CW GrowthHub

SmartRegion
Powered By Business Intelligence

Coventry & Warwickshire Business Intelligence

April 2023

Contents

All previous editions of the Coventry & Warwickshire Smart Region report can be accessed from our Publications page: https://www.cwgrowthhub.co.uk/publications

1. Executive Summary

Welcome to the April 2023 edition of the Coventry & Warwickshire Smart Region report. This month our spotlight theme is **'International Trade',** highlighting recent trends, issues, challenges, and future opportunities**.**

Wider recommendations and findings in this month's report are based on intelligence gathered from CW Growth Hub's contacts with local businesses, alongside survey data, information, and other intelligence provided by Coventry City Council and Warwickshire County Council.

Other sources include the Official National Statistics (ONS), The Department for Business and Trade's (DBT), West Midlands Combined Authority (WMCA), WM-REDI, Federation of Small Businesses (FSB), Make UK, and other specialist labour market research and analysis bodies.

Key Headlines

- **"Three economic indicators released over the past month highlight current concerns:**
  - **The claimant count in Coventry & Warwickshire has shown an uptick after levelling off throughout 2022.**
  - **The inflation rate isn't falling as quickly as expected, resulting in ongoing significant cost pressures for both businesses and consumers alike.**
  - **The number of company insolvencies saw a big increase nationally – we will have local data released over the coming month so will be able to assess the picture on insolvencies in our local economy.**
- **The start of the new financial year has brought a significant change for your Growth Hub as we saw the closure of our parent company, CWLEP, following the Government's announcement in the Levelling Up White Paper that LEP's in England are to integrate into local democratic institutions. The Growth Hub will be known simply as CW Growth Hub, and reconfigured as a standalone entity, whilst remaining an independent business led support organisation.**
- **These are exciting times ahead for the Growth Hub as we continue to build on the great work of the last nine years, and you can be assured that my dedicated team will continue to put business needs at the heart of everything we do.**
- **Look out for our new social media campaign #HereforCWBusiness."**

Craig Humphrey, Chief Executive, CW Growth Hub

2. Latest Economic & Labour Market Trends

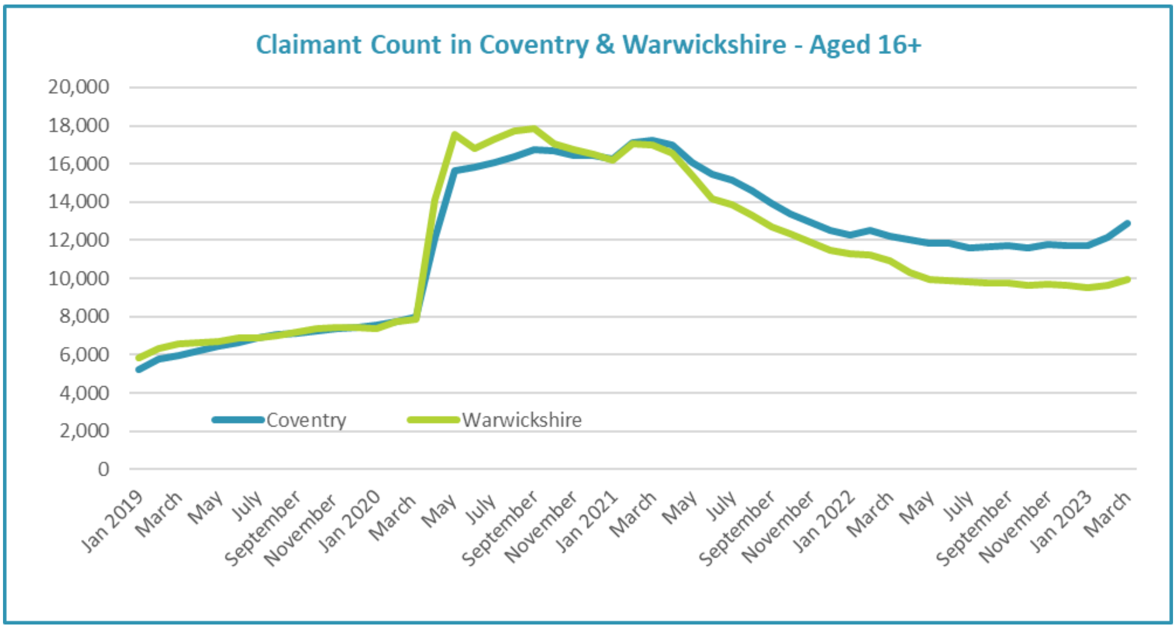
2.1 Labour Market Trends

- In March 2023, **the claimant count in Coventry & Warwickshire totalled 22,820 people.** At the start of the pandemic, three years ago in March 2020, the claimant count stood at 15,830.

