

Recession – Working Together for the West Midlands Region

Recession and the West Midlands

Views of the Business Community

April 2009

This paper outlines the impact of the recession upon the business community and the steps that need to help the region move out of the economic downturn.

Impact of the Recession upon the West Midlands Region

- 1.1 The West Midlands is being affected more severely than most other regions by the current recession.** In February the Purchasing Managers Index (PMI) reported that business activity was contracting in the West Midlands at a faster rate than in any other UK region. After easing slightly in January and December this contraction gained pace again in February. Whilst falls in activity were seen across all sectors it was particularly evident for manufacturing businesses, reflecting the sector's vulnerability to weaknesses in the automotive industry. February's PMI reported that a third of businesses surveyed in the West Midlands had shed staff to address spare capacity resulting from falling activity and new orders. The pace at which businesses in the region are shedding staff is faster than the UK average and sharper in the manufacturing sector. In the three months to February the PMI reports that the West Midlands has seen the sharpest employment drop of all the UK regions.
- 1.2 Some places and communities are also suffering more than others, notably Stoke on Trent and parts of the Black Country.** The West Midlands' unemployment level rose by 29,000 over the three months to January 2009 to total 210,000. Redundancy levels are at record highs. 14,790 redundancies were notified in the region between December 2008 and February 2009, a 269% increase on the same period a year earlier. Claimant levels and rates have grown fastest in the region's urban areas and those parts of the region dominated by employment in traditional, low added-value industries. Between February 2007 and February 2008 the region's claimant level rose by 66,819 people. 56% of this growth has been within the region's Major Urban Areas. Walsall, Stoke-on-Trent and Sandwell have seen the greatest increase in their claimant count proportions, rising by 2.9, 2.6 and 2.5 percentage points respectively on levels that were already significantly above the regional and national averages.
- 1.3 Certain sectors - manufacturing and automotive in particular, plus construction - are being hit particularly hard.** The impact on manufacturing is probably of most concern to the region. The West Midlands has the third highest manufacturing turnover in the UK (£47 billion in 2006) – just behind the more populous North West and South East. Manufacturing has been significantly impacted by the recession. Production within the UK's manufacturing sector has

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now fallen to levels last seen in 1992, and the number of people employed in the sector in the three months to January 2009 was 12,000 down on a year earlier. In the three months to January, manufacturing output fell by 6.4% on the previous quarter. The Engineering Employers Federation and British Chambers of Commerce have forecast that manufacturing output will fall by a total of 8.6% and 9.0% respectively in 2009.

- 1.4 Within manufacturing, performance varies by sub-sector. The greatest contractions in output during the three months to January 2009 were seen in basic metals and metal products industries (-11.4%); transport equipment industries (-10.8%); and machinery and equipment products industries (-9.8%). The pace of contraction has been less sharp in other sectors, including aerospace and food processing. The automotive sector is particularly important to the region. There are auto suppliers in all the sub-regions of the West Midlands, even those considered to be largely rural, such as Shropshire, Hereford and Worcester. In total there are over 1,800 companies with a degree of dependency upon automotive manufacturing, employing around 115,000 people.
- 1.5 The recession affected the construction sector before many other sectors, with negative output growth reported since Quarter 2 of 2008. Nationally, economic forecasters expect construction to be one of the sectors worst affected due to weak confidence amongst home-buyers, investors and developers. The West Midlands' construction sector has contracted faster than the England average. Over the twelve months to Q4 2008 the West Midlands saw public housing orders fall by 81%, a much sharper drop than the England average drop of 33%. New infrastructure orders actually fell in the region (down 33%), compared with increases seen elsewhere in England.
- 1.6 Such significant contractions in new construction orders and the development pipeline are impacting on the profitability and viability of businesses in the construction sector. As a result, the sector has seen a particularly high redundancy rate relative to its workforce size. Nationally, in Quarter 4 2008 the sector saw 31.3 redundancies per 1,000 employees. By comparison, the redundancy rate across all sectors was 10.3 per 1,000 employees, whilst in manufacturing it was 18.3. Whilst a sectoral breakdown is not available at a regional level, it is worth noting that the West Midlands' redundancy rate is markedly higher than the national rate across all sectors (14.5 per 1,000 compared to 10.3 nationally in Q4 2008).
- 1.7 The EEF *Engineering Outlook* of December 2008 in its analysis of the state of engineering across the country, stated:

Job losses were particularly marked in the Midlands as the East and West Midlands balances fell to – 24% and – 29%.

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- 1.8 In February 2009, when the Royal Institution of Chartered Surveyors (RICS) produced their own survey data that showed that the decline in construction in the West Midlands region reflected the national decline.
- 1.9 They found that total workloads have slipped to a new low driven principally by weakness in the private sector. New enquiries about starting projects are also continuing to slide particularly in the housing, commercial and industrial sectors. Ominously, there has also been some deterioration in the response from RICS members regarding new enquiries in the infrastructure sector. Significantly, expectations on future workloads and profits margins are now under heavy pressure.
- 1.10 In the last downturn in the early 1990s, construction output fell, peak to trough, by roughly 15%. Given the current macro backdrop and the increasing problems surrounding the Private Finance Initiative programme, it would not be unreasonable to expect a broadly similar decline this time around.
- 1.11 The national decline in retail sales has been mirrored in the West Midlands region. The fact that Cannock shopping centre, for instance, has very recently gone into receivership may relate more to the investment company linked to the shopping centre than retail flows in Cannock itself. Nonetheless, this indicates the strains that the retail sector is facing.
- 1.12 In addition, the rural economy has also taken a knock from the recession. Poor infrastructure needs, such as poor broadband connections in a number of areas in the region, have exacerbated the problems that rural businesses are facing due to the recession.

