



West Midlands
**Regional
Observatory**

www.wmro.org

West Midlands Regional Economic Assessment Executive Summary

Version 2.0
3 October 2008

Research Team
West Midlands Regional Observatory
Level L1, Millennium Point
Curzon Street
Birmingham
B4 7XG

Telephone: 0121 202 3250
Email: enquiries@wmro.org
Web: www.wmro.org

Background

The Regional Integrated Economic Assessment (RIEA) was commissioned from the Observatory by the Regional Forum of Leaders (RFL) in partnership with Advantage West Midlands (AWM), as a joint response to the requirements of the Sub-national Review of Economic Development & Regeneration (SNR).

The main body of the RIEA contains three distinct elements:

- An overarching regional summary;
- Thematic chapters (Economic Structure and Output, Communities and Connections, The People of the Region);
- Local authority area profiles (for each of the 14 strategic authorities).

The RIEA is a synthesis of existing data and evidence across the range of themes and local areas. It has been developed by identifying, collating, integrating, analysing and interpreting current information, rather than sourcing new information. It has been prepared in collaboration with staff from the Region's 14 strategic local authorities. The RIEA constitutes an important **first step** in the longer term iterative development of the evidence base for the single integrated regional strategy.

Introduction

The West Midlands region is a diverse one. Its estimated population of 5,366,700 people (in 2006) live in communities ranging from the second largest urban area in the country to some of the most remote rural hamlets in England. Its population is also amongst the most ethnically diverse in any region and that diversity is growing. Geographically, the region varies from rolling lowland areas to significant upland areas.

Economic performance within the region is also very varied; the West Midlands contains local areas with significantly contrasting levels of economic performance - from the fastest growing part of England in the last 10 years, Solihull, to the second slowest growing, Stoke on Trent. These variations cannot be understood by focussing on individual issues or locations in isolation; economic performance is the result of complex inter-relationships between different factors and between neighbouring areas as well as influences from outside the region.

Since most of the analysis in this report is based on data and evidence which is slightly out of date, it does not reflect the current downturn in the global economy. Whilst this will certainly have an impact on the region, it is too early to be precise about its effect and whether, and how, it will impact on the findings.

As recognised in the new West Midlands Economic Strategy, economic performance depends crucially on three key factors - the businesses which make up the economy, the places in which they operate and the people who provide their labour force. The region has strengths and weaknesses across each of these areas which are explored in detail through the RIEA.

Economic Output and Structure

The gap between the region's economic output per head and that of the rest of the country has grown over recent years. Between 1994 and 2006 GVA per person in the West Midlands grew by 4.6% on average each year; however, with the UK average at 5% the region fell from 7% below the UK average to 11% below.

If the region's economy was to generate the same output per person as the national average, then the region would be around £11 billion richer. Even closing the gap to the average excluding London would add an extra £5.2 billion to regional output. Ten years ago the gap was £4.1 billion (or £1.8 billion if London is excluded), having changed little over the decade before that.

A number of factors combine to create the gap between the region's output per head and the national average. The main ones are the sectoral mix of businesses in the region, their productivity and the proportion of the region's labour force that are in work. These factors vary across the region, as does output per head - from £13,372 in Staffordshire to £21,206 in Solihull in 2005. At local level, commuting patterns are important too - Staffordshire has many out-commuters who generate wealth elsewhere, but who are part of the county's population.

By far the largest contributory factor to the output gap is the productivity of the region's businesses, accounting for about 80% of it. All of the various measures of productivity show that in the region it is only around 90% of the national average.

Part of the explanation for the region's lower productivity is the mix of industrial sectors in its economy - notably a higher proportion of manufacturing and lower proportions of financial and business services than across the country as a whole. The latter are two of the highest productivity sectors nationally. This factor is estimated to account for 15% of the productivity deficit. The remainder is down to the performance of firms within each sector - making this the most important factor to address in improving regional economic output.

Productivity is influenced by a number of factors. The Treasury has identified five main drivers, four of which have a clear regional dimension - skills, investment, enterprise and innovation.

Skill levels influence the types of job people can do, and the level of output they produce. This is visible in the occupational mix - in business and financial services, 57% of employees in the region are senior managers and professionals, compared to 61% nationally and 73% in London. More senior employees typically generate higher levels of GVA so it is not surprising that the sector is more productive in London than it is in the West Midlands. This leads to an estimated output gap of £2.5 billion in this sector alone.

Regional data on enterprise and innovation are patchy and it's difficult to get a clear picture of how well the region performs. The Observatory has begun a 3-year programme of research in these areas, to enable a better assessment of the size of the challenge that the region faces. This will be supported by new "business demographics" data due to be published by ONS later in the year. The information that is available suggests that the region performs well in some respects but falls short in others, so potential benefits aren't realised.