Area	March 2020	March 2022		January 2023	February 2023	March 2023
Coventry	8,000	12,205		11,725	12,140	12,860
North Warwickshire	845	1,170		985	1,005	1,040
Nuneaton & Bedworth	2,830	3,505		3,080	3,130	3,280
Rugby	1,535	2,065		1,910	1,905	2,010
Stratford-on-Avon	1,050	1,870		1,560	1,600	1,610
Warwick	1,570	2,305		1,995	2,005	2,020
Warwickshire	7,830	10,915		9,530	9,645	9,960
CWLEP	**15,830**	**23,120**		**21,255**	**21,785**	**22,820**

Source: *Office for National Statistics*

- **Over the past twelve months there has been a decrease in the claimant count across Coventry & Warwickshire**, falling from a total of 23,120 this time last year.



Source: *Office for National Statistics*

- **There is a widening gap emerging between the claimant counts in Coventry and in Warwickshire.**

- The falls in both Coventry and Warwickshire's claimant counts slowed and levelled throughout 2022. **Since the start of 2023 there have been upticks in the counts, most notably in Coventry.** We will continue monitoring this over the coming months to determine whether this is a short-term or seasonal effect, or whether it points to a more concerning trend.

The Office for National Statistics (ONS) also reported in April 2023 that nationally:

- **The UK employment rate for December 2022 to February 2023 was 75.8%, 0.2 percentage points higher than the previous quarter.** Employment increased, driven by increasing numbers of part-time employees and self-employed workers.

- **Latest estimates of payrolled employees for March 2023 show another increase, up 31,000 on the revised February 2023 figures**, to a record 30 million.

- **The unemployment rate for December 2022 to February 2023 increased by 0.1 percentage points on the quarter to 3.8%.** The increase in unemployment was driven by people unemployed for up to six months.

- **The economic inactivity rate decreased by 0.4 percentage points to 21.1% in December 2022 to February 2023**. During that quarter, the fall was driven primarily amongst **those aged 16 to 24.** Looking at economic inactivity by reason, the fall was driven largely by people who were economically inactive because they were students.

- **In January 2023 to March 2023, the estimated number of vacancies fell by 47,000 on the quarter to 1,105,000** - the ninth consecutive quarterly fall. A decreasing number of vacancies reflects uncertainty across sectors, as businesses report holding back on recruitment due to economic pressures, challenges, and concerns.

- **The growth in average total pay (including bonuses) was 5.9%, and regular pay (excluding bonuses) was 6.6% among employees in December 2022 to February 2023.**

- **Average regular pay growth was 6.9% for the private sector and 5.3% for the public sector, in December 2022 to February 2023**. In recent months, the difference between private and public sector growth rates has narrowed.

- **In real terms (adjusted for inflation) growth for total pay fell by 3.0% and regular pay by 2.3% in December 2022 to February 2023.** A larger fall on the year for real total pay was last seen in February to April 2009, when it fell by 4.5%, but it is remains among the largest fall in real pay since comparable records began in 2001.

- **In February 2023, there were 348,000 working days lost to labour disputes, up from 210,000 in January 2023.** Over three-fifth of the strikes in February were in the education sector.

2.2 Economic Trends

Economic Growth

- **Following 0.4% growth in January, the UK economy showed zero growth in February**, with falls in both service and production output being offset by growth in the construction sector. **Although many forecasters, including the British Chambers of Commerce, are still forecasting an economic contraction 2023, many are predicting that the economic downturn is likely to be shallower and shorter than previously thought**. Whilst business confidence remains positive, many business lobby groups continue to highlight the need to tackle energy price rises, labour market shortages, and a challenging international trade environment, to enable stronger economic growth.

- **With inflation now officially at 10.1% (down from 10.4% in February), food inflation is at a 45 year high of 19.1%,** which is having a disproportionally negative effect on low-income households. Milk prices have increased by 37.9% in the last year, eggs up by 32%, and vegetables by 19.3%. **The UK has become an outlier in the G7 with the highest inflation rate by some margin,** and this is proving particularly challenging for several sectors.

