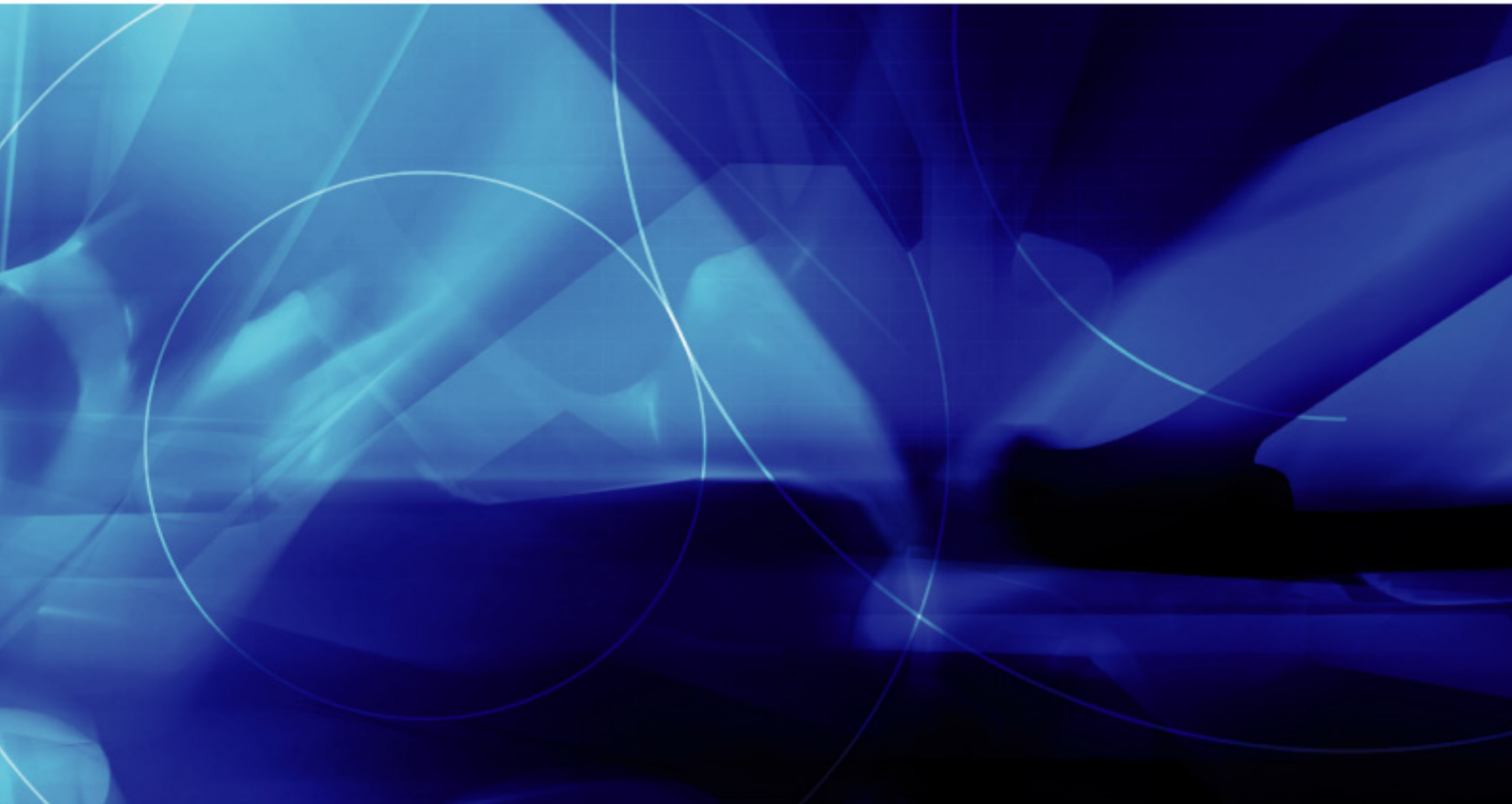




WARWICK INSTITUTE *for*
EMPLOYMENT RESEARCH



**Future Prospects for the West Midlands
Economy and Employment
*Summary Report***

Document Information

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Foreword

The West Midlands Regional Observatory (WMRO) was appointed by Advantage West Midlands to carry out three pieces of research (which have been called themes) which form a significant part of the evidence base for the review of the West Midlands Economic Strategy (WMES). The work uses existing data sources to analyse three important aspects of the regional economy. The three themes and the aspects they seek to analyse are: Theme 1: Regional Economic Context which looks at projections of the future for the region as a whole. Theme 2: Drivers of Productivity, which involves a detailed analysis of the region's current economic performance, and Theme 3: Functioning Economic Geography which considers the spatial patterns within the regional economy.

WMRO has chosen to work with academics from the region's universities on each theme in this project. We have done this in part because of their expertise in the fields under investigation and the credibility that they will add, but also because they can take the analysis further than WMRO alone could do under its remit to remain independent and focused solely on data and intelligence.

