West Midlands
Growth Company

QUARTERLY ECONOMIC DIGEST

Challenges and opportunities in a post-Covid world

ISSUE 1: MAY 2022

West Midlands Growth Company

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Partners West Midlands

FOREWORD

The challenges posed by the Covid-19 pandemic, Brexit and now the terrible events in Ukraine suggest a period of further turbulence for the region, the UK and the world.

It is clear that leveraging international relationships to create stronger communities, better places and brighter futures for our young people has never been more important.

The Growth Company's ability to deliver at scale and at pace is expanding as we approach the Commonwealth Games, and that includes the Partners West Midlands programme – as we welcome new partners from across the business spectrum and from all parts of the West Midlands region.

Our first edition draws on contributions from across the WMGC's specialist teams and some of our partners, but I would especially like to thank Professor Nigel Driffield from Warwick Business School for his fascinating perspectives on the wider benefits of Foreign Direct Investment (FDI); Ed Cox, Director for Inclusive Growth & Public Service Reform at West Midlands Combined Authority for his take on the opportunities for the region being created by the government's levelling up agenda; and WMGC's Head of Research, Andy Phillips, who has compiled and edited the QED.

As a direct benefit of being a valuable member of Partners West Midlands, I hope you find this QED both informative and insightful. We are keen to make it as relevant and valuable as possible, so do please let us know your thoughts via the feedback form at the end of this review.

Best wishes

Neil Rami,
Chief Executive,
WMGC

Levelling Up: The Scale Of Opportunity for the West Midlands

Last month, the Government promised "a devolution revolution" and early indications suggest this isn't just your standard Government hyperbole.

Almost two years on from its expected publication prior to onset of the pandemic, the Levelling Up White Paper was finally published last month. The document sets out plans for how the Government will deliver its flagship policy of "Levelling Up" – put simply – how the Government intends to close the gap between the wealthier areas in the South and South East and the poorer areas in the North and the Midlands.

The academic analysis on the causes of "agglomeration" were lauded by intellectuals and policy analysts. The architects of the White Paper had grasped the root of the problem and why the UK shows such shows disparity between its regions. Whether they can deliver the solution remains to be seen.

A few nuggets were provided to demonstrate the Government's intentions. Mayoral Combined Authorities have been given control over the UK Shared Prosperity Fund to improve education and training opportunities; the West Midlands was picked out to be the UK's first Smart City Region, with funding to drive new digital start-ups in health tech, future mobility and smart energy and integrate this with digital infrastructure. Coventry, Dudley, Walsall and Sandwell were identified to become 'Education Investment Areas' with focussed support to improve schools; and an extra £28m was awarded for the WMCA to regenerate more Brownfield land for new homes and jobs.

But for the Combined Authority, the most exciting outcome of the White Paper was the promise of a Trailblazer Devolution Deal and the accompanying promise that "nothing is off the table". Alongside Manchester, the wealthier areas in the South and South East and the poorer areas in the North and the Midlands.

This has opened the door for detailed negotiations between the WMCA and government on the new Devolution Deal for the region and what additional powers need to be transferred from Whitehall to the West Midlands.

Prior to the pandemic, the West Midlands had the fastest growing economy outside of London, with record numbers of homes being built, record numbers in work, and record investment in public transport. But Covid put a halt to that progress. To truly bounce back from this blip, the region needs the ability to pull its own economic and social levers to help drive recovery – and that is what a devolution deal will provide.

Ed Cox
Executive Director for Strategy, Integration & Net Zero, West Midlands Combined Authority

With a strong reputation for innovative leadership and management, Ed Cox has researched and written over 30 reports about economic development and is widely recognised for thought-leadership in a variety of fields including transport infrastructure, skills and education, trade and investment, energy, health innovation and devolution.

Work started immediately after the White Paper's publication, and negotiations are well into the first phase. Along with partners, the West Midlands Combined Authority is undertaking an ambitious programme of 'ideas generation', pulling together a series of proposals by working with stakeholders, think tanks and regional partners to ensure we have a bold and comprehensive set of asks.

Initial conversations with Government have been promising and what is most welcome is the Department for Levelling Up's ambition and desire to assist. They are happy to identify best points of contact in other Departments and intend to unlock blockages where they might arise. The DLUHC Ministerial team have made it clear that they will be the drivers on this, backed by a Cabinet committee to ensure traditionally reticent departments are bolder in their approach.

Following conversations with the Cities and Local Growth Unit, we now also have a clearer idea of the time-line. After a short window for developing diverse work-stream ideas, we will then begin prioritising a key set of proposals throughout the Spring.