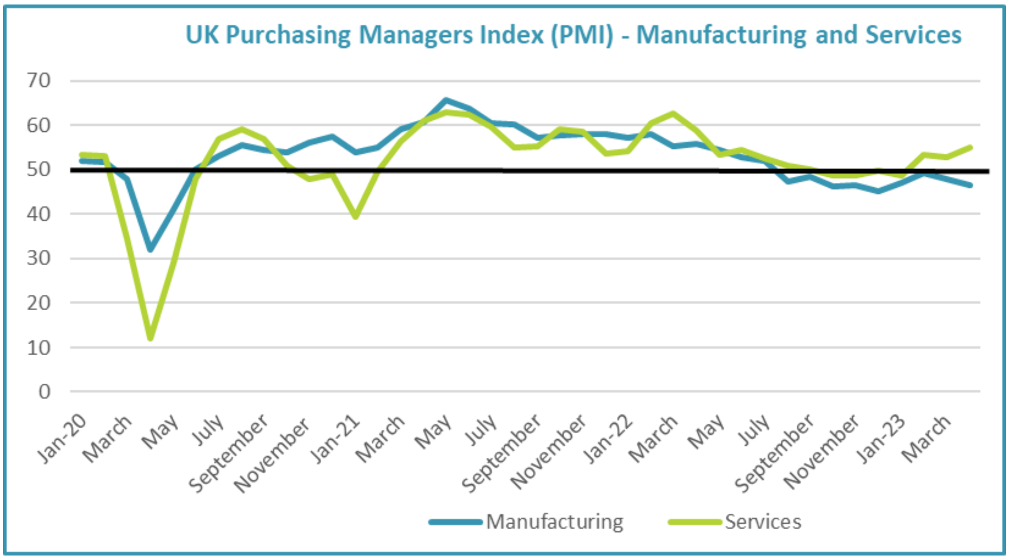
- **March saw a rise in the interest base rate from 4% to 4.25% which is the eleventh consecutive rise**, and with a further rate rise predicted on 11th May.

- **The latest IMF World Economic Outlook forecasts the UK economy to shrink by 0.3% in 2023. This is an improvement on their previous forecast in January of a 0.6% contraction**, but the UK remains one of only two economies to be in the G7 whose economies are predicted to experience negative growth this year. The forecast suggests that whilst the Euro Area and North America are generally expected to witness steady growth, the most significant growth is expected to be in emerging Asian economies.

- **The IMF's forecast of 2.8% global growth year came with a warning of underlying uncertainties in the financial system,** as has been evidenced in the recent collapse of the Silicon Valley Bank and the rescue of Credit Suisse. They characterised the situation as "perilous", with high inflation, limited opportunities for governments to raise taxes, and underlying risks in the finance sector placing limitations on global growth opportunities.

Business Confidence

- **The national Purchasing Managers Index (PMI) for manufacturing decreased further in April to 46.6 from 47.9 in March** (a figure above 50 represents growth, and contraction below 50). Reduced consumer demand, the delayed delivery of inputs, energy costs, labour shortages, and increasing labour costs are all continuing to contribute to this subdued confidence.



***Source**: Trading Economics*

- However, for services, whilst confidence was subdued throughout 2022 there are signs of optimism, for at least some parts of the service sector. **The services PMI increased again, to 54.9 in April from 52.9 in March.**

- **Jaguar Land Rover announced that it will invest £15bn to produce its next generation of Electric Vehicles at its Solihull and Halewood plants**. This is a big boost to the West Midlands and indicates JLR's commitment to manufacturing in the UK. It remains to be seen how or where JLR will look to source the batteries it will need to realise its ambitions in the EV market.

