



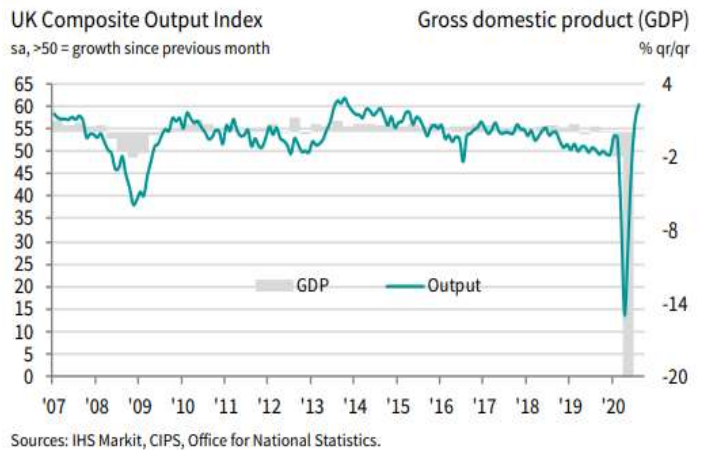
MIDLANDS ENGINE ECONOMIC IMPACT OF COVID-19

EDITION 9 : 14 SEPTEMBER 2020 (Skills deep dive summary)

Summary

Economy

UK private sector companies reported a sharp and accelerated increase in business activity during August. Both the manufacturing and service sectors are continuing to experience a recovery in consumer demand. The headline seasonally adjusted IHS Markit / CIPS Flash UK Composite Output Index –registered 60.3 in August, up from 57.0 in July and signalling the fastest rate of business activity expansion since October 2013. The index for the **West Midlands increased from 50.4 in June 2020 to 61.9 in July 2020.** Notably, this is the second-fastest increase in the survey history. The **index for East Midlands Business Activity increased from 50.4 in June 2020 to 58.1 in July 2020.** This increase is the fastest reported since February 2018 as client demand has been boosted since the broad reopening of businesses.



According to the ONS Business Impact of Coronavirus Survey (BICS) **55.8% of trading businesses in the West Midlands and 51.5% of East Midlands businesses reported their turnover had decreased by at least 20% (UK 50.8%).** However, **26.0% of trading businesses in the West Midlands and 28.4% for the East Midlands reported that their turnover was unaffected (UK 31.7%) and 12.0% reported their turnover had increased by at least 20% in the West Midlands and 13.4% for the East Midlands (UK 10.5%).**

Concern is growing about the business and employment impacts of **local lockdown** in Leicester. It has borne heavily on businesses that incurred significant costs in preparation for the anticipated opening of additional sectors on 4th July. Inconsistencies in the handling of local lockdowns across the country are now being cited as problematic for businesses operating from multiple sites across the country.

1,486,900 workers were furloughed in the Midlands over the duration of the Coronavirus Job Retention Scheme a take up rate of 33% across the region which is above the UK average of 32%. Alongside 423,540 claimants in July aged 16 years and over in the Midlands Engine (5.1% of the 16+ population) this indicates a critical need for investment in life-long learning.).

The following table shows the proportion of workers furloughed for the Regional Midlands Engine and England:

	ME Number of Workers Furloughed	% of ME Furloughed	% of England Furloughed	Number of ME Eligible Workers	ME Furloughed Workers as % Eligible Per Sector
Advanced Manufacturing	278,100	17.8%	11.5%	604,800	46.0%
Transport Technologies and Logistics	72,500	4.6%	4.7%	247,000	29.4%
Life Sciences and Healthcare	64,500	4.1%	4.7%	647,500	10.0%
Low Carbon and Environmental Technologies	12,000	0.8%	0.7%	57,600	20.8%
Business, Professional & Financial Services	314,200	20.1%	23.5%	1,002,400	31.3%
Digital & Creative	29,100	1.9%	2.6%	137,400	21.2%
Construction	110,500	7.1%	8.0%	192,300	57.5%
Retail	324,300	20.7%	21.0%	772,800	42.0%
Public Sector Inc. Education	54,700	3.5%	4.1%	712,400	7.7%
Visitor Economy	294,300	18.8%	18.5%	389,300	75.6%
Other	9,000	0.6%	0.6%	23,000	39.1%
Total	1,563,100	100%	100%	4,786,500	32.7%

Summary

Education and Skills

The closure of schools and other educational establishments inevitably impacts on learning. OECD analysis of 2018 PISA data reported by Eyles et al. (2020) shows that **40% of economically disadvantaged students in UK secondary schools had access to online learning platforms, compared with 70% of more advantaged peers.**

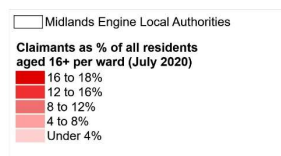
Nationally there have been record-breaking results for GCSEs with 25.9% of students awarded grade 7 or higher (under the old system is equal to an A or A*) compared to 20.7% for 2018/19. A Level grades are 14% higher than last year. Large discrepancies can be seen at the lower end of the grade spectrum.

