Coventry & Warwickshire Business Intelligence

September 2022

Contents

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

More economic data and indicators about the Coventry & Warwickshire economy can be found on our Smart Region Economic Recovery Dashboard: CWLEP Economic Recovery Dashboard

1. Executive Summary

Welcome to the September 2022 edition of the Coventry & Warwickshire Smart Region report. This month our spotlight theme focusses on the **'Autumn Fiscal Event',** outlining the headlines announced by the Chancellor of the Exchequer in his recent mini-Budget, with a response from CWLEP Growth Hub's Managing Director, Craig Humphrey, on what this means for businesses locally.

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

Other sources include the Official National Statistics (ONS), Department for Work and Pensions (DWP), WM-REDI, Joseph Rowntree Foundation (JRF), Prezzee, and other research bodies specialising in labour market research and analysis.

Key Headlines

- **Businesses have become much more pessimistic over recent months, with business confidence contracting across both manufacturing and services.**
- **A growing number of negative economic impacts, such as rapidly rising costs for both businesses and households, recruitment difficulties, spiralling energy costs, delays in raw material supply, and the conflict in Ukraine, are affecting many sectors and are increasingly being felt by businesses locally. Together these have intensified the 'Perfect Storm' impacting on our local economy.**
- **The Bank of England reported that the economy contracted in the three months to June and is also forecasting that the UK could enter recession from Q3 2022, and that it could last until the end of 2023.**
- **We will need to keep a close 'watching brief' over the coming weeks in terms of how businesses are trading on the back of the current turbulence in the national, regional, and local economies, post the mini-Budget. It may take some time to be reflected in business decision-making and trading.**
- **The effectiveness of the energy support package, announced by Government, is welcomed but clarity beyond the next six months is needed.**
- **Local business support partners will continue to focus on minimising the negative economic impacts from our 'Perfect Storm', be they from the pandemic, EU exit, spiralling energy costs, or any other driver, to help continue the reset, reopening, and recovery of our economy, and minimise the growing number of negative impacts on the 'costs of doing business'.**

2. Latest Economic & Labour Market Trends

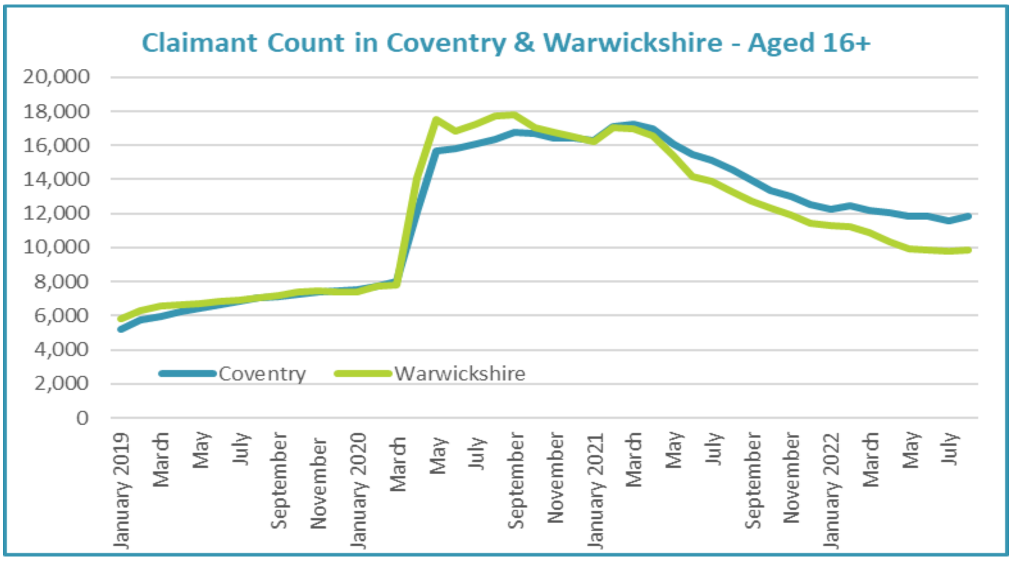
2.1 Labour Market Trends

- In August 2022, **the claimant count in Coventry & Warwickshire totalled 21,730 people.** At the start of the pandemic, in March 2020, the claimant count stood at 15,830.