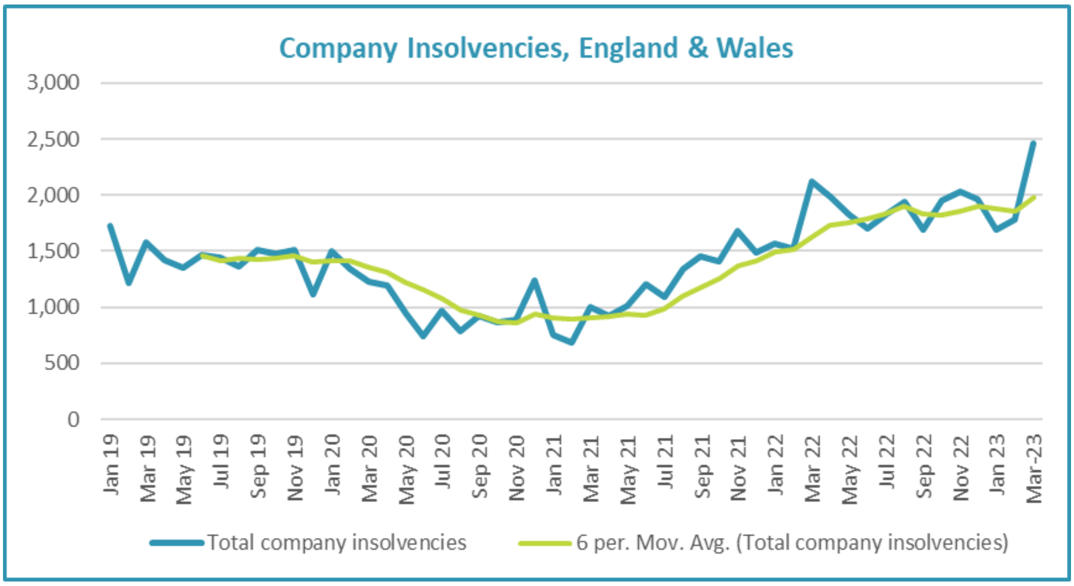
- Analysis from Instant Offices reported that **Coventry has the highest entrepreneurial growth rate of any city in the UK.** Coventry's start-up rate in 2022 saw a 13% increase on the previous year, and one company was registered for every 79 people living in Coventry, with construction, real estate, ecommerce, and freight transport by road among the most popular sectors**. Coventry's affordable commercial space, talent pool, transport links, and solid support systems for entrepreneurs are cited as reasons for its success** and suggests that further public investment in support for new business start-ups is likely to realise additional future positive results.

- However, despite these positive expansions in business activity, intelligence from CW Chamber shows that **the issues that are holding back local firms continue to be spiralling energy costs and the lack of available skilled labour.**

- Recent research from KMPG indicates that **more than half of UK consumers have cut back on discretionary spending since the start of this year, with two-thirds reducing the amount they spend on eating out.** Household spending cutbacks are having wide-ranging effects on the economy but are particularly apparent for the hospitality and leisure sectors.

- The latest research from The Music Venue Trust (MVT) - a charity which aims to preserve the UK's live music sector – shows that **grassroots music venues are currently closing down at a rate of one per week this year.** According to MVT, amongst its members, the average grassroots venue is operating on a profit margin of just 0.2%.

- **Across the economy, there was a big increase in company insolvencies in March 2023, with 2,457 in England & Wales during the month, and the overall trend in these continuing to increase**.



Source: *Insolvency Service*

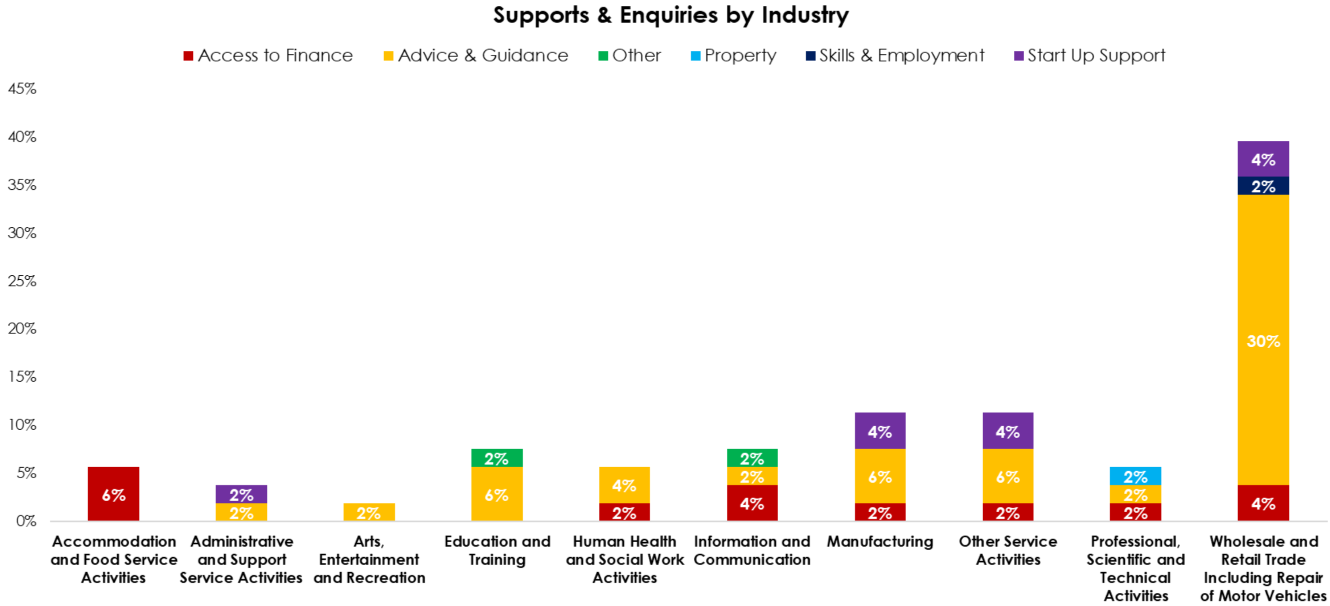
- Local quarterly data on insolvencies will be released during May, so we will be able to assess the picture in Coventry & Warwickshire then.