These will come together in a single proposition during June with a view to a headline agreement with government prior to Parliament rising for the Summer recess. We then expect further detailed negotiations to take place through to the Autumn Budget later this year.

The aim is that this deal will ultimately help address the imbalance of opportunities across the UK. Devolution of power goes hand in hand with levelling up. Whether it's building more affordable homes, ensuring better access to qualifications to secure the high-quality well-paid jobs of the future, or the region receiving a greater share of critical research and development funding, regions need the Government to hand over the resources required to deliver.

The White Paper has set out a clear plan as to how it will build on the foundations the West Midlands has already laid to help improve people's chances in life.

We are being ambitious, collaborative and driven in our approach to this process. If the Government is receptive to our proposals and shares our ambition – a 'devolution revolution' is certainly possible.

Regional Economic Overview

As we move into a post-Covid world there have been encouraging signs that the West Midlands economy is bouncing back.

Since the turn of the year, for example, US-owned Mondelez has announced the re-shoring of more chocolate production, including the iconic Cadbury Dairy Milk bar, from plants in Germany to the Bournville site in Birmingham and US-owned airline Flybe, in the face of stiff competition from Manchester and Exeter, plumps for Birmingham Airport as the hub for its re-launched UK operations.

But will this bounce back be sustained? Both Brexit and Covid-19 continue to pose challenges for business, the economy faces a 'quadruple squeeze' from higher energy bills, inflation, interest rates and NI contributions, and the conflict in Ukraine threatens to exacerbate these pressures. What needs to be done to ensure that the West Midlands can rise to the challenge?

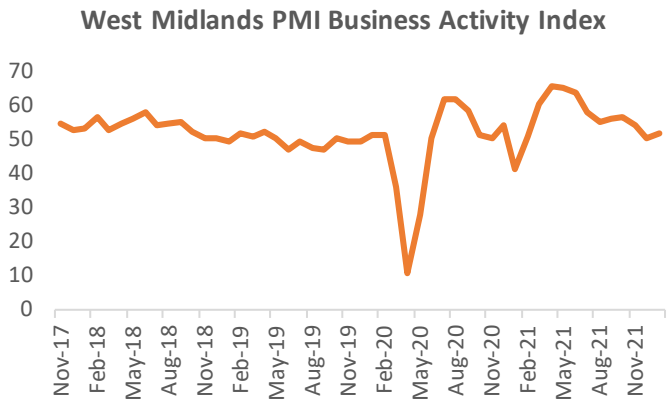
The region's post-Covid bounce back

In its December 2021 UK Economic Outlook, PwC indicated that UK economic output had fully bounced back to pre-Covid levels by the end of 2021 as the relaxation of Covid-19 restrictions prompted a release of pent-up demand.

In the West Midlands, the IHS Market/NatWest Purchasing Managers Business Activity Index (PMI), which plummeted to a score of just 10 when the pandemic hit in 2020, stood at 58.4 in February 2022 (a score above 50 signifies month-on-month growth) – up by nearly seven percentage points on January, which is the sharpest increase in eight months and one of the highest in the country.

Firms say that key growth drivers include improved customer and client confidence and an upturn in demand – both domestically and internationally, notably from US and key European markets.

Avison Young's March 2022 economic forecast, meanwhile, indicates that Birmingham's economy grew at a stellar rate of 7.8% during 2021, making it one of the fastest growing economies in Europe. The city is expected to post a further impressive growth figure of 5.8% in 2022 - which is well above the pre-Covid ten-year average of 1.7% per annum – boosted by the economic impact of the Commonwealth Games.



Source: IHT Markit/Natwest

The Deloitte Regional Crane Survey, meanwhile, confirms that the region's real estate sector also saw a strong recovery in 2021. The number of projects that broke ground was almost double that in 2020 and there was a four-fold uptick in the volume of new office space delivered in Birmingham in 2021 to just over 750,000 sq ft – close to the record-breaking levels seen in 2019.

But the West Midlands has more ground to make up than other areas

The PMI analysis mentioned above also shows that, while seeing a sharp upturn since the turn of the year, in terms of the absolute level of economic activity the West Midlands is still below the UK average and the region languishes in 8th place in the league table of the UK's 12 regions and nations.

