THE PRODUCTIVITY INSTITUTE

MIDLANDS
REGIONAL PRODUCTIVITY FORUM

Economic and Social Research Council

The Midlands Productivity Challenge: Insight Executive Summary

Productivity Picture

Geographically, the Midlands lies at the heart of the UK, and has a population of 10.7m people, 435,000 active businesses, 5.1m jobs and an annual economic output of more than £258bn (2019), it forms a significant part of the national economy. Aggregate productivity for West Midlands and East Midlands has been consistently 0 to 15% below the UK average, though the productivity growth performance of the West Midlands has slightly improved relative to that the East Midlands.

Historically the Midlands has been known for manufacturing, and still boasts a number of global brands including Toyota and Jaguar Land Rover in automotive, Alliance Medical in medtech, Mondelez in confectionery, Experian in business services, Bombardier and its predecessors in rail engineering, QinetiQ in defence, Rolls-Royce in aerospace, and HSBC in fintech with its new UK HQ in central Birmingham. The challenge now is to translate the Midlands' manufacturing heritage into leading positions building on opportunities presented by industrial digitisation, and electric and autonomous vehicles and electrification.

The main cities being Birmingham, Coventry and Wolverhampton in the West, and Nottingham, Derby and Leicester in the East. Birmingham and Leicester in particular have relatively young and diverse populations compared with the UK average, and all are very diverse. Higher level qualifications are increasing faster amongst the workforce than the national rate. The West Midlands is the fastest growing UK region for goods exports. FDI projects have almost tripled since 2011/12.
If one considers the essential drivers of productivity, such as agglomeration, innovation, connectivity, firm start-ups, and experience effects, these point to the fact that the region's productivity should be better than it is.

In order to fully close the productivity gap (i.e. match the UK productivity levels by 2030), the Midlands' productivity performance would need to increase at a rate of more than 2% per year, meaning the region would need to return to (and exceed) productivity growth rates previously seen in the 1980s and 1990s.

