

# Review of the West Midlands Economic Strategy

Theme 1, Regional Economic Context. Introduction and Progress  
26<sup>th</sup> May 2006



West Midlands  
Regional  
Observatory

## 1 Introduction

- 1.1 The fundamental aim of this research (being carried out by the University of Warwick Institute of Employment Research and WMRO) is to carry out an assessment of the region's position in a national and inter-national context (short- and long-term).
- 1.2 In this light, the project has two main aims:
- To set out what is likely to happen in the region in economic, labour market and environmental terms over the next 10-15 years and to explain what are the key factors driving these trends;
  - To focus upon the possible implications for AWM policy interventions, including the priorities to maximise AWM's impact on economic growth and prosperity.

## 2 Progress to Date

- 2.1 Our approach has two main elements:
1. development of a set of *benchmark projections and related sensitivity analysis*; and
  2. *The review and synthesis of other evidence.*
- 2.2 Together these will be used to develop an informed commentary on, and analysis of, selected potential scenarios facing the regional economy (long- and short-term). The first draft report is due to be completed by the 5<sup>th</sup> of June prior to the project group meeting on the 15<sup>th</sup> June.
- 2.3 At the heart of [1] has been the *use of the WMRO REEIO model<sup>1</sup>* to develop a *benchmark projection* for the West Midlands economy. This has focussed on economic and labour market change from the most recent baseline to 2015 (in line with the capabilities of the model).
- 2.4 Additional details will be available in time for the presentation on the 5<sup>th</sup> of June but some initial findings are that the baseline projection indicates:
- By 2015 GVA in the West Midlands will have grown but at a slightly slower rate than GVA for the UK as a whole.
  - Manufacturing will continue to be a major sector in terms of value added. Growth is expected in transport and communications and other services.

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<sup>1</sup> The acquisition of the REEIO model formed Phase 1 of WMRO's work to deliver regional economic modelling capability.

- Total employment in the WM will grow but at a slower rate than for the UK as a whole. Within this employment part time work is expected to grow though self employment is predicted to slightly decrease.
- Employment in manufacturing is predicted to decline by approximately 50,000 with a similar scale growth predicted in both financial and business service and Government and other services.
- This sectoral employment shift is reflected in the type of worker required, hence it is predicted that the region will need approximately 50,000 extra managers and senior officials and 100,000 extra professionals. However there will be a fall in demand for skilled trades, plant operators and elementary occupations.
- Between 2001 and 2015 the working age population will increase by over 350,000.

2.5 Extensive work has been completed (and is still underway) on [2]. The purpose of this review and synthesis is to highlight key issues that require further and more detailed investigation at a later stage of the RES Review. The review and synthesis is encompassing intra-regional differences, issues of particular relevance to rural areas and possible impacts of developments in other regions. Additional details will be available in time for the presentation on the 5<sup>th</sup> of June but some initial findings are:

- Literature on competitiveness highlights the importance of the dynamic adaptive capability of the region's economy and social and institutional base in order to enhance competitiveness.
- Vis-à-vis other UK regions the West Midlands has seen deterioration in relative economic performance (as measured by GVA per capita) over the last 25 years or so).
- Economic activity is ever more globalised, with the speed and reach of globalisation increasing in recent years – particularly with the emergence of China and India. This offers challenges and challenges and opportunities for the regional economy.
- The West Midlands performs poorly vis-à-vis other regions on education, training and skills indicators and within the region problems of poor skills are particularly pronounced in the Black Country.
- Regional averages disguise variations in economic fortunes between different sub-regions in the West Midlands and between and within urban and rural areas. There are important variations in the demographic and migration profiles of urban and rural areas, with the region's ethnic minority population concentrated in urban areas such as Birmingham, Wolverhampton, Sandwell, Coventry and Walsall

### 3 Next Stage

- 3.1 The draft report will be discussed at the project group meeting on June 15<sup>th</sup>. The comments received will be considered and a final report will be produced by the 5<sup>th</sup> July with a final project group meeting on the 12<sup>th</sup> of July.
- 3.2 The model will be used to test the sensitivity of the projections to issues such as demographics, labour supply and demand.

## **Introduction**

The fundamental aim of this research (being carried out by WMRO and Aston University Business School) is to analyse the available evidence on productivity in the region in order to identify the key issues which regional policy needs to address.

In summary the research will provide Advantage West Midlands with evidence and a structured examination of the strengths and weaknesses, within the region and in comparison to other regions, associated with each of the drivers of productivity (skills, enterprise, investment, innovation and competition) as well as employment and other potential drivers. The objectives of the project are to:

1. Examine and clearly summarise the regional patterns and variations of the drivers of productivity and employment (with sectoral and sub-regional breakdowns where possible) incorporating past, current and short and long-term future trends;
2. Examine how and why regional productivity (and value added) is influenced by each driver, by identifying strengths and weaknesses with national and international comparisons;
3. Identify current and potential resource constraints influencing the potential productivity effect of each driver (including sectoral and sub-regional breakdowns wherever possible);
4. Clearly summarise the key priorities which policy at a regional level needs to address to maximise the impact of each productivity driver and hence overall regional productivity (and value added).