	March 2020	August 2021		June 2022	July 2022	August 2022
Coventry	8,000	14,580		11,820	11,575	11,840
North Warwickshire	845	1,480		1,030	995	1,010
Nuneaton & Bedworth	2,830	4,160		3,180	3,135	3,155
Rugby	1,535	2,550		1,900	1,965	1,950
Stratford-on-Avon	1,050	2,300		1,610	1,610	1,665
Warwick	1,570	2,805		2,135	2,095	2,110
Warwickshire	7,830	13,295		9,855	9,800	9,890
CWLEP	**15,830**	**27,875**		**21,675**	**21,375**	**21,730**

Source: Office for National Statistics

- **Over the past twelve months there has been a fall in the claimant count across Coventry & Warwickshire**, falling from a total of 27,875 this time last year.



Source: Office for National Statistics

- **However, firstly there is a widening gap emerging between the counts in Coventry and in Warwickshire.**

- **Secondly, the falls in both Coventry and Warwickshire's claimant counts have slowed considerably and then levelled since the start of 2022.** We will continue to monitor this over the coming months.

The Office for National Statistics (ONS) also reported for August 2022 that nationally:

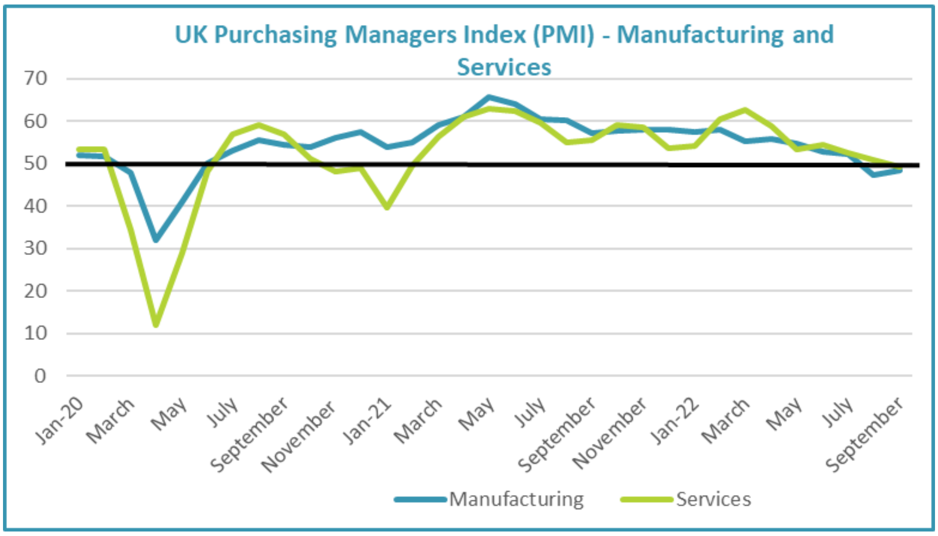
- **The UK employment rate for May-July 2022 for people aged 16 to 64 years decreased by 0.2 percentage points on the quarter to 75.4% and is still below pre- Covid-19 levels.** The number of full-time employees and self-employed workers increased over the latest three-month period, while part-time employees fell.
- **The latest estimate of payrolled employees for August 2022 shows a monthly increase, up 71,000** on the revised July 2022 figures, to a record 29.7 million.
- **The unemployment rate for May to July 2022 decreased by 0.2 percentage points on the quarter to 3.6%, the lowest rate since May to July 1974**. In the latest three-month period, the number of people unemployed for up to six months decreased to a record low, and those unemployed between 6 and 12 months increased. Meanwhile, the number of people unemployed for over 12 months continued to decrease.
- **The economic inactivity rate increased by 0.4 percentage points on the quarter to 21.7% in May to July 2022. This increase in the latest three-month period was largely driven by those aged 16 to 24 years and those aged 50 to 64 years.** Looking at economic inactivity by reason, the increase during the latest three-month period was driven by those inactive because they are students or long-term sick.
- **The number of job vacancies in June to August 2022 was 1,266,000, a decrease of 34,000 from the previous quarter** and the largest quarterly fall since June to August 2020.
- **The total number of workforce jobs in the UK in June 2022 rose by 290,000 on the quarter to a record 35.8 million**, and for the first time exceeds the pre-coronavirus level of December 2019.
- **Growth in employees' average total pay (including bonuses) was 5.5% and growth in regular pay (excluding bonuses) was 5.2% in May to July 2022.** In real terms (adjusted for inflation), over the year, total pay fell by 2.6% and regular pay fell by 2.8%. Average regular pay growth for the private sector was 6.0% in May to July 2022, and 2.0% for the public sector; outside of the height of the coronavirus pandemic period, this is the largest difference we have seen between the private sector and public sector.
- **The Bank of England are forecasting a prevailing tight labour market and ongoing labour supply challenges for some time to come, with UK unemployment starting to rise above its current level from mid-2023, to reach 6.25% in 2025.**

2.2 Economic Trends

Economic growth, interest rates, and inflation

- **The UK economy grew by 0.2% in July**, due to a 0.4% rise in the service sector buoyed by the hot summer weather and big sporting events such as the Women's Euros and the Commonwealth Games.
- **However, growth fell short of analyst's predictions**, and with the extra Bank Holiday to mark the passing of Queen Elizabeth II, and associated cancellation of business events and Bank Holiday business closures, there is **now a growing expectation that the UK will enter recession in Q3 this year,** following the 0.1% contraction in Q2 2022.
- **The Bank of England has increased the base rate of interest to tackle rising inflation, by 0.5% to 2.25%.** This is the highest rate since 2008, although is expected to rise further during the remaining months of 2022.
- **Inflation fell by 0.2% in August to 9.9%, down from 10.1% in July**. This was driven by falling fuel prices and is the first time in almost a year that the rate has fallen.
- **The pound has fallen to an all-time low against the dollar, which analysts are pointing to as a signifier for an economy heading into recession**. The pound also reached a new low against the euro.
- **UK retail sales fell by 1.6% in August.** The Office of National Statistics point to rapidly rising prices and the cost of living for the fall in retail sales.

Business Confidence



Source: Trading Economics

- **The national Purchasing Managers Index (PMI) for manufacturing increased marginally in September to 48.5, from 47.3 in August** (a figure above 50 represents growth, and contraction below 50. Reduced consumer demand, the delayed delivery of inputs and labour shortages, increasing labour costs, are continuing to contribute to this slump in confidence.

- For services confidence has also been hit harshly over the past four months, with the cost-of-living crisis likely to be impacting on service businesses. **The services PMI has fallen to 49.2 in September, also now showing contraction.**
- **For the first time since May 2020 both the PMI for manufacturing and for services are pointing to contraction**.
- **In the West Midlands, the WM Business Activity index fell from 50.3 in July to 49.3 in August** (again, scores below 50 represent a contraction). The Future Activity index (which has recently been resilient) also fell, from 68.3 in July to 67.8 in August, and the Export Climate Index is also down, from 54.1 in July to 53.5 in August. Further falls in activity are expected in September regional figures.
- **The West Midlands Chambers of Commerce have called on government to introduce a series of measures to ease the cost of doing business.** These include providing Ofgem with more power to strengthen regulation of the energy market for businesses; temporarily reversing the increase in National Insurance contributions; temporarily extend VAT relief for hospitality and non-essential retailers; and continuing with meaningful reform of the business rates system.

Tackling the Cost of Energy for Households and Businesses

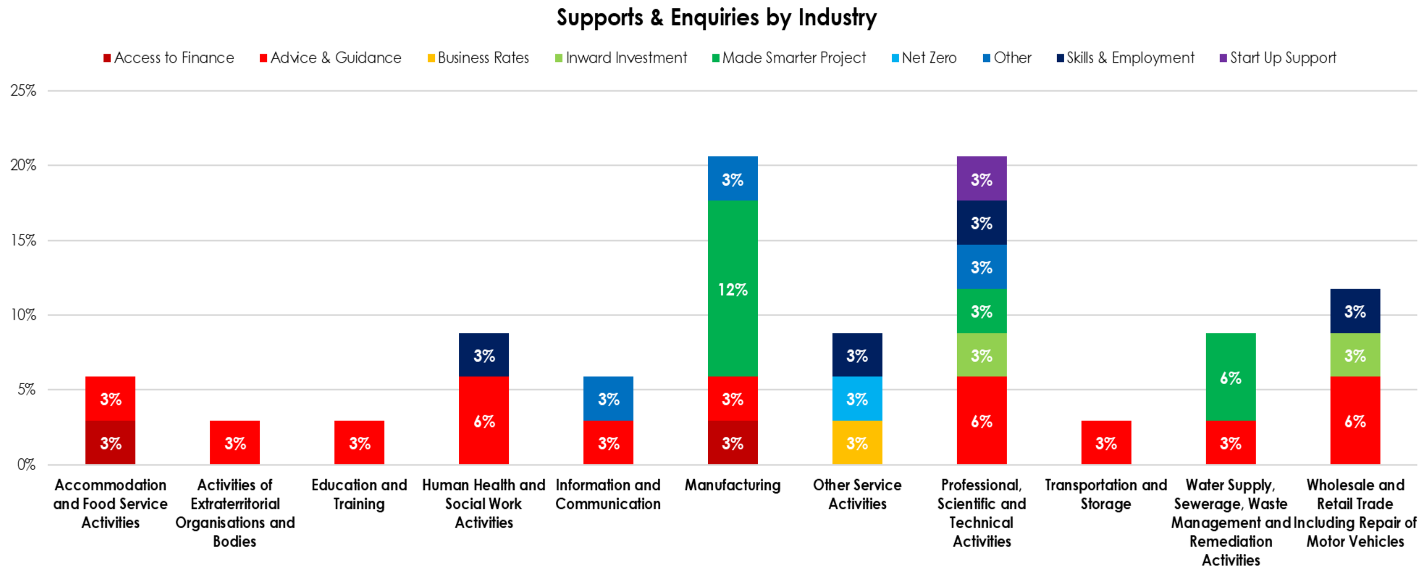
- **The Government has announced plans to freeze energy prices for households. The 'Energy Price Guarantee', estimated to cost around £150bn, will see a cap being placed on the consumer price for energy, with the Government paying the shortfall to the energy providers**. The Green Levy is also being temporarily removed, saving around £150 a year on the average bill. This package of measures is expected to freeze energy bills at £2,500 a year for the average household – a saving of around £1,000 on top of the £400 discount announced in July 2022.
- **The Government has also announced a cap on the wholesale price of electricity and gas for businesses for the six-month period between 1/10/2022 and 31/3/2023**. The wholesale price caps are expected to be £211 per MWH for electricity and £75 per MWH for gas, less than half of the expected wholesale prices for this winter. The caps will apply to fixed contracts agreed on or after 1/4/2022, as well as to deemed, variable and flexible tariffs and contracts. This intervention is expected to cost £25bn in total.

3. Latest CWLEP Growth Hub Insights

3.1 CWLEP Growth Hub – Support & Enquiries

Since the start of the Covid-19 pandemic in March 2020, **CWLEP Growth Hub has supported 5,006 businesses** including substantive discussions relating to a wide range of current issues impacting on their future growth.

This month's business insights are taken from intelligence gathered in **August 2022.** The chart shows the supports and the enquiries businesses made by sector.



Advice & Guidance was the most popular reason for support/enquiries over the past month, although there was also a spread across other enquiry types too. Businesses highlighted the highly successful **Made Smarter Project** as their main requirement for support. There was also additional guidance provided around **Skills & Employment, Access to Finance, Inward Investment, and Business Rates.**

The main sectors supported by CWLEP Growth Hub were Manufacturing (21%) and Professional, Scientific and Technical Activities (21%). The volume of businesses from Manufacturing seeking help also includes the Made Smarter programme.

The size profile of businesses supported over the past month consisted of **21% Sole traders; 25% Micro businesses (2-9 employees); 38% Small businesses (10-49 employees); and 17% Medium businesses (50-249 employees).**

There was an **increase in Sole Employees, Small and Medium Enterprise** and a **decrease in Micro and Large Enterprises** approaching CWLEP Growth Hub compared to the previous month. Around 90% of respondents (31 out of 34 businesses) came from businesses that have started trading since 2020.

3.2 CWLEP Growth Hub – Other Business Insights

We asked a range of the CWLEP Growth Hub contacts to highlight some of the wider issues and challenges that are impacting on them currently in the context of the lead-up to the mini-Budget announcements.

"I have had several customers express serious concerns, they have pretty well all said "why can't the Government manage the energy companies so that it doesn't impact on us".

All of my customers have basically said that the energy cost hike is pretty damaging on top of everything else they have been trying to manage."

"Keep tax where it is. Create a fairer system for smaller businesses, currently bigger businesses with close political connections don't really pay taxes while the smaller ones pay for everything."

Impact on a company business model - *A local fresh food supplier business is hoping energy and fuel costs will stabilise/reduce quickly to overcome many of the challenges they are facing. The increase in energy price, fuel price, living costs, and labour shortage has increased production costs, which in turn increased the prices of the produce they buy. This has reduced profit margins significantly. With fuel prices remaining high the company is changing its business model to target more local clients.*

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4. Spotlight: Autumn Fiscal Event

On Friday 23rd September the Chancellor of the Exchequer, Kwasi Kwarteng, announced the Government's Autumn 'Fiscal Event', which was in effect a mini-Budget. This will be followed by a Medium-Term Fiscal Event on 23rd November, containing more details, costs, and forecasts.

4.1 Autumn Fiscal Event – Summary

Colleagues from Coventry City Council's Economic Development Service have summarised the key headlines from the mini-Budget.

Economic Context

One of the key drivers for the Emergency mini-Budget has been the need to stimulate economic growth, amid concerning economic forecasts, with tax reductions a key focus of the statement. Although no OBR forecasts were produced alongside this mini-Budget, a forecast is expected to be published before the end of 2022.

In its latest Agent's report, the Bank of England highlighted the following factors as contributing to the current economic slowdown:

• Annual growth in the value and volume of consumer spending falling, reflecting pressure on household incomes.

• Business services firms reporting strong annual growth in turnover, though demand for advertising and corporate transactions services has slowed.

• Annual growth in manufacturing output has slowed as demand weakened; supply constraints also continuing to hold back production though to a lesser extent than previously.

• Construction output growth weaker as high materials costs, labour shortages and economic uncertainty continue to weigh on activity.

• Investment intentions were positive but have eased due to uncertainty about the longer-term economic outlook, rising costs, and shrinking demand.

• Credit availability has tightened for companies of all sizes, while demand for credit is broadly flat.

• Employment intentions have slowed, and recruitment difficulties stabilised, though many companies continue to struggle to find staff. Pay awards continue to increase, with more firms offering one-off payments to help with rising living costs.

• Companies saying that energy, pay, and the weaker sterling exchange rate are becoming the main sources of cost pressures; many contacts are expected to continue to pass on higher costs into prices to protect margins, which remain squeezed.

• The housing market is cooling as demand falls and the supply of properties increases. Investor appetite for commercial real estate has weakened, though occupier demand remains strong for some properties.

Launch of the 2022 'Growth Plan'

In response, the Government has launched a 'Growth Plan' to tackle the cycle of economic stagnation and focus on longer-term economic growth. The aspiration is to get the trend rate of growth up to 2.5% and deliver higher wages, greater opportunities, and crucially fund public services, now and into the future.

The Plan is focused around three main drivers:

• Reforming the supply-side of the economy.

• Maintaining responsible approach to public finances.

• Cutting taxes to boost growth.

Support for Households and Businesses with Energy Costs

The Chancellor re-iterated the support pledged to households and businesses on energy bills. The consensus amongst independent forecasters is that the Government's energy plan will reduce peak inflation by around five percentage points.

Taxation

There were a considerable number of announcements around tax reductions:

• The 1.25 percentage point rise in **National Insurance** will be reversed from 6th November.

• Reversal of the **Health and Social Care Levy**, which was expected to be introduced in April 2023.

• **Income tax** – the 45% tax rate is now being now abolished for earnings over £150,000. The basic rate of Income Tax will also be cut from 20% to 19% from next April.

• **Corporation Tax** will now remain at 19% and will not be raised to 25% as planned by the previous Chancellor.

• The **Annual Investment Allowance**, which gives 100% tax relief on investments in plant and machinery, will remain at £1m permanently and will not be reduced to £250k, as proposed previously.

• **VAT-free shopping** will be introduced for overseas visitors to both further assist the tourism sector and high streets.

• **Alcohol duties** - an 18-month transitional measure is being introduced for wine duty, and the Chancellor will also extend draught relief to cover smaller kegs of twenty litres and above, to help smaller breweries.

• The **Bankers Bonus Cap** will be abolished, and regulatory reforms will be done to establish UK as major global financial centre.

• The Government will accelerate reforms to the **pension charge cap** so that it will no longer apply to well-designed performance fees.

• The Government will simplify the **Off Payroll Working IR35** tax laws and will repeal the 2017 and 2021 reforms.

• The Government will wind down the **Office of Tax Simplification**.

Regional Development and Levelling Up

The headline announcement was the creation of Investment Zones to drive growth and unlock housing. The Government is in discussion with 38 local authorities about a creation of a network of low-tax, low-regulation Investment Zones – West Midlands Combined Authority and Warwickshire County Council are named directly as organisations the government is consulting with, and the site of a proposed battery Gigafactory at Coventry Airport is named as one of 24 illustrative examples of where Investment Zones could be of benefit.

The Zones will benefit from lower taxes, accelerated development and wider support for local growth, through:

• **Lower taxes** – businesses in designated sites will benefit from time-limited tax incentives.

• **Accelerated development** – there will be designated development sites to deliver growth and housing. Where planning applications are already in flight, they will be streamlined and government will work with sites to understand what specific measures are needed to unlock growth, including disapplying legacy EU red tape where appropriate. Development sites may be co-located with, or separate to, tax sites, depending on what makes most sense for the local economy.

• **Wider support for local growth** – for example, through greater control over local growth funding for areas with appropriate governance. Subject to demonstrating readiness, Mayoral Combined Authorities hosting Investment Zones will receive a single local growth settlement in the next Spending Review period.

Three other key announcements pertinent to business investment were:

• Long-Term Investment for Technology & Science (LIFTS) Competition.

• Seed Enterprise Investment Scheme (SEIS).

• The Enterprise Investment Scheme and Venture Capital Trusts will be extended beyond 2025.

Work and Welfare

There were three key announcements designed to tackle labour shortages:

• Benefit rules for part-time workers will be tightened, requiring them to work longer hours or take steps to increase their earnings. The new rule will require benefit claimants working up to 15 hours a week to take new steps to increase their earnings or face having their benefits reduced.

• New support is also being announced to get over-50s into work, after a sharp increase in economic inactivity in that age group since the Covid-19 pandemic, with a substantial number citing stress, physical or mental health reasons.

• Strikes. The government will legislate against unions looking to strike by ensuring minimum services continue and will legislate to require unions to put pay offers to a member vote, to ensure strikes can only be called once negotiations have genuinely broken down.

Transport

A list of infrastructure projects targeted for acceleration to get most of them starting construction by the end of 2023 has been published. The most important local projects include: the A439 Stratford Safer Road Scheme, the Wednesbury to Brierley Hill Metro Extension, the Sprint Phase 2 (A34 and A45) bus schemes, Aldridge Railway Station, 5 Walk, Cycle and Bus Access for Darlaston and Willenhall Train Stations, and East Birmingham to Solihull Corridor.

The Local Electric Vehicle Infrastructure Fund and Rapid Charging Fund were also namechecked as schemes that will be accelerated.

Planning and Housing

The main announcements related to **cuts to Stamp Duty on properties**.

A new bill to unpick EU regulation around Planning is to be announced in the coming months. As part of this, the government is pledging to "Get Britain Building" by increasing the disposal of surplus government land to build new homes.

4.2 Q&A with Craig Humphrey, Managing Director, CWLEP Growth Hub

We asked Craig Humphrey from Coventry & Warwickshire Growth Hub for his thoughts on the Chancellor's mini-Budget, and the likely impacts for local businesses.

Have the issues raised through the contacts the Growth Hub has with Coventry & Warwickshire businesses changed in recent times?

"With the issues raised through our contacts here with the business community across Coventry & Warwickshire there's definitely been a shift in concerns recently, and that shift has gone mainly from the rising costs of goods and materials, and also the shortages and delays of those goods and materials, to more concerns around rapidly increasing cost-of-living/cost-of-doing-business, alongside issues with spiralling energy costs and the high inflation that we're experiencing.

These concerns that we are hearing now are different to those three to six months ago, where it was much more focused on the supply side and difficulties and challenges with that."

What are the most positive support measures announced in the mini-Budget that will be of most help for businesses in Coventry & Warwickshire?

"Businesses locally will have been listening intently to the Autumn mini-Budget and particularly the details of the Government's new Growth Plan. Within it are policy details around skills, talent, and innovation, alongside new investment initiatives that are aimed at stimulating growth.

The long-term investment for technology and science will provide up to £0.5bn worth of funding to crowd-in wider private sector investment which will go live next year, and there will be the creation of Investment Zones across the UK, including here in Coventry & Warwickshire, which will provide tax incentives and rates for business that will be utilised alongside a streamlined planning process.

> *"…..there will be the creation of Investment Zones across the UK, including here in Coventry & Warwickshire, which will provide tax incentives and rates for business that will be utilised alongside a streamlined planning process."*

Many wider announcements made were related to taxation measures and were released to tackle both the cost-of-living crisis and the inflationary pressures from energy bills for both consumers and businesses. These range from reform of R&D tax release to annual investment allowance which makes the temporary £1m level of allowance permanent, as opposed to falling back to falling back to £200k in March 2023. This will obviously support businesses' ability to invest, it will also provide businesses with more stability and make tax simpler for any Coventry & Warwickshire business investing between £200k and £1m in plant and machinery."

What other support or measures could be helpful for local businesses?

"I think the package of measures that were announced aimed at reversing the economic slow-down and the reduction in gross domestic product, tackling the slump in consumer spending, and weak activity in manufacturing and construction are all helpful, and time will judge the impacts of them.

Overall, I think that broadly local businesses should benefit from these new measures, and they should boost economic growth, relieve the cost-of-doing-business pressures, and encourage investment.

I know that institutions such as the local Federation of Small Businesses have also welcomed the announcement, saying that the Chancellor has delivered pro-small business measures and has rightly recognised that removing taxes on jobs, investment, and entrepreneurs is essential for our economy. The British Chambers of Commerce have also said that businesses would welcome many of the measures announced in the mini-Budget statement."

> *"Overall, I think that broadly local businesses should benefit from these new measures, and they should boost economic growth, relieve the cost of doing business pressures, and encourage investment."*

5. Recommendations

September Golden Recommendation:

Greater clarity on the detail of the energy support measures for businesses is still needed, so that there is a complete view of these, and in order that business can fully assess the effects on their operations and activities for the winter and beyond. Government is recommended that all this detail is included in the Medium-Term Financial Statement coming on the 23rd of November, if not before then.

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
Following the mini-Budget there are unprecedented concerns over the relationship between inflation, possibly falling as a result of the energy support packages for households and businesses, and rising interest rates, again impacting on households and businesses' spending decisions, aggregate demand, and investment planning. **Every effort needs to be taken to restore confidence, stability, and trust in Government, financial institutions, and the markets, as quickly as possible.**

5.1.b
Business confidence is currently at its lowest level since the start of the pandemic, and falling, due to the current costs-of-doing-business and cost-of-living crises, as well as ongoing political uncertainty. **Government is recommended to help boost businesses confidence, through providing greater investment and stability in local business support ecosystems,** so that businesses can get the vital help that they will need to help them through the current increasingly tough times, and to help build confidence to trade more freely longer term.

5.1.c
We will need to keep a close 'watching brief' over the coming weeks in terms of how businesses are trading on the back of the current turbulence in the national, regional, and local economies, post the mini-Budget. It may take some time to be reflected in business decision-making and trading – but close monitoring and continued sharing of local business intelligence will be critical.

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
Continue to signpost local business to the extensive range of support programmes that already exist. Examples include the [Coventry & Warwickshire Green Business Programme] and the increased take-up of Energy Efficiency Audits, helping businesses adapt their operations to reduce energy usage and bills for the future.

5.2.b
There is an urgent need to explore how other support activities be flexed to help business get through the current cost-of-doing-business crisis. The local and regional support ecosystem will need to work closely together, and with funders, to explore how support activities and opportunities are best offered so that they have maximum positive impacts.

5.3.c
Support for business around innovation and diversification, which targets both domestic and international markets, will be crucial in ensuring many firms, especially SMEs, increase their resilience and safeguard jobs. **This should be a key consideration for the focus of both the remainder of the ERDF programmes up to June 2023, and first two years of the UK Shared Prosperity Fund.**

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
Maximise investment in innovation in key sectors of Coventry & Warwickshire's economy. Closer working with the sectors that Coventry & Warwickshire leads on, including net zero future mobility and electrification, and with the potential Gigafactory site located in our subregion, there are opportunities to create a national centre of excellence for innovation within CW for these sectors.

5.3.b
The scale of UKSPF funding, and limitations on its freedoms and flexibilities, are unlikely to be sufficient to address the challenges facing the local economy, and we would urge Government to invest further in the local and regional business support ecosystem through other sources (including the West Midlands Trailblazer Devolution Deal) to reduce the risk of the region's business support ecosystem being reduced at a time when businesses need support more than ever.