3. Latest CW Growth Hub Insights

3.1 CW Growth Hub – Support & Enquiries

Since the start of the Covid-19 pandemic in March 2020, **CW Growth Hub has supported 5,171 businesses** including substantive discussions covering a wide range of current issues impacting on their future growth.

This month's business insights are taken from intelligence gathered in **March 2023.** The chart shows the supports and enquiries businesses made by sector.



NB: Figures have been rounded.

Advice & Guidance was the most popular reason for support/enquiries over the past month, although there was also a spread across other enquiry types. Businesses also highlighted the **Access to Finance** as a key requirement for support. There was also additional guidance provided around **Start Up Support, Skills & Employment, Property, and Other Support.**

The main sectors supported by CW Growth Hub were Wholesale & Retail Trade Including Repair of Motor Vehicles (40%), followed by **Manufacturing, and Other Service Activities** at 11% in each of those sectors**.**

The size profile of businesses supported over the past month consisted of **52% Sole Traders, 36% Micro businesses (2-9 employees), and 11% Small businesses (10-49 employees)**.

There was an **increase in Sole Employees and Micro Enterprises** and a **decrease in Small and Medium Enterprises** approaching CW Growth Hub compared to the previous month. Around 74% of respondents (34 out of 53 businesses stated their date of incorporation) came from businesses that have started trading since 2020.

3.2 CW Growth Hub – Current Themes

CW Growth Hub Account Managers reporting this month:

Hot Topics, Business & Economic Intelligence Headlines

- **Increased Costs:**
  - **Energy prices** – Examples of employers looking at four-day working weeks and other flexible working patterns as rising energy costs continue to bite. Keeping workplaces staffed five days a week continues to affect profitability.
  - **Materials costs increasing** – Notably glass bottles, CO2 gas prices, leather up to 24% more costly, with some foams and rubbers up to 80% more expensive this year.
  - **Importing and exporting** - Time delays and customs/freight costs remaining currently too high. One importer of high-end furniture and homeware goods chose to close their business this month due to rising costs making their products unattractive to buyers with current cost-of-living pressures impacting on wide-ranging types of households.
- **Innovation:**
  - **Rail innovation -** Positive developments with rail innovations, and the award of new contracts to a local manufacturer for electric trains, some of which are destined for Disney theme parks.
  - **Marine innovation** - One business involved in the manufacture and development of carbon free, zero emission marine engines taking the next steps with their growth strategy and looking for significant investment. This organisation has received interest from Canadian and Chinese companies although their preference is to secure UK based investment.
  - **Food production methods** - Several other innovative products and processes being developed by local companies in contact with the Growth Hub this month include food production methods, now being used in the manufacture of cosmetics, and waste food products being used to make fish food and biomass fuels.

New job losses, warnings, or potential economic shocks

- **Skills Shortages:**
  - **Manufacturing, Logistics, and Care sectors** – All reporting struggles with the recruitment and retention of drivers and skilled staff, alongside challenges in meeting wage demands. Additionally, examples from

employers in the care sector seeking to employ foreign workers from countries including India and Zimbabwe.

- Manufacturing employers reporting ongoing issues with recognising ageing workforces, difficulties attracting younger workers, and the need for good succession planning.

- **Shortage of newly qualified engineers** – High performing businesses relocating or setting up facilities in Coventry & Warwickshire are looking to recruit engineers with transferable skills for the EV battery and product sectors. Many businesses are keen to develop better relationships with schools and colleges to help this longer-term.

- **Temporary staff** – Reported lack of temporary and available staff, especially in the construction sector, driving up hourly rates of pay.

- **Recruitment:**
    - **Impact of cost of living on recruiting talent** – WFH and more flexible working conditions continue to be negotiated as strongly as salaries. Some businesses having to negotiate even higher salaries than those advertised to ensure they secure new staff. Additionally, some businesses have agreed to paying travel and fuel costs for some key workers to offset personal expenses for staff.

New Opportunities, Investments, and Job Gains

- **Recruitment:**
    - **Vacancies –** Some growth reported in low to mid-salary vacancies, specifically in Customer Service & Finance roles.