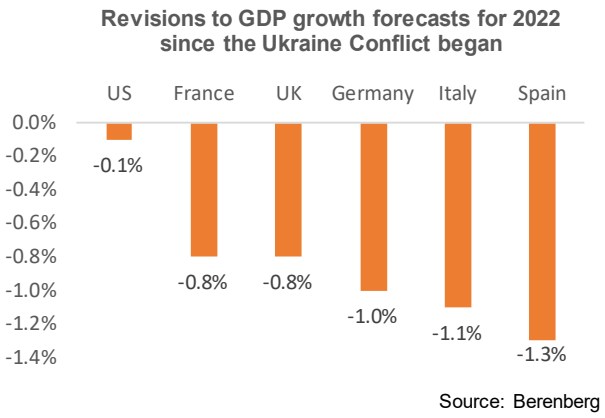
As highlighted in **EY's February Regional Economic Forecast,** the West Midlands has more ground to make up than other areas. While the region's automotive and wider transport technologies sectors helped the West Midlands power ahead in the years leading up to the pandemic, both Covid-19 and Brexit have had a substantial negative impact on demand (especially from key overseas markets) and have severely disrupted supply chains (Jaguar Land Rover, for example, has seen sales in Q1 2022 constrained by a global semiconductor shortage). As a result, the West Midlands is forecast to be the only English region with its economic output still below pandemic levels at the end of 2022.

The region's economy now faces a quadruple squeeze

The PwC analysis quoted above also sounds a note of caution about prospects for the rest of 2022 and 2023 as the economy faces a 'quadruple squeeze' from higher energy bills, inflation, interest rates and NI contributions. The Ukraine conflict, meanwhile, is expected to exacerbate these economic pressures as oil, gas and other commodity prices surge.

The consensus among economic commentators is that prices will continue to soar, inflation could rise as high as 10% by the autumn and that GDP growth across all the advanced economies will be lower than previously expected.

The West Midlands PMI survey analysis, meanwhile, reveals that firms in the region are already grappling with these challenges. While demand has been recovering, the proportion of businesses struggling to fulfil orders is at a historic high as a result of (i) Covid-19 and Brexit related issues such as staff shortages and supply chain issues (e.g. delivery delays, raw material scarcity) and (ii) spiralling operating costs due to hikes in the cost of raw materials, energy and fuel, freight and staff.



Conclusions

The above analysis underlines the tough economic conditions the West Midlands faces in 2022/23. In the immediate term, unless additional action is taken by the UK Government to lessen the impact of the quadruple squeeze, the region's post-Covid bounce back is likely to tail off.

In the medium and longer term it also highlights the scale of the task to realise the government's ambition to level up the UK economy – and the West Midlands in particular. Action is needed to ensure that the region does not get left behind in the race to attract investment, skills and talent.

While the region's trailblazer status within the government's devolution proposals can be instrumental in this, initiatives already in place can also play a key role – for example:

- Developments that boost regional connectivity such as the next phases of the Midlands Metro and HS2.
- The Commonwealth Games Business and Tourism Programme (BATP) that seeks to re-boot the region's tourism offer and to attract companies in new growth sectors such as future mobility, data driven healthcare, tech and creative technologies and modern business services.
- The Commonwealth Jobs and Skills Academy, which seeks to help local people access the tens of thousands of jobs the BATP and the Games themselves will create.

Notes
This article draws on data and analysis put together by our regional partners WMREDI and the Midlands Engine Regional Observatory. Click on these links to access more of their content.

Andy Phillips
Head of Research, WMGC

Andy Phillips, has more than 20 years' experience in a wide range research areas including business and the economy, economic forecasting, key sectors and clusters, skills and the labour market, business development, social and economic regeneration and regional, sub-regional and local level analysis.

FDI and the Net-Zero Revolution How does the West Midlands Property Market Measure Up?

Inward investors coming to the West Midlands are increasingly demanding green and custom designed accommodation. For example, Gymshark's new HQ in Solihull boasts the first human-centric smart lighting system installed in a UK office, while Arup's new building at Paradise in Birmingham has been designed to facilitate flexible working and is constructed with materials manufactured using renewable energy.

More and more of the businesses already here are also moving into this type of accommodation. Professional services firms Shoosmiths, Grant Thornton and Tilney Smith Williamson, for example are all taking space at the new prime office development at 103 Colmore Row, which is hooked up to the Birmingham District Heating System, giving both green credentials and the potential for energy cost savings.

Andy Phillips, WMGC's Head of Research, Andrew Dunbar, WMGC's Head of Capital Attraction and Grace Kneafsey, WMGC's Senior Business Development Manager – Low Carbon, investigate the changing demand for real estate, how the real estate sector is responding and whether the supply of net zero space in the West Midlands is sufficient to meet the burgeoning demand.