## **Progress to Date**

Our approach is divided into three main phases.

Phase 1 is the productivity trends analysis and indicator scoping. This has involved the analysis of trends in overall levels of productivity and the identification of potential data sources relevant to employment and each of the drivers of productivity, and their limitations.

Phase one will be completed in time to report to the Project Group on June 14<sup>th</sup>. The remainder of this section provides a brief analysis of the work completed to date. More information will be given in the presentation on June 5<sup>th</sup>.

The figure gives a visual overview of the West Midlands' performance on the Government's key set of productivity indicators to benchmark the performance of the regions and nations of the UK (HMT, 2004). This benchmarking exercise comes with a health warning: by definition, it can provide only a snapshot of regional performance at a point in time (typically 2003 or 2004), with no indication of recent trends in relative performance. Nevertheless, it provides a an instant 'rough guide' to those elements of the drivers of productivity in which the West Midlands is performing particularly well or poorly, and therefore helps to shape the detailed analysis of each driver in the chapters which follow.

Since the West Midlands is a middle-ranking region in terms of productivity and GVA, it might be assumed that it has middle-ranking performance in each of the elements of the productivity drivers. While this is frequently the case, there are some conspicuous areas of relative under- or over-performance:

- Physical investment by both UK and foreign-owned businesses in the region is generally fairly high, typically appearing in the second quartile of the 12 regions/nations of the UK.
- In the innovation measures, business expenditure on R&D (BERD) ranks reasonably highly (although lower in manufacturing), and West Midlands' firms report high levels of innovation outputs (new/improved products) and high levels of cooperative agreements in innovation activities. By contrast, the one area of weakness is in higher education R&D (HERD) where the West Midlands consistently performs poorly.
- Skills are the most conspicuous area of weakness, with the region performing very poorly on almost all indicators, including formal qualifications (degree, A-level, NVQs) and job-related training<sup>2</sup>.
- The enterprise measures showed mixed results, with reasonably high (second quartile) performance in terms of VAT registrations relative both to population and stock of existing businesses. However, new firm registrations in manufacturing run at a relatively low level, which may be a result of the region's relatively high stock of manufacturing businesses.
- In competitiveness, the west Midlands is a poor-middle ranking region, consistently ranking in the third quartile in terms of value of exports as a percentage of regional GVA.

Four broad, preliminary conclusions can be drawn from this analysis.

- Of the five main drivers, skills is the one which is consistently weak relative to other UK regions.
- While business investment (both in physical capital and in terms of R&D) is mid-ranking, there is evidence of weakness in those elements of the drivers which are underpinned mainly by public expenditure, notably in educational attainment and HERD. However, business investment in training is also very weak.
- In terms of the innovation indicators, the West Midlands consistently ranks higher in output measures (i.e. new products) than in input measures (i.e. R&D spend), suggesting that firms in the region are successful in leveraging the available investment in innovation.
- Finally, with the exception of capital investment, the driver indicators are generally weaker for manufacturing than for services. This is notably the case in the innovation and enterprise indicators.

#### Reference

H M Treasury (2004) Benchmarking UK productivity performance: the Government's response to the consultation on productivity indicators, HMSO.

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<sup>2</sup> Note that the 'percentage of population with no qualifications' indicator is inverted so that high levels of this indicator are coded red, etc.



## **Next Stage**

There are two more stages to complete.

**Phase 2 – Trends and Productivity Analysis** – involving the analysis of trends in employment and of each of the individual drivers of productivity, identifying their relationship to productivity and any constraints.

**Phase 3 – Synthesis** – involving the synthesis of material from the analysis of each of the individual productivity drivers stressing the strengths and weaknesses of each, and examining any potential synergies or complementary effects. For example, skill improvements may directly enhance productivity but may also have an indirect effect through improving firms' ability to innovate. A key element of the synthesis element of the study will be to highlight the key policy areas which should be addressed at the regional level. This will pay due attention to, but will not necessarily be restricted to, the role of market failure in guiding regional policy objectives.

When completed the two phases above will result in a draft final report in time to present to the project group on w/c 17<sup>th</sup> July with a final report due w/c 31<sup>st</sup> July.

Theme 3, Functioning Economic Geography Progress  
26<sup>th</sup> May 2006

## Introduction

The study (undertaken by the Geography Department of the University of Birmingham with WMRO support) considers the ***Functioning Economic Geography*** of the West Midlands Region.

Its objectives are as follows:

- To describe and explain the functioning relationships within the economic geography of the region and the attendant strengths and weaknesses.
- To describe and explain the existence and effects of national and international links upon the regional economy.
- To describe and explain the distinctiveness of the different parts of the region and the links between them.
- To identify and explain the reasons for any patterns and their implications.
- To identify the challenges that the region's economic geography create for policy formulation.

An overall objective for the project is to provide some insight into the overall structure of the Region's economic geography, particularly on the extent to which the Region is a functioning City-Region, polycentric, or a polycentric City-Region. Insight into these issues is of particular value to regional and sub-regional policy.