    - **Increasing demand for Interns** - Particularly in product design and development, which is encouraging.

4. Spotlight: International Trade

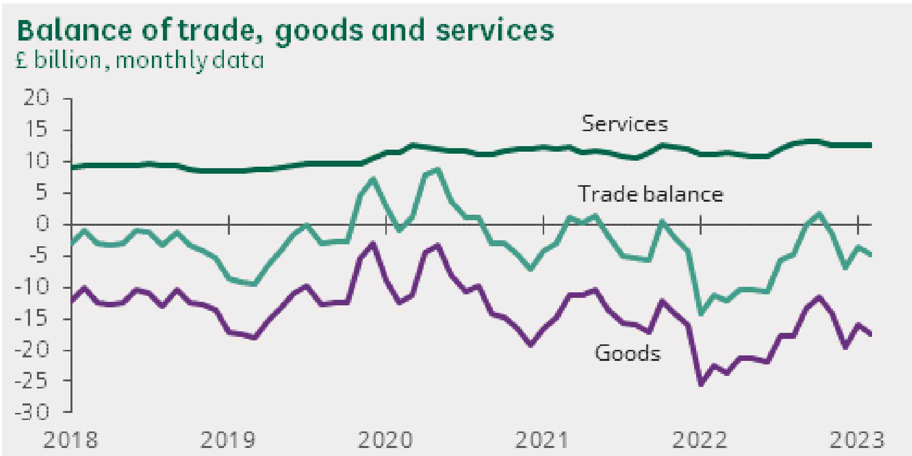
This month we revisit a topic covered previously - international trade. We highlight the current issues, challenges, and opportunities faced by businesses trading internationally. With the ongoing impacts of the Covid-19 pandemic, Brexit, and increasing costs-of-doing-business, many have persevered to overcome these barriers, which over the past twelve months have also been added to with rising costs of energy and spiralling inflation.

4.1 Context – UK's International Trade Trends

Values of UK's exports and imports

In 2022, the total value of traded goods and services in the UK amounted to £1,717bn, with exports valued at £815bn and imports at £902bn. This resulted in a trade deficit of £87bn. The EU accounted for 42% of the UK's exports of goods and services and 48% of its imports.

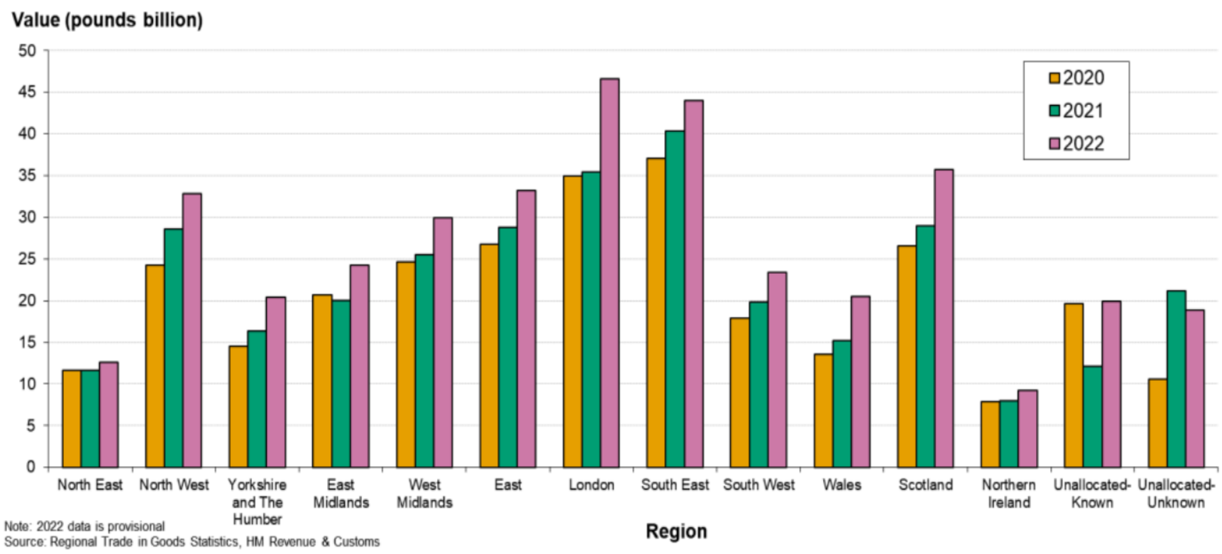
Figure 1: UK Balance of trade, goods, and services by month



Source: *UK Trade, ONS*

Between December 2022 and February 2023, the trade deficit with all countries increased to £23.5bn, up from £21.1bn in the previous three months.