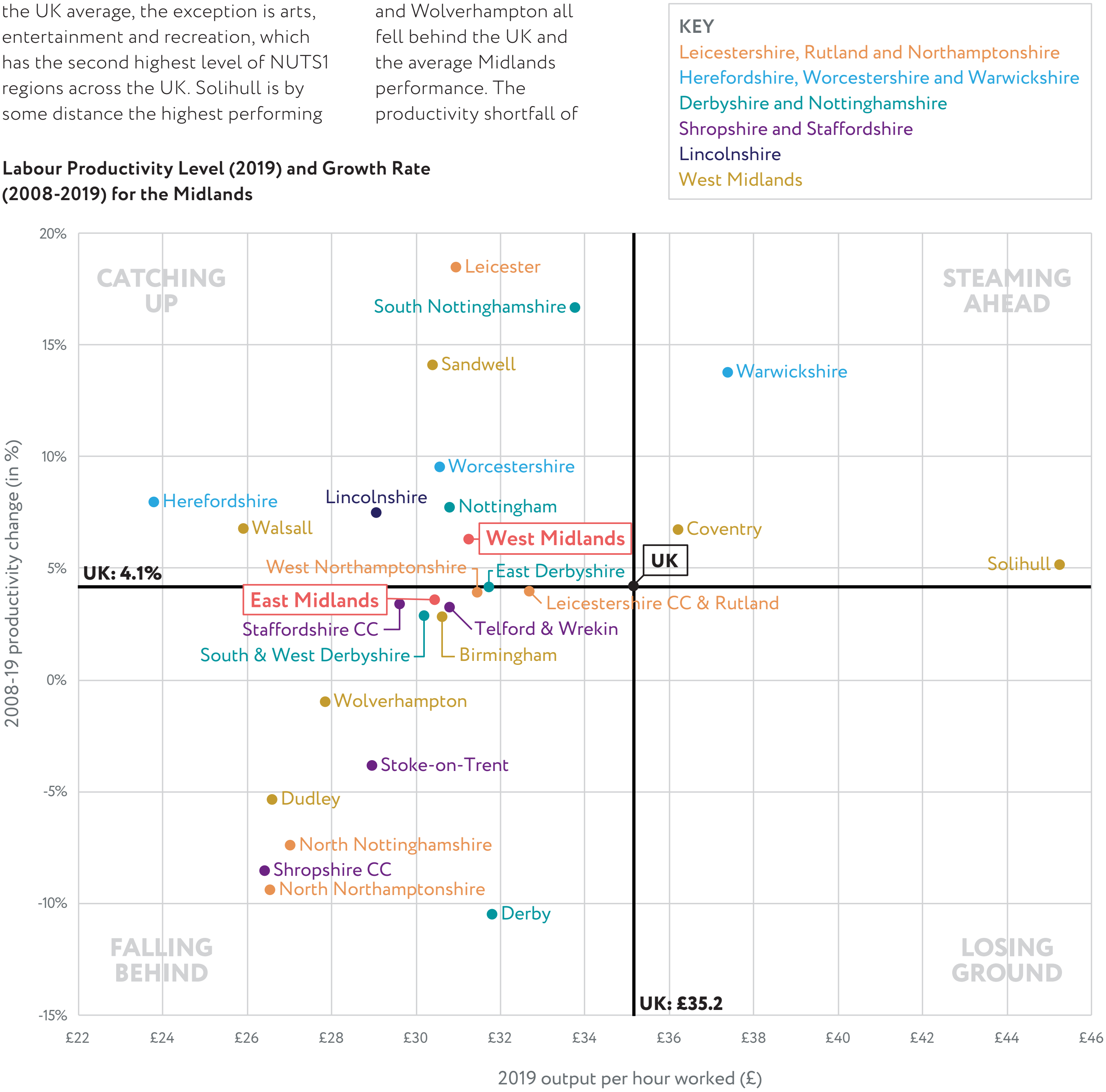
All these figures are from ONS data

13.2%	15%	55.3%	5.1%	87.9%
Share of UK GDP (2019)	UK total hours worked (2019)	Intermediate and high skilled 16-65 population (2018)	Change in productivity between 2008 and 2019	of UK labour productivity level (2019)

Majority of the Midlands counties have been falling behind relative to UK average productivity

Output per hour in the West Midlands was £31.27 in 2019, slightly ahead of the East Midlands at £30.44, but both well below that UK level of £35.14. Only the North East, Yorkshire and Humber, Wales and Northern Ireland had even lower productivity in 2019, even though the Midlands slightly improved on the other two English regions. Relative to the UK as a whole, the West Midlands has improved productivity since 2008, but East Midlands saw even a slight widening in the gap. In every sector bar one, output per hour is below the UK average, the exception is arts, entertainment and recreation, which has the second highest level of NUTS1 regions across the UK. Solihull is by some distance the highest performing area, and together with Coventry and in particular Warwickshire also outpaced the UK average growth performance since 2008. In addition to the West Midlands as whole, eight other Midlands regions outperformed the UK average productivity growth, with especially strong performance in Leicester, Sandwell and South Nottinghamshire, though none overtook the UK average level. In contrast, Derby, Dudley, North Nottinghamshire, North Northamptonshire, Shropshire, Stoke on Trent and Wolverhampton all fell behind the UK and the average Midlands performance. The productivity shortfall of the Midlands has not just been determined by the exceptionally high level of productivity in London, which towers some 32 percent above the UK level. Its productivity is also some 20 percent below that of the South East and some 7.5 percent below the East of England. Indeed, if the gap in value added per capita with the England minus London average was closed, the Midlands economy would generate an extra £20bn in output each year.

Labour Productivity Level (2019) and Growth Rate (2008-2019) for the Midlands



Source: Office of National Statistics, Subregional productivity: labour productivity indices by UK ITL2 and ITL3 subregions, 23 July 2021.

Primary Drivers and Bottlenecks

Overall the fundamentals of the Midlands economy face a number of major challenges, specifically, including insufficient skill levels, a relatively low employment rate. too many poor-quality jobs, and low levels of Investment – including capital, R&D and innovation. Many issues affecting productivity across the UK are also apparent in the Midlands, including a large tail of poor quality firms, a relatively large services sector, a lack of investment in R&D (especially given the size of the manufacturing sector) and pockets of low investment in capital equipment, and a weakness in management competencies. The Midlands has performed relatively well on export growth over the past decade. However, this success is driven by a few sectors, notably advanced manufacturing and professional services, with life sciences contributing to a lesser extent. Foreign direct investment is important, especially to the West Midlands economy including in the transport equipment sector and food and drink manufacturing. Too many opportunities for productivity growth have been missed in past decades. These may be opportunities for capturing externalities in productivity, linking local firms to inward investors, and learning from exporting or through collaboration on supply chains. With the exception of Birmingham, the region's cities are small by global standards, and not well connected with each other. R&D Connectivity is poor, both physically and virtually. Many of the regions key value chains span east and west across the region, but policy frameworks do not support this. Intra-regional connectivity is too reliant on roads. Underlying these issues are questions about management and leadership and skills. There is a complex and convoluted set of institutions across the region. The West Midlands Combined Authority is made up of three Local Enterprise Partnerships. The East Midlands region is a less coherent economic geography with another three LEPs but no combined authority. There is a need for more integrated and collaborative science and innovation landscape across the Midlands.