Our interpretation of the brief for Theme 1 presented two main aims for the work:

- 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.

We have worked with the Institute for Employment Research (IER) at the University of Warwick on this theme with WMRO's primary role being to run the model and IER's being to analyse and comment upon the outputs as well as review other relevant sources of information.

In addition to commissioning the three themes, WMRO have developed a summary of the outcomes, creating an integrated overview of the important issues raised in the evidence base. We have also reflected comments from regional stakeholder gathered during our consultations on this work. Collectively the output from this work forms the evidence base for the next stage of the WMES review, that of formulating and analysing policy options. It is expected that this next stage will involve the commissioning of additional research possibly to further investigate issues raised during our work

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Executive Summary

The Scope of the Report

This Report presents the findings of a study undertaken in support of the review of the West Midlands Region Economic Strategy (RES). The aim of the study was:

- to set out what is likely to happen in the region in economic, labour market and environmental terms over the next 10-15 years;
- to focus upon the possible implications for AWM policy interventions.

The approach adopted involved using the WMRO 'REEIO' model to develop a benchmark projection for the West Midlands economy. The results from REEIO were supplemented by a review and synthesis of other evidence.

It is important to stress that this project is only the first stage of the RES review process. It provides a broad commentary on the baseline projections.

The West Midlands Regional Economy

The West Midlands economy has, in the past, relied heavily on manufacturing and this has left the region vulnerable to foreign competition and the national shift from manufacturing to services. The economy of the region is still dominated by manufacturing which, in terms of output, remains the largest sector ahead of distribution, hotels and catering, non-marketed services and financial and business services. The occupational structure of the region reflects its industrial history and the region still has an above UK average proportion of the workforce employed in skilled manual trades, semi-skilled operative occupations and in unskilled or elementary occupations. As employment in manufacturing has declined, and that in service industries has grown, the importance of other occupations, such as managers, professionals and associate professionals has increased.

Challenges for the region and the drivers of change

The report identifies a number of challenges facing the region. These include:

- demographic change, including the ageing of the population and international migration;
- technological change;
- globalisation and trade liberalisation;
- environmental change; and
- changing government policy.

The challenges are evident in various aspects of the region's economy and labour market and, as a consequence, are impacting upon and driving change in a number of spheres. These include regional growth, productivity and competitiveness and workforce skills. Social exclusion and the environment are other aspects of the region in which the effects of these drivers of change are also felt.

Economic and employment prospects to 2015

There are mixed messages on regional economic performance vis-à-vis the national average, with the West Midlands performing relatively poorly in terms of output (GVA) but better in terms of consumer and investment expenditure. Employment is expected to increase over the period but not by as much as the increase in the size of the labour force, raising the prospect of increased unemployment in the region.

Overall, employment is projected to increase by around 88 thousand by 2015. This figure is the net result of a projected increase of 135 thousand employees in employment and a fall of 47 thousand in the number who are self-employed. Around 70 per cent of all net new jobs are expected to be on a part-time basis and this is as true of male employment as it is of female employment.

Manufacturing employment is projected to continue to decline (by 47 thousand jobs) despite growth in manufacturing output. This decline is almost 'across the board' with niche categories such as other transport equipment, manufacturing not elsewhere specified and chemicals not elsewhere specified, likely to experience any net increase employment. Employment in all other manufacturing sectors is projected to either remain static or decline with substantial reductions in employment in textiles, clothing and leather goods, rubber and plastics, non-metallic mineral products, basic metals, electrical engineering and instruments and motor vehicles. Mechanical engineering

and electronics, while not immune from decline, exhibit much smaller reductions in employment.

Regional output of services, and the associated employment, is expected to continue to grow during the period from 2006 to 2015. Substantial employment growth is expected in parts of business and professional services but employment is likely to remain static or even decline in insurance and banking and finance. Employment increase is also expected in the non-marketed services sectors where such growth will be concentrated in health and social services and, to a lesser extent, in education. Public administration and defence employment, in sharp contrast, is projected to decline by a small amount.

Despite strong growth in 2001-2006, construction employment is expected to fall by 17 thousand by 2015 (mainly in the period from 2006-2011). Distribution, hotels & catering are of key strategic importance to the region and employment in this sector is projected to increase steadily during 2006-2015, amounting to about an extra 40 thousand jobs by the end of the period. Transport and communications is a major contributor to regional GVA and has seen the fastest rate of sectoral growth of all the English regions. The strongest growth has been in air transport and transport services. Despite the changes expected within the sector, the level of employment expected to remain static over the ten years up to 2015.

The number of people employed in occupations associated with manufacturing, such as skilled manual trades and semi-skilled operatives, will continue to decrease while the number of people employed in the region as professionals, associate professionals and managers is projected to rise. Analysis of net requirements