Regional data on investment from UK businesses is also limited. In 2005 foreign-owned companies made up only 1.4% of businesses in the region, but they accounted for 15% of employment and 28% of turnover. 2007/08 was a record year for foreign direct investment into the West Midlands - 114 investment projects created 4,640 new jobs and safeguarded 25,480 more. Traditional investors like the United States, Germany, France and Japan have been joined by countries such as India which has had a dramatic impact on the region's workforce following the acquisitions of Corus Steel, Jaguar and Land Rover by the Tata Group.

During 2007, the region exported £15.3 billion worth of goods to the rest of the world, a figure that excludes exports of services. Imports to the region were worth £22.4 billion. Traditionally, the region has relied on exports to the EU to a greater extent than other regions. However, regional exports to key emerging markets like China, India, Russia and Brazil have grown significantly faster than those from other parts of the country in recent years.

The People of the Region

The region has a diverse population, and ensuring everyone is able to access economic opportunities will be vital to ensuring future growth and prosperity. Whilst improving the productivity will play the leading role in closing the region's output gap, around 20% of the gap is due to low levels of employment. In 2007, over a quarter of the region's working age people were not in work. Whilst this is less than two percentage points higher than the national average, it is equivalent to 61,300 people across the region. Worklessness also has negative social impacts on the region, which affect its attractiveness to potential residents and investors. Closing the output gap doesn't just rely on getting people into work, it also means that they need to become productive workers in the long-term.

Only a small proportion of those of working age in the region are unemployed and actively seeking work. A larger proportion are economically inactive, a group consisting of those who want to work but aren't actively seeking work, those who would like to work but aren't able to and those who choose not to work for a variety of reasons. Worklessness is concentrated in some localities in the region, and among some key black and minority ethnic communities. The gap between ethnic groups is wider within the region than elsewhere, a concern since projections suggest BME communities will provide an increasing proportion of the region's population in the future.

Levels of economic activity vary significantly across the region. Worcestershire and Herefordshire both already meet the national target of 80% of working age people in employment. In contrast, as many as 37% of Birmingham's working age population don't have jobs and over 30% in Walsall, Sandwell and Wolverhampton are in the same position. This shows that the availability of jobs isn't the problem, since these areas have significant numbers of people commuting into them. Rather, the problem is the mismatch of, or barriers between, the jobs available in those places and the people who live there.

One of the key factors is skills. Increasingly, new jobs are in knowledge intensive sectors, requiring high levels of skills. Whilst many of these jobs are in the major urban centres, the skill levels of local residents aren't appropriate for them to access these jobs. This trend is likely to accelerate as new job creation is projected to be in jobs requiring higher levels of skills.

Transport can also be a barrier. This is most obvious in rural areas where access to jobs, particularly permanent full-time ones, can be a problem for some. Whilst accessibility is a less obvious problem in urban areas, many low skilled jobs are filled by very local people, creating problems for those with low skills in areas where there is high competition for the low skilled jobs that do exist.

Other barriers to employment include health problems, which are particularly concentrated in Stoke-on-Trent, and disability, with a particularly low employment rate amongst people with disabilities in the region. Health levels across the region are slightly worse than the national average but are improving over time, leading to an ageing population. Whilst physical activity levels are low, other lifestyle impacts on health, such as smoking and drinking, are low by national standards. The health picture isn't uniform across the region. Men in Stoke-on-Trent and Sandwell can expect to live around four years less than those born in Solihull or parts of Warwickshire and Worcestershire. The gap for women is only slightly less.

The importance of skills has been highlighted several times already. A highly skilled and qualified workforce is required to both ensure that businesses are able to increase their productivity and competitiveness and to attract high value added inward investment into the region. Skill levels also affect worklessness, since individuals' ability to access employment will depend crucially on their skills. Historically, the region's performance on skills has been poor. The Regional Skills Performance Index showed that until 2007, the region was the worst performing in the country. However, significant progress over recent years means that the region is now placed sixth out of the nine English regions.

The improvement in the skills index has been driven by two key factors - increasing employer investment in skills and increasing numbers of individuals taking the initiative and acquiring new skills and qualifications at all levels. Despite these improvements, however there is still a long way to go. One particular issue for the region is the high proportion of people with no qualifications at all. Amongst the working age population, this amounts to nearly 18% of people, higher than any other region. Closing the gap to the national average would mean over 100,000 extra people gaining qualifications. The proportion of people qualified to higher levels are also below most other regions.

At all levels, the gap in attainment between different parts of the region is pronounced. For example, at level 2 and above rates of attainment ranged from over two-thirds in Warwickshire, Solihull and Shropshire to less than half in Wolverhampton and Sandwell in 2006. At level 4 and above Sandwell's rate of attainment of just 16% compared to 31% for Solihull.