Universities in the Midlands are reporting **strong recruitment from home students for both undergraduate and postgraduate places.** There has been strong interest and applications from international students but a lower number of actual starts anticipated. This follows a national trend of UK domiciled students deciding to go to university to 'ride out' the effects of the pandemic on the jobs market. Higher grades may have allowed some students to apply to university through clearing which they may not have been able to had they sat their exams and got lower grades.

Apprenticeship Recruitment is variable across sectors, and there is a steep decline in apprenticeship starts compared to 2019. The latest available apprenticeship data comprises the first three quarters of this academic year (August 2019 – April 2020). Around a third as many apprentices were recruited in January-April 2020 than in the prior two quarters.

Period	Midlands Engine	England
2016/17	104,080	485,600
2017/18	74,410	375,800
2018/19	78,700	393,380
Q1/2 2019/20	38,610	198,630
Q3 2019/20	14,070	73,260

The COVID-19 recession has serious implications for school, college and university leavers entering a job market which in the near term has comparatively little to offer them. Further education in the Midlands concentrated at the lower end of the skills spectrum raising the concern that new entrants to the job market may struggle to compete with more experienced candidates who have recently lost their jobs. The region's large university sector has over 132,500 graduates and postgraduate students due to complete their studies from universities in 2020. **The result may be unemployment for many who will have completed their courses of study in recent and coming months,** as well as a greater demand for further education from those hoping to improve their prospects.



In July 2020, there were 423,540 claimants aged 16 years and over in the Midlands Engine. This has increased by 11,987 claimants since June 2020 (+2.9%, UK 3.5%). There are 202,000 (+91.2%, UK +111.2%) more claimants when compared to March 2020. Also, there are 225,725 (+114.1%, UK +133.9%) more claimants when compared to July 2019.

The number of claimants as a percentage of residents aged 16 years old over was 5.1% in July (UK 5.0%).

Emerging Policy Considerations

THEME	KEY CONCERNS
Access to Finance & Cashflow	<ul style="list-style-type: none"> Financial support enquiries remain common. There is a real appetite for funding with many businesses calling their local growth hub to identify funding streams they can tap into. Some businesses who had shelved growth plans, including inward investment opportunities, are revisiting these projects and are looking for grants and other investment.
Redundancies & Furlough	<ul style="list-style-type: none"> There are increasing concerns about the impact of winding down the coronavirus furlough scheme and the resulting job losses. Furlough numbers are on the rise – might be down to flexible furlough – there is need to monitor dynamics and interdependencies occurring in the economy and across sectors to inform recovery planning.
New Business Models	<ul style="list-style-type: none"> Remote working to some degree is now widely accepted as a permanent way of life for many businesses. Increase in requests for property searches across the region suggests hope for the commercial property market which will already have been impacted by the inevitable increase of available space, particularly offices, post COVID.
Recruitment	<ul style="list-style-type: none"> Starting to see some companies considering recruitment campaigns & planning to employ staff from potentially October, but still concerns about future. Some companies are bringing employees back into the office, and some more thinking about how to interview candidates & plan recruitment campaigns.
Consumer Behaviour & Sales	<ul style="list-style-type: none"> Sales in some sectors seem to be recovering strongly both in terms of business to business and business to consumer. Retail sales benefitted in July from a full month of non-essential retailers being allowed to open (having been allowed to open from mid-June after being closed from 23 March).
Supply Chains	<ul style="list-style-type: none"> Anecdotal evidence suggests some degree of supply chain disruption has begun, with businesses citing parts of their supply chain going into administration as well as the impact of local lockdowns as key reasons for this friction.
Overseas Investment	<ul style="list-style-type: none"> A string of international companies moving to the West Midlands has put the region top of the UK's overseas investment chart for five years running. New data from the Department for International Trade has revealed that the West Midlands has again been hailed as the UK's leading location for Foreign Direct Investment (FDI) outside of London and the South East.
Brexit	<ul style="list-style-type: none"> There has been a noticeable absence of businesses reporting any planning for Brexit. Anecdotally this is due to a combination of time to digest and plan, lack of capital and impacts relating to COVID-19 which have impacted on supply chains and warehousing.
THEME	POLICY RECCOMENDATIONS
Employer investment in training	<ul style="list-style-type: none"> UK employers stand out internationally for their preference to recruit rather than train. Apprenticeships are an important part of the solution to increasing employer investment in training, but so are shorter, upskilling and retraining options
Effective strategic and/or local partnerships	<ul style="list-style-type: none"> A partnership approach to skills development is needed. Policy stability and continuity emerges as important for employers to navigate the skills system and establish effective partnerships.
Scaling up of training	<ul style="list-style-type: none"> The potential levels of unemployment facing the region will call for significant scaling up of training (skilling, reskilling and upskilling). The Midlands has a large body of excellent skills providers which can be mobilised to deliver flexible and innovative training solutions but providers are also facing uncertainty driven by social distancing individual and business choices about investment in skills.

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