Strengths

- A number of high profile sectors that are globally competitive
- West Midlands GVA has been increasing faster than UK average
- A belt of high productivity across the middle of the region
- Export Growth
- External connectivity
- Tech clusters in Warwickshire

Weaknesses

- Institutional ambiguity
- Inequality both within and across subregions
- Sustained gap between both East Midlands and West Midlands and UK long tail of low productivity firms
- The low productivity regions account for a high proportion for the region
- All but one sector has productivity below the UK average for the sector
- Weak internal connectivity
- Low skills, leading to low job quality innovation / sales low

Opportunities

- Green tech sectors and contributions to Net Zero
- Fintech and wider tech cluster
- Better links betwen inward investors and local firms
- Improved collaboration - related and unrelated variety
- Reshoring

Threats

- Threats to inward investment post-Brexit
- High productivity activities concentrated in a few sectors and regions
- Heavy reliance of inward investment to drive productivity
- R&D and innovation very uneven
- Over-reliance of road transportation for internal productivity

Looking to the future

Looking to the future, there are three ways to grow productivity in the Midlands: stimulating the formation of high growth, high productivity firms; improving the productivity of existing firms through innovation and collaboration, and attracting high productivity firms in through inward investment. The focus of the region needs to be on all three, understanding how these relate to each other with more integrated policy across the East and West halves of the region.

Three priorities for growing productivity in the Midlands deserve further research and analysis:

1. Innovation and green economy should be a major area of strength for the region going forward. A focus here is on industrial decarbonisation and models for low carbon energy.

2.Following Brexit, there is a need to better understand what our value proposition is, and where the gaps in our supply chains are that can be remedied through inward investment and stimulation of new activities.

3.The region needs to reduce its dependency on a limited number of dominant sectors, and strengthen the integration of local supply chains, value capture and resilience.

Policy interventions should focus on attracting FDI which is linked to frontier technology, and which start-ups and scale-ups can connect with, and collaborate through supply chains. Innovations needs to get better dispersed and embedded across the wider cohort of firms. Better management practices facilitate better practices, along with greater investment in skills and their use.

Local institutions can best facilitate these pro-productivity actions. Despite some encouraging signs of progress, there is an urgent need for the Midlands to develop a more cohesive strategic agenda, a coherent and compelling narrative, and a collective identity if the region is to achieve its full potential over the coming years.

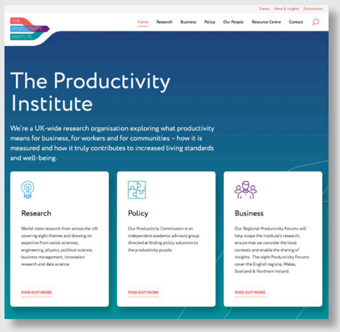
The Productivity Institute

The Productivity Institute is a UK-wide five-year research organisation, which began in September 2020 and is funded by a £26 million grant from the Economic Social Research Council in the UK – the largest single grant in its history and supported by £6 million from partner institutions.

It explores what productivity means for business, for workers and for communities – how it is measured and how it truly contributes to increased living standards and well-being. Productivity is key to a more prosperous and equitable society.

We aim to pinpoint the causes of the stagnation in UK productivity and focus energies to laying the foundations for a new era of sustained and inclusive productivity growth, which will improve our material standard of living.

Our world-class research draws on expertise from social sciences, engineering, physics, political science, business management, innovation research and data science. Our research activities and outputs are developed in collaboration, and in some instances through co-production, with business and policy users.



For more information and insights, please visit our website at **www.productivity.ac.uk** where you can also sign up to receive our regular newsletter.

Midlands Productivity Forum
Office for National Statistics

tpi@manchester.ac.uk
The Productivity Institute

This executive summary is based on the Productivity Insights Paper The Midlands' Productivity Challenge: Exploring the Issues published by The Productivity Institute.