How is the demand for real estate changing?

Drivers of change

In its February 2022 assessment of key drivers of demand for green offices, Knight Frank highlights (i) Environmental, Social and Governance (ESG) ambitions (e.g. supporting employees' mental and physical health) and (ii) Talent retention and attraction (with a desire to work for businesses that match up to their increasingly green values).

In its March 2022 Economic and Property Market Review, Avison Young considered four ways that the technological and green revolution is transforming the industrial market: (i) the growth of gigafactories, data centres, battery storage and green energy manufacturing, (ii) the surge in online retailing – driving a requirement for efficiency of space and a shift from 'big sheds' to high-tech hubs, (iii) a growing demand for renewable, clean-sourced power and (iv) the 'greening' of supply chains.

A flight to quality

In its January 2022 article, Property Week uses UK-wide figures for space released by tenants to point to a strong preference for amenity-rich, grade-A, environmentally sustainable space.

In the year to the end of March 2021, a total of 18.2m sq ft of office space had been lost in England and Wales – the equivalent of 239 football pitches. The rate of attrition had increased by 70% year-on-year, with lower quality 'tertiary' space in edge of city, suburban and smaller town locations being worst hit. In many cases, a lack of investment over recent decades has rendered much of this stock obsolete.

While post-pandemic vast swathes of the workforce are continuing to work from home, employers are increasingly looking for high-spec office space that facilitates collaboration between colleagues and with amenities that promote mental wellbeing in order to tempt workers back into the office.

With the rising importance of zero carbon corporate pledges, meanwhile, companies are also increasingly looking for best-in-class buildings from an environmental standpoint. The drive for ever greener buildings is also set to be given a regulatory boost. The latest iteration of the Government's Minimum Energy Efficiency Standard (MEES) legislation.

The 'flight to quality' is a trend among investors and developers as well as occupiers. They are no longer just looking at location and the tenant line-up, but are increasingly also considering amenities, the quality and occupational readiness of space and the services that they can offer to occupiers.

How is the real estate sector responding?

As an article in The Times in November 2021 highlights, across the country the market is responding by bringing innovative new net zero space on stream, powered by heat pumps and solar panels, rooftop planting and facades to remove air pollutants and with water capture and irrigation systems. In the West Midlands, examples include the Curzon Wharf net zero carbon-ready mixed use scheme in Birmingham, which includes nearly 130,000 square feet of office, R&D and life science space, over 3,000 square feet of retail space and 15,000 square feet of leisure space.

The role of refurbs

Until recently, the received wisdom was that new builds were the way forward for net zero, but refurbishment is now becoming an increasingly popular option. As highlighted in the Property Week article we link to above, there is a vast swathe of secondary/tertiary stock which is not occupiable from a sustainability perspective. In order to retain tenants, landlords are now increasingly investing in these buildings in order to lift them out of their secondary ranking.

While most are going for wholesale refurbishment, many are retaining as much of the existing buildings as possible to ensure maximum carbon retention.

In its January 2022 article 'does net zero signal the start of the refurbishment era?' Turner and Townsend highlights how refurbs save carbon, cost and time by (i) generating less CO^2 per square foot than new builds, (ii) having no substructure construction costs, which on a new build can represent up to a quarter of the overall shell and core construction costs and (iii) a saving of around 12-18 months from the schedule by eliminating the groundworks phase – gaining the owner an extra year or more of rental value.

These developments are being given further impetus by a campaign launched by the Royal Institute of British Architects (RIBA) to persuade the Government to re-balance tax incentives to encourage more refurbishment (there is currently 20% VAT on refurbishment costs as opposed to 0-5% on new builds).

Innovation in the use of natural materials and AMC

Natural materials like wood ('the new concrete') are once more key to the construction of our offices, factories and warehouses – and are increasingly seen as key components within Advanced Methods of Construction (AMC) and prefabrication technologies.

These developments are also helping to drive growth in the supply chain, with the emergence of a thriving AMC manufacturing cluster in the West Midlands. Research undertaken by the West Midlands Combined Authority in partnership with Hatch Regeneris in 2020 to inform its Roadmap for Advanced Manufacture in Construction indicates that the West Midlands has a very strong base of AMC related businesses, accounting for a share of the overall business base which is three times the UK average and higher than other UK city regions.

The region is home to a diverse range of AMC businesses. Existing manufacturers, including SMEs, play a significant role in sector, alongside new entrants who have been attracted to the West Midlands.