Actions Local Authorities Can Take to Tackle the Downturn

- 2.1 The business community welcomes the recent report of the West Midlands Local Government Association on the steps being taken by local government to help local communities during this very difficult period. We support this work and make the following recommendations for further action.
- 2.2 Close partnerships with business is essential if investment in public works can be developed in such a way that there is pump priming your local economy. Not only are facilities and infrastructure can be improved – but it is keeping the local economy ticking over. By working with businesses, we can identify the areas of investment that would do the greatest good to the local economy.

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- 2.3 Local authorities can work with other agencies so procurement plans have a big and positive impact on the economy. This is technically called Forward Commitment Procurement or FCP and the Government has produced detailed guidance to help councils and others deliver greater bang for the public sector buck.

Immediate Actions the Government Can Take to Address the Downturn

- 3.1 While long term strategy is needed to help the UK economy recover from this recession, it is the short term measures that are needed now so that we can develop a diverse business base for the future.
- 3.2 That is why business is united in calling for the following three key short term measures that are desperately needed if there is to be a long term future for a diverse and prosperous regional economy.
- 3.3 The first of the urgent measures that need to be taken is that some underwriting of the credit insurance market is needed. Credit insurance is critical for ensuring an export led growth strategy to moving out of the recession. In addition, credit insurance is also important for the retail sector as goods sold in shops is first, usually, underwritten by credit insurance before the goods are sold to customers. Therefore, normal business activity can not resume without a normal credit insurance market being in operation.
- 3.4 Secondly, in previous downturns, short time working assistance or wage subsidies were introduced. This stopped mass redundancies from taking place. It also saved the Government money as it is cheaper to pay wage subsidies than to pay benefits to unemployed people and their families. It also means that consumer spending can be kept going at a certain level to help the economy overcome the recession.
- 3.5 Germany and the Netherlands have focused short time working assistance for strategic business sectors and this has helped their economies. At the time of writing, it was expected that a form of short time working assistance for strategic sectors would be introduced in Japan. We consider short time working assistance is also required for strategic sectors in the West Midlands region.
- 3.6 We would propose that best practice for how councils could work with business could be distributed to local authorities. We make this proposal as engagement

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with the local business community is essential if some form of local fiscal stimulus can exist to help the local economy weather the recession.

- 3.7 The work of the Learning and Skills Councils (LSCs) is important to address the skills issues arising out of the recession. As business representative organisations have rightly stated, a skilled workforce is critical for a business to reach new markets and overcome the recession. The work of the LSCs is being hampered by the fact that they are due to be abolished by April 2010 with their responsibilities being split three ways – between two new Government quangos and local authorities.
- 3.9 Whatever the rights and wrongs of these changes, this is the worst possible time for these changes to take place when all the focus should be on helping people stay in work and get people back into work. We would urge the Committee to recommend that these changes are put on hold until the worst of the impacts of the recession is over, at the very least.
- 3.10 In terms of the performance of Jobcentre Plus, business – on the whole – has yet to fully embrace the services that are provided and there is still a reliance on private recruitment agencies. We have encouraged Jobcentre Plus to work with housing associations as housing associations train their tenants in some areas so synergies can exist here. We have so far been unsuccessful in this call.

Conclusion

- 4.1 In summary, the communities of the West Midlands region needs a range of joined measures from business, local government and central government so that the region can get through this downturn. If a joined up approach fails to materialise, the negative economic consequences for every community in the West Midlands region could be profound.

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Annex A – West Midlands Business Council

The West Midlands Business Council (WMBC) is a UK First – the first time independent business representative organisations have chosen to come together to speak with one voice on the key regional business issues. No other region of the UK has such an organisation;

WMBC is an umbrella organisation for the whole West Midlands region – covering Herefordshire, Shropshire, Staffordshire, Warwickshire, & Worcestershire together with Birmingham/Coventry/Wolverhampton and the West Midlands conurbation.

The member organisations of WMBC are:

Asian Business Forum
Association of Colleges
British Ceramic Confederation
Business in the Community
Chartered Institute of Building
Civil Engineering Contractors Association
Co-operatives West Midlands
Country Land and Business Association
Engineering Employers' Federation
Federation of Small Businesses
Institute of Chartered Accountants in England and Wales
Institute of Directors
Institution of Civil Engineers
Midland Association of Restaurants, Caterers and Entertainment
National Farmers' Union
National Federation of Retail Newsagents
National Housing Federation
Royal Institution of Chartered Surveyors
Stratford upon Avon Town Management Partnership
UK IT Association
West Midlands Chambers of Commerce
West Midlands Developers Alliance
West Midlands Higher Education Association
West Midlands Minority Ethnic Business Association

Further information regarding the West Midlands Business Council can be found by contacting the West Midlands Business Council at:

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