## Progress to Date

A linked four stage methodology has been deployed:

Firstly, detailed desk research to identify and collect the available academic and grey literatures on the West Midlands and its economic geography.

Secondly the identification and collection of existing datasets. These have included employment data (NOMIS), data about firms in the Region (number, sector and size), VAT registrations and deregistrations, unemployment rates, gross value added, income, travel to work, local transport plans, the National Skills Survey (where work already undertaken by WMRO's RSP team may also prove useful), patents/trade marks and registered designs as well as data from a range of published and unpublished research reports.

The next stage of work included the analysis of the data using standard techniques (including location quotients), and the identification and development of proxy measures, for example to take into consideration interregional differences in accessibility. The analysis draws upon a range of unpublished datasets including firm surveys and in-depth interviews. The latter include, for example, transcripts of interviews with over 230 business and professional service firms in the region, 40 interviews with automotive suppliers and 40 with a range of metal-based firms.

On the basis of this work, a report is being prepared. The draft report is due for completion on the 31<sup>st</sup> May.

In terms of the business and professional service sector the following emerging findings can be reported:

- Sub-regional dynamics of business and professional service firms – market towns/rural areas are distinctively different to central Birmingham.
- The majority of BPS firms service local demand.
- Some firms are disengaging from the local market to become important national and international players, but competing on quality of expertise and relationship with clients rather than price.
- Areas with significant reputation or infrastructural problems have problems in attracting and retaining professional staff.
- Regional Skills Problem – especially in management, customer relationship management and softer skills. Technical skills are as good as elsewhere.

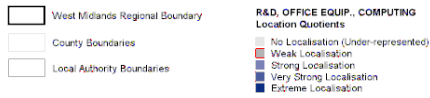
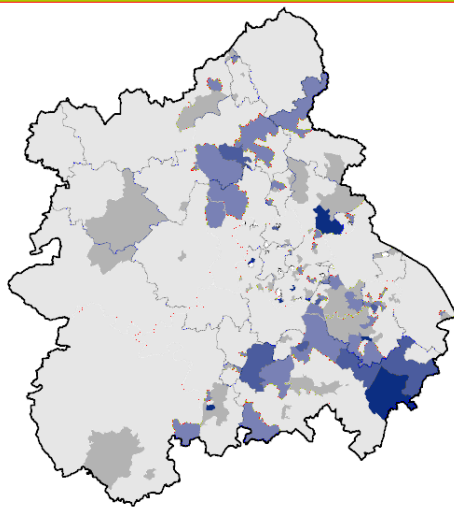
In terms of the manufacturing sector, the following emerging findings can be reported:

- It would appear that there is an important evolving pattern of localisation of production that is moving beyond the old conurbation boundaries to create new locations in parts of the region.
- Initial analysis indicates that key to this new pattern is the South West of the region.
- The SIC category of 'miscellaneous manufacturing' is especially important as it includes activities that do not fit the current SIC classification. The industries of the future are perhaps hidden within this grouping. Key within the region are: Dudley, Bromsgrove, Bridgenorth and the Malverns and to a lesser extent Walsall/Wolverhampton, Sandwell, South Staffordshire, Wychavon, Wyre Forest and Herefordshire.

As an example of the sectoral report content the following two points can be made (and illustrated):

- R&D etc – This is a key sector as recent US research has identified that this sector has the highest employment multipliers in American manufacturing – an additional 905 indirect jobs are supported in the US for each 100 jobs created in this sector. Note that this highlights the Coventry - Warwickshire Corridor
- Business Services – primary concentrations in urban areas, but some importance in other areas related to environmental/lifestyle factors as well as ability to break with central locations by the use of ICT.

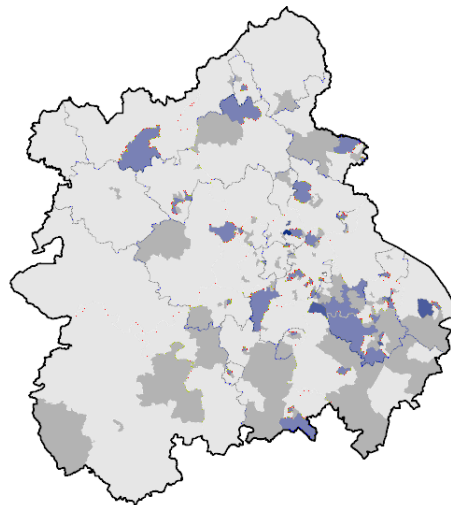
**Localised Concentrations of  
R&D, Office equipment and computing industries**



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**Localised Concentrations of  
Business Services industries**



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Overall the following emerging findings can be reported:

- Existence of important sub-regional differences within the West Midlands economy (e.g. - sector and firm size).
- The West Midlands is more than just a City Region. Local economies exist that are not tied into the conurbation.
- Sub-sector analysis indicates that the regional economy is best described as consisting of 'an evolving and dynamic polycentricity of production'.

## Next Steps

The draft report will be discussed at the second project group meeting on June 14<sup>th</sup> with the final Report due on June 30<sup>th</sup>.