'We need to address the clear gaps in the market we have in the West Midlands, bringing forward new prime grade A net zero compliant developments that can meet occupiers' ESG ambitions.

'This will require innovative solutions in relation to the refurbishment of existing space and in the use of AMC, such as prefabrication'.

Andrew Dunbar, Head of Capital Attraction, WMGC

Can supply meet demand?

While there are some excellent examples of new green buildings coming onto the market across the UK, in many cities and regions this is not enough to keep pace with demand.
Focusing on the West Midlands, Saville's Spring Market in Minutes report indicates that in Birmingham there is an acute under-supply of prime grade A office space which is currently running at 23% below the five year average.

Only an estimated 16 per cent of office stock in the region is rated 'good' to 'outstanding' when judged by the Building Research Establishment Environmental Assessment Method, (BREEAM), an industry measure of sustainability.

While occupiers tend to be looking for highly energy efficient space with an Energy Performance Certificate (EPC) grading of A or B, in the West Midlands only 10% of the available stock meets this standard.

Similarly, some 90% of industrial properties across the UK have an EPC grade of C or below and need to improve their energy performance. Only 20% of available stock has been built in the last 20 years and it is estimated that the cost of bringing it all up to standard is in the region of £30 billion.

Implications for the region

Addressing this shortage in supply is vital if the West Midlands is to continue to have (i) a vibrant business community, (ii) such an excellent record in attracting FDI and (iii) a burgeoning low carbon and AMC sector.

To this end, initiatives such as the University of Wolverhampton's National Brownfield Institute can play a key part in our rise to the challenge, for example by:

- Offering businesses in construction and the region's emerging AMC manufacturing cluster new ground-breaking training and development provision in construction design, Building Information Modelling (BIM), off site, modular construction and lean construction methodologies.
- Providing a centre of excellence in practical approaches to brownfield regeneration and remediation.

Conclusion

It is clear from the above analysis that there is a need to accelerate work to boost the provision of good quality new and refurbished property with the necessary net zero credentials. The current under-supply threatens to hold back the region's economic growth. At a national level, a move to re-balance tax incentives to encourage more refurbishment and, at a regional level, work to help facilitate further growth within the region's burgeoning AMC manufacturing cluster and new assets such as the University of Wolverhampton's National Brownfield Institute, are all positive steps forward.

'Of course, the supply of suitable buildings and sites plays a huge role in the region remaining competitive and continuing to attract inward investment, and the sentiments reflected in this research reflect much of our recent experience in the Business Attraction team.

As an example, we are increasingly seeing more challenging power requirements in industrial site searches, whether that be in enhanced grid connections or on-site generation. The market is already reacting to this, and it is also encouraging to see central government funding being aligned to this demand, such as the support available for net-zero manufacturing in the Black Country Industrial Cluster.

'Literature on this topic is also a reminder that the West Midlands boasts an array of leading businesses and research facilities in the built environment sector. This globally competitive cluster is in prime position to support the development of green infrastructure and buildings that can address a number of the risks the current regional under-supply poses.'

Grace Kneafsey, Senior Business Development Manager – Low Carbon, WMGC

Wider Business Opportunities Created by FDI

Historically, the UK has been a strong performer in terms of FDI attraction and, within the UK, the West Midlands punches above its weight as a region – out-performing areas such as Scotland, the North West and Northern Ireland, which have access to higher levels of government and other public sector resources.