Communities and Connections

The different places in the region have different roles, economically and socially. They relate to one another in many different and complex ways, which influence their respective economic performances. There are around 40 urban areas in the region with populations of 10,000 or more, accommodating over 80% of the regional population - nearly half live in the West Midlands conurbation alone. The remainder of the population live in the 80% (by area) of the region which is rural in character. Many are in areas close to the major urban areas which are closely connected to them economically. However, the region also includes some of the more remote rural areas in the country.

The region is divided up into 14 strategic local authorities, including four two-tier shire counties with a further 24 district councils within them¹. These are important administratively, and they form the basis for much of the analysis in the RIEA. However, they don't reflect functioning geographies - people and businesses don't organise their lives along administrative boundaries. A better understanding of functioning geographies would help ensure policies are directed to the right places.

¹ Shropshire will become a unitary authority in 2009 and its five constituent district councils will be abolished.

Travel to work patterns form a key component of economic geographies. The largest flows are into the centres of Birmingham, Coventry and Wolverhampton from surrounding districts. Other major employment centres also attract workers from neighbouring rural areas, although distances tend to be smaller except in the rural west of the region.

A growing and successful economy would attract more people to the region, or encourage those already here to stay. Along with lifestyle changes, this will mean an increasing demand for housing - the region will need between 350,000 and 400,000 new homes over the next 20 years. Greater economic growth would increase demand still further. Current plans suggest around 60% of new homes will be in the major urban areas but a lower proportion of new employment will be there. The Observatory's new Integrated Policy Model, available later this year, will enhance our understanding of the implications.

An indication of the current state of the region's housing supply is given by affordability levels. In common with the rest of the country, housing has got considerably less affordable in recent years. The average house in the region in 2007 cost around 6.5 times the average earnings, rising to 9 or more in Worcestershire, Herefordshire and Shropshire. Only Stoke-on-Trent had a ratio below 5. At the lower end of the market, the ratio was even higher. Nevertheless, housing was more affordable in the West Midlands than in the regions further south in the country, where the regional ratios were above 8.

Another important factor in attracting people and businesses to locate in, or visit, the region is the quality of the historic, natural and built environment. Protecting these assets is, therefore, important to the future prosperity of the region. Almost 90% of the region's land is greenspace but environmental resources are fragmented - only 2% of the land area is designated as SSSIs, the lowest share in the country. The region has seen serious flooding incidents in recent years, primarily in and around the Severn Valley, and these are likely to become more frequent due to climate change as well as other issues such as the capacity of the infrastructure, building in flood plains and increases in hard surfaces.

One of the strengths of the West Midlands is that it lies at the centre of the national transport network, allowing quick and easy access to markets across the country. Taking advantage requires that the network is reliable and free from congestion, particularly unpredictable congestion. This represents a challenge - the M6 between Birmingham and Cheshire is the most congested section of the nation's strategic road network and capacity constraints at Birmingham New Street impact on the reliability of the region's rail network. Jobs in distribution have increased and now make up 9% of regional employment but future growth could be threatened if reliability were to worsen. Whilst congestion is a key constraint for some parts of the region, other areas, particularly in the rural west, suffer from a lack of connections. Birmingham International Airport is the second busiest regional airport. It has played a major role in attracting investment to Solihull and surrounding areas and expansion could bring significant economic benefits for the region.

Of course, increased transport capacity has a downside too - it results in more emissions of carbon dioxide, contributing to climate change. Currently emissions from the region are slightly below the national average at 7,400kg per resident - only London and the South East have lower figures. Nevertheless, meeting regional, national and international targets for reduction of emissions will require significant change across all three sectors.

The future impacts of climate change are uncertain. It could bring benefits to certain industries in the region, for example increasing the agricultural growing season and boosting tourism. The region is also well placed to develop industries in environmental technologies which can help mitigate against climate change. However, climate change is likely to have negative impacts too, most notably on the region's water resources with parts of the region at high risk of having insufficient water to support proposed growth without improved management.

Putting the right infrastructure in place will give the region the chance to achieve its economic potential. However, what will make it happen are the decisions taken by individuals, whether in a personal or business capacity. All of these decisions are influenced by the factors above but there are many other factors involved - quality of life, and perceptions of place amongst them. Key factors in location choices include community safety, environment, good transport links, quality local services, housing type & affordability and accessibility of leisure facilities.

Crime levels across the region are low by national standards. Recorded crime is lower than the other regions in the North and Midlands and much lower than in London. Crime levels have been falling consistently over recent years but perceptions of, and fear of, crime are that it is rising.

In urban parts of the region accessing key services, such as health and education, is not a problem although the quality is variable. In more rural areas, however, it can be more difficult and services are generally more limited than elsewhere in England. Whilst the region has a range of important cultural and leisure assets, participation is lower than other parts of the country.