Figure 2: UK exports by region for 2020, 2021 and 2022



Regionally, Figure 2 shows that **the growth in value of exported goods from the West Midlands has been slower since 2021 (17.1%) compared to nationally (19.2%).** Additionally, the region's export growth to EU markets was slower than the national average. Similarly, **the value of imported goods also increased more slowly (25.5%) than the national average (31.1%)**.

On a positive note, it is estimated that some 7.5% of West Midlands businesses have products or services that have the potential for export right away or with further development. With appropriate international trade support, this could lead to substantial economic growth and job creation for our region.

4.2 Current Impacts on International Trade – Small Firms

FSB research on International Trade

In terms of trading partners, Europe remains the top export and origin market for small firms in the UK, with 93% of small exporters and 87% of small importers moving goods between the UK and other European countries. Ireland is the primary trading partner for UK small exporters, followed by Germany and France. For small importers, Germany, the United States, and China are the top origin markets.

However, recent research from the Federation of Small Businesses (FSB), highlights how **small businesses in the UK are being held back from trading in overseas markets due to complex customs procedures, high costs, and supply chain issues, posing a significant challenge to the UK's growth ambitions**. To overcome this, FSB calls on Government to open the Single Trade Window, to streamline small traders' interactions with border agencies and their requirements.

The Customs Clearance report highlights that **over the past five years 9% of small firms who previously traded internationally have stopped doing so**. For those that continue to do so, high shipping costs (61%), losses and delays in transit (56%), and a lack of guidance on customs procedures (45%), are identified as big challenges. Additionally, most small businesses suggest that they do not have the necessary specialised in-house resources to deal with customs paperwork.

In addition to the Single Trade Window, the FSB suggest a series of specific **recommendations around improvements to knowledge and guidance, digitisation, and making trade easier, cheaper, and more attractive for small businesses**.

4.3 Current Impacts on International Trade – West Midlands

ONS Insights - Exports & Imports

The regular Business Insight & Conditions survey by ONS shows that **the overall international trade situation in West Midlands region has seen a slight improvement more recently compared to previous months**. The survey also highlights that disruption to global supply chains has eased for some over the last twelve months, with 13.2% of businesses surveyed in February 2023 reporting international supply chain disruption, compared to 32.7% during the same period last year.

The most recent wave of the Business Insights & Conditions Survey finds that in the West Midlands 34.1% of respondents said they have exported over the past twelve months, higher than the national average of 26.8%. **The region remains one of the most likely to export, alongside the East Midlands and Northern Ireland**. Amongst exporters, 14.8% are exporting more, while 20.7% are exporting less.

In terms of importing, **44.1% of respondents in the region indicated they have imported in the past twelve months, again, higher than the UK average of 33.2%.** Amongst businesses that import, 50.2% reported importing at the same level as this time last year, with 13.7% reported importing more and 12.6% importing less. It's worth noting that **the full EU border controls on imports have yet to be fully implemented, and won't be in place until later this year, which are likely to further impact on the extent and volume of imports**.

4.4 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

The UK has secured agreement to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, a trade bloc consisting of 11 countries spanning the Indo-Pacific region, including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. **The Agreement marks the UK's largest trade deal since Brexit and positions it as the first European nation to join the CPTPP. The group covers over 500 million people and has a combined GDP of £9tn in 2021.** Both are increasing, and it is expected that the influence of the bloc will continue to grow.

The Department for Business & Trade (DBT) summarise three key reasons for the UK joining:

- It provides the ability to foster stronger diplomatic and trading links with the Indo-Pacific region.
- It supports free trade – the Agreement promotes high standards for trade.
- It shapes the future strategic development of the CPTPP as a growing trade bloc.

Under the Agreement, **UK companies specialising in food, drink, and automotive products will benefit from reduced tariffs on exports. Almost all UK goods and exports to CPTPP nations including key UK exports such as cheese, cars, chocolate, machinery, gin, and whiskey, will be eligible for zero tariffs**. This deal is valued at £11tn in GDP, accounting for 15% of global GDP, and it is predicted that this deal will result in a long-term economic boost of £1.8bn for the UK.

Overarching benefits are summarised as:

- Trade – 99% of UK exports will be eligible for tariff free trade.
- Modern rules for digital trade, supporting all sizes of business in CPTPP markets.
- Reduced red tape for transparent and efficient customs procedures.
- More secure supply chains – establishing and supporting new supplier relationships.