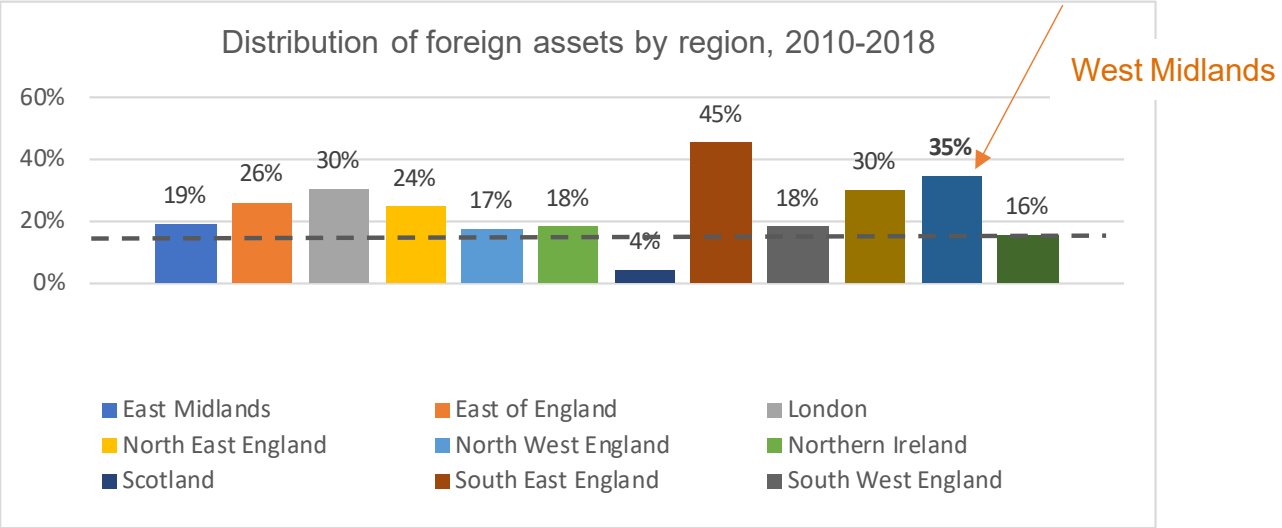
This in itself is of great benefit to the region. Incoming foreign owned businesses often bring with them innovative and creative ideas and technologies, create significant numbers of skilled, well-paid jobs and offer new business opportunities for suppliers of goods and services. As the investment agency for the region, WMGC is able to connect commercial partners with these in-coming firms to help them access these opportunities.

But are there wider benefits for the region's business base accruing from the influx of inward investment? Nigel Driffield, Professor of International Business at Warwick Business School, has completed ground-breaking research which identifies the nature of these benefits, the importance of embedding investors into he West Midlands business ecosystem and the capabilities firms need to develop if they are to make the most of them.

Jon Baty, WMGC's Head of Inward Investment, then outlines how his team helps to maximise the benefits of inward investment – by providing incoming investors with a seamless process and a 'soft landing' - and also maximising the business opportunities for Partners West Midlands members and other potential suppliers and partners.

Inward FDI performance

Inward investment is of vital importance to the UK economy. In 2014, the UK's percentage of inward FDI stock as a percentage of GDP was the greatest of all the G7 countries, at 64 percent of GDP (ONS 2016). Equally, the latest data from the Department for International Trade (2020) indicate that the West Midlands punches above its weight in terms of its share of UK inward investment, particularly when compared with regions who have traditionally been better resourced in terms of investment promotion, such as Scotland, the North West, or Northern Ireland.



Source: authors' elaboration from Fame database

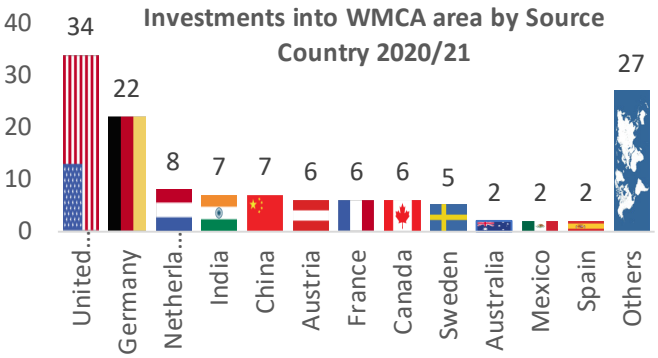
Nigel Driffield, Warwick Business School

Nigel Driffield is Professor of International Business at Warwick Business School, and Deputy Pro Vice Chancellor for Regional Engagement. As well as pursuing academic research, he works with a number of stakeholders, both locally and nationally on issues relating to inward investment and economic development.

More recent DIT/WMGC analysis indicates that in 2020-21 the West Midlands attracted 136 FDI projects (the most of any UK nation or region outside London and the South East), bringing in £9.5 million of investment and creating more than 7,500 new jobs.

Encouragingly, almost two thirds of these projects were in the priority sectors identified in the West Midlands Local Industrial Strategy (WMLIS): advanced engineering and future mobility, tech and creative, data driven healthcare and life sciences and modern business services.

While the largest source of projects were long-standing markets such as the US and Germany, many came from emerging markets such as China and Commonwealth countries targeted by the Commonwealth Games Business and Tourism Programme, such as India, Canada and Australia.



Source: DIT/WMGC analysis

Maximising the benefits of inward investment

Maintaining these levels post-Brexit and post-Covid is likely to be a challenge. This suggests the need for a focussed approach, and an understanding of the benefits likely to be gained from attracting inward investment. With a national priority of 'levelling up', places must develop an understanding of where (and why) inward investment can generate further benefits for the host economy.

For simplicity, we adopt Paul Krugman's famous line:

'Productivity isn't everything but, in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.'

There are essentially two mechanisms by which inward investment can boost a region's productivity:

- The first is typically referred to as the 'batting average' effect, which refers to the fact that(new) inward investors have higher productivity than the average level of the region; their presence thereby increases average productivity.
- The second is whether (and how) the presence of inward investment generates productivity growth in the wider economy, typically explained in terms of a range of effects that have come to be labelled as 'FDI spillovers'.

Our analysis, available in full via Warwick Business School, shows that, on average, the impact of FDI (foreign-owned total assets) on firm productivity (total factor productivity) is about 0.011; in other words, doubling FDI would increase the average UK firm's productivity by 1.1%.

The figure may seem small but when we consider that, year on year, productivity growth in the UK is well under 2%, this gives an indication of the importance of FDI.

It is worth observing that:

- Aerospace and the Life Sciences (pharmaceuticals and chemicals) are the two sectors which generate the most significant spillover benefit to the wider economy, followed by Metals and Beverages.
- Large and high productivity firms benefit more. Our analysis across regions indicates that, overall, a high productivity firm in a low productivity sector/region will gain more from FDI than if it were a low productivity firm in a high performing sector/region.

Absorptive capacity, which is a firm's ability to assimilate new knowledge, is key to achieving productivity growth, typically recognised through, for example, exporting ability, or inter-firm interactions via clusters of supply chains. Additionally, inward investors create good jobs and require skilled labour. Higher productivity firms are better able to retain existing key staff, and thus absorb new knowledge.

Our findings suggest areas for further investigation. These will be explored as part of the Productivity Institute's work on aspects such as differences in motivation, ownership structure, intangible assets, and the performance of the foreign-owned sector.

The motivation for firms to engage in FDI affects the extent to which they engage in international technology transfer, and also the extent to which they interact with the local sector. With 'spillover' growth and productivity gains on the table for local companies which are well-equipped to capitalise on the opportunities presented by new inward investment, it is critical that new investors are embedded into the West Midlands' business eco-system.

'Nigel's analysis reinforces the importance of the soft-landing support offered to new Inward Investor companies by the Growth Company's Inward Investment team. For the team, the job doesn't stop at the point a company decides to invest in the region, or contracts on a commercial premises.

'Leveraging strong regional connectivity to facilitate introductions to potential partners and suppliers – often with the support of the Partners West Midlands network – offers benefit for both the new investor and the regional economy. For the investor, connections to local partners and suppliers can accelerate, or even expand the scale of investment into the region. For suppliers and partners, new opportunities can catalyse further growth and productivity gains.

'At the same time, if Partners West Midlands members are working with a company that is close to, or has made a positive decision on investment into the region, there can be significant incremental economic gains for the region, the investing company, and often both, via a timely introduction to the West Midlands Growth Company, to provide soft-landing, networking and comms support to the investing company.'

Jon Baty
Head of Inward Investment, WMGC

The MICE Sector: Bouncing Back

Pre-pandemic, the region was a powerhouse for the meetings, conferences, incentives and events (MICE) sector. Its share of the overseas visitor market was double the UK average, reflecting its range of world class venues and hotels, vibrant business community and cultural offer.

While global travel restrictions, social distancing protocols and prohibitions on mass gatherings then took their toll, the sector is now bouncing back with increasing numbers of organisers once again choosing the West Midlands to host their conferences and events.

Shannon Chu, WMGC's Senior Tourism Research Analyst and Steve Knight, WMGC's Senior Business Tourism Manager explore the sector's recent performance and future prospects in more detail.

The Pre-Pandemic Position

In 2019, some 43% of visits from overseas were for business meetings, conferences and exhibitions (more than double the UK average) and these visits accounted for a third of overseas visitor spend (compared to a UK average of 21%)[1]. This reflects the status of Birmingham and the wider region as the UK's premier business tourism destination outside London.

Research commissioned by the West Midlands Growth Company indicates that:

- In 2019, there were more than 100,000 conferences and meetings, generating more than 10 million visits to the region, nearly 15 million delegate / visitor days, and £2.3 billion of direct spend.
- This then supported nearly £900 million of direct GVA and nearly 38,000 full time equivalent jobs.
- If the knock-on benefits of this activity in terms of demand for goods and services in local supply chains are also taken into account these figures rise to nearly £1.4 billion of GVA and 60,500 jobs.

Total Impacts* - 2019

10.1 million delegates

14.5 million delegate days

£2.3 billion direct spend

65,000 FTEs impact

Delegates/ visitors from UK (outside of West Midlands) were the most significant in 2019 accounting for 60% of spend. Overseas visits accounted for 9%

Gtr Birmingham & Solihull - accounted for 70% of direct spend in 2019. Coventry & Warks - 26% and Black Country - 4%.

Meetings & Conferences was the most significant MICE category, accounting for 73% of direct spend in 2019. Corporates were the largest segment with - 5.7%

[1]Source: ONS International Passenger Survey

Shannon Chu
Senior Research Analyst
West Midlands Growth Company

Shannon Chu is a destination management professional, with over ten years' experience in delivering sustainable visitor economy growth and attracting inward investment through research and market insights, product and policy development, marketing campaigns and strategic partnership development.

The Impact of the Pandemic

Global travel restrictions, social distancing protocols and prohibitions on mass gatherings had a dramatic effect on the sector:

- Global air passenger numbers are not forecast to return to pre-pandemic levels until 2024; global hotel revenue per available room (RevPAR) is unlikely to return to pre-pandemic levels before 2023.
- Globally, the exhibitions segment alone saw revenues contract by nearly 70% between 2019 and 2020, with many venues converted into quarantine centres, testing centres or temporary hospitals.

Post-Pandemic Trends & Prospects

From summer 2021, signs of an appetite for traditional events, and indeed evidence of pent-up demand, began to return, with the opportunity for in-person networking and an atmosphere that is difficult to replicate online[2].

Here in the West Midlands, the bounce back began in earnest in the autumn, with the region's International Convention Centre and National Exhibition Centres hosting:

September 2021

The Railtex and Infrarail international exhibition of railway infrastructure) and PPMA (plant and works engineering conference) events, attracting more than 6,000 delegates in Sept 2021.

October 2021

The Leaders in Care Awards and IRX/EDX, the UK's premier internet retailing expo, in October 2021

October 2021

The Specsavers Annual Conference, attracting 2,000 delegates, and the Classic Motor Show, which attracted 63,000 visitors.

2022 to date

March 2022 Crufts, Mach 2022 (the aerospace sector annual conference), and the Kitchen Bathroom Buying Group (KBB) show, which between them have attracted more than 30,000 delegates.

[2]Source: ICCA, July 2020

Looking forward

Looking forward, the West Midlands welcomes the Birmingham 2022 Commonwealth Games in July and August, the Birmingham 2022 Festival from March to September and a range of major conferences and events, including the Volunteer Expo in May and the Conservative Party Conference in October. WMGC and its partners across the region have also landed:

- The British Association for Cardiovascular Prevention and Rehabilitation (BACPR) conference, which is expected to attract 300 delegates.
- The Rail Research World Conference, to be held in June 2022, which is expected to attract more than 1,000 delegates.
- The IWG World Congress Women in Sport to be held in 2026, again attracting more than 1,000 delegates.

Current uncertainties make forecasting of likely overall visitor volume and value difficult. That said, VisitBritain's forecasts of overseas visits and spend levels (which in the West Midlands are principally driven by the MICE sector) for 2022 indicate that:

- Visits and spend have increased from February onwards, with a gradual pick up in traveller confidence and flight bookings. Short haul markets and long haul regions such as North America and the Middle East are recovering strongest.
- By the end of the year, visitor volume and spend is likely to have recovered to around two-thirds of pre-Covid levels and by 2023-24 it should be back at pre-pandemic levels.

'Birmingham and the West Midlands is a modern, exciting and diverse destination, which remains a firm favourite among domestic and global organisers and delegates, thanks in no small part to its range of world-class event venues and fantastic connectivity.

'We have recently marked the 40th anniversary of our Convention Bureau and a huge year of opportunity thanks to major events such as the Birmingham 2022 Commonwealth Games, we are working hard to sell the region and its strengths to organisers across the world. We look forward to the spotlight being on the West Midlands and are eager to ensuring our visitors and delegates get the best – and safest – welcome.'

Steve Knight
Senior Business Tourism Manager, WMGC


ICC
SEA LIFE
BIRMINGHAM


Neil Rami
Chief Executive, West Midlands Growth Company
Dame Louise Martin
President of the Commonwealth Games Federation
Harjinder Kang
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Sally Balcombe
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The West Midlands
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ONE REGION MANY WORLDS
The West Midlands

QUARTERLY ECONOMIC DIGEST

Challenges and opportunities in a post-Covid world

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