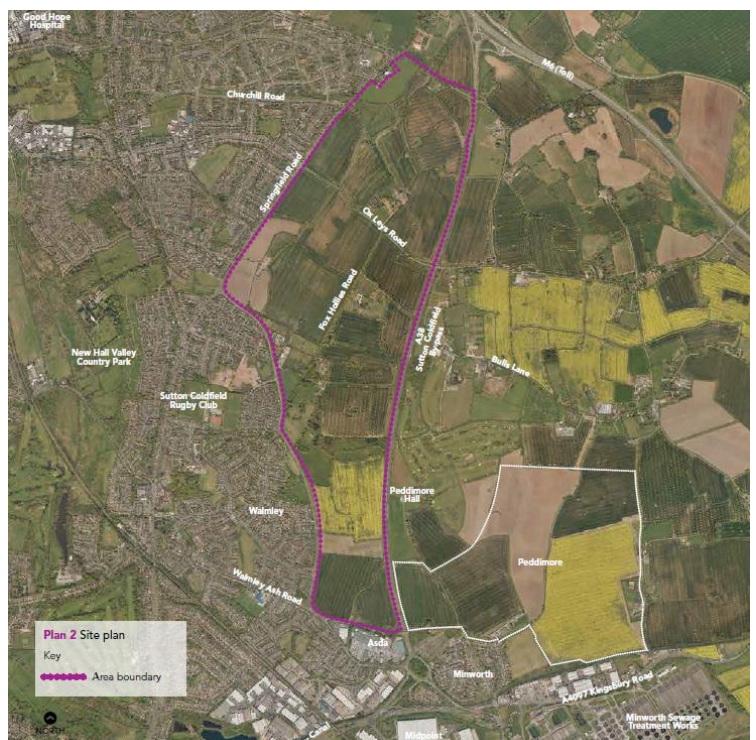
House prices in the West Midlands continue to grow faster than the national rate, according to the latest monthly figures from HM Land Registry. The monthly House Prices Index registers a figure of 123.6 for the region, indicating that prices are 23.6% above the baseline figures for January 2015. Only the North West region is seeing faster growth in house prices. By contrast, the national index stands at 118.7 and is being dragged down by **London, where prices have fallen 3.8%** this month. The release of the latest data also marks the first time since 2011 that prices in the South East have fallen overall across a 12-month period.

The West Midlands is building more new houses than the national average. 10,640 new homes were started in the WMCA area in 2018, an 7% increase over 2017. By contrast, the average increase across England as a whole was zero per cent. In parts of the region the growth in house building is even stronger; for instance in the Black Country, where 18% more new builds were started over the course of the 2018 than in the previous year.

An example of this expansion of house-building in the West Midlands is the proposed **6,000-house site at Langley**. The area, near Walmley in Sutton Coldfield, is currently agricultural land within the city limits. A new Sprint Rapid Transit connection is proposed for the development to encourage residents to commute using public transport rather than private cars. Sprint is a bus in a segregated lane with fewer stops and greater frequency of services. The new site will also feature three primary schools, a secondary school, health centres, a district hub with shops and amenities, and a new industrial park called Peddimore with the capacity to create up to 10,000 jobs. The scale of the proposed development means that Langley will be one of the **largest single housing developments in Britain**.

Another site has been chosen for residential development – this time in connection with the 2022 **Commonwealth Games**. The new athlete's village in Perry Barr will be converted to 1,400 homes after the games, and a neighbouring site will host up to 500 new homes as well as a new secondary school.

The **decline of Britain's High Streets** is a widespread phenomenon, and the West Midlands is no exception. 287 shops opened in the region in 2018 and 475 went out of business, resulting in a net loss of 188. The equivalent figure in 2017 was 144. A series of factors are hitting retail: online shopping continues to grow, uncertainty around Brexit and the UK's future is dampening investment, and recent changes to business rates have yet to take effect. From April 1 **small businesses will receive a third off their rates** bills for two years, which Chancellor Philip Hammond says will benefit "up to 90 per cent of all independent shops, pubs, restaurants and cafes".



Site plan of the new Langley development. Image: Birmingham City Council

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