4.5 Strategy and support for the West Midlands – WMCA & DBT

As part of the Deeper Devolution Deal between Government and the West Midlands Combined Authority (WMCA), an international strategy will be developed to open new overseas markets for West Midlands products and attract millions of pounds worth of direct foreign investment into the region.

The Department for Business and Trade (DBT) will also collaborate with the regions nationwide to deliver an Export Strategy through levelling up and generating economic growth, with the goal of reaching UK exports worth £1tn by the mid-2030s.

The West Midlands region will partner with DBT to develop its global trade and investment strategy, building on the relationship established during the implementation of the recent Commonwealth Games business and tourism programme (BATP).

Focusing on tourism, trade, and investment, the three-year BATP will build on the huge success of the Commonwealth Games in 2022, by promoting the West Midlands and the wider UK as a globally sought-after location to visit, invest, and live in. The BATP will operate until late 2023, but the benefits of the programme are expected to last much longer-term, until 2027 and beyond.

The programme is expected to secure more than £650m of new overseas investment into the UK and create £7m of additional export deals until 2027. BATP is also expected to attract thousands of additional visitors to the region and UK until 2027, generating further millions in visitor spend.

5. Recommendations

April Golden Recommendation:

The scale of UK Shared Prosperity Funding (UKSPF) is unlikely to be sufficient to address the challenges and opportunities facing the local economy, and we would urge Government to invest further in the local and regional business support ecosystem through other sources, to reduce the risk of the region's business support ecosystem being reduced at a time when businesses need support more than ever.

The following recommendations have been derived from analysis of macro-economic and business-level data and intelligence collated from Coventry & Warwickshire stakeholders. We begin with three short-term recommendations:

a. Short Term

5.1.a - Local business support programmes must raise awareness of the merits of international market opportunities to businesses with the potential to export and ensure they are signposting effectively to specialist support services available through DBT, CW Growth Hub, Local Authorities, and CW Chamber and elsewhere**.**

5.1.b - As the FSB suggest**, the UK Government should continue to implement and promote trade facilitation measures. The Government should complement delivery of the Single Trade Window with awareness raising initiatives,** such as a dedicated roadshow or resources on the new Help to Grow site, alongside other measures that will simplify paperwork processes**.**

5.1.c -HMRC should develop new funding streams for small businesses to invest in private sector support. Building on the SME Brexit Support Fund, Government should deliver vouchers which allow businesses to fund a wide range of international trade-related activities, as per a further FSB recommendation.

b. Medium Term

Further initiatives that would help the local economy and the labour market in the medium term include the following three recommendations:

5.2.a - It is positive that there are signs the export performance of the region looks to be showing some signs of improvement. **Unleashing the potential of the companies that are already exporting, or considering or planning to export, could be a good boost for the performance of the region's economy.**

5.2.b - There is a need to explore how business support activities can be flexed to help business get through the ongoing cost-of-doing-business crisis, especially for struggling sectors such as Hospitality. The local and regional support ecosystem will need to continue working closely together, and with funders, to explore how both existing and emerging support activities and opportunities are best offered so that they have maximum positive impacts.

5.2.c - We need to see targeted investment to unlock the growth potential of key sectors of Coventry & Warwickshire's economy, notably net zero future mobility and electrification. Whilst the CW Gigafactory Levelling-up Zone will be a helpful step, we will need to work effectively with local and regional partners to also secure an Investment Zone, which will not only provide financial and tax incentives to accelerate investment, but will also provide government funding for business, innovation, and skills support, but also will be crucial to realising supply chain growth potential within these sectors.

c. Long Term

Businesses and the economy would benefit if both central government and local stakeholders support these two long-term recommendations:

5.3.a - Alongside new initiatives to stimulate infrastructure investments, such as Levelling Up Zones and Investment Zones, there is a for regional partners and government to explore how we expand power supply and power generation and raise the necessary funding to service the region's innovation needs. This should include exploring the potential in the West Midlands for developing carbon capture and storage capacity, and the generation of renewable energy.

5.3.b - We need to build on announcements in the Trailblazer Deeper Devolution Deal and work with local and regional partners to lobby Innovate UK to devolve funds to the region to deliver programmes that will support more small firms to innovate and be targeted at growing priority sectors and clusters (including Advanced Manufacturing, Electrification, Future Mobility, and Creative Sectors).

5.3.c - Future employment and skills support should become more locally designed, produced, and delivered. This approach should build on the findings and recommendations from the forthcoming Local Skills Improvement Plans and consider development of integrated local Technical Education Systems to respond to future local economic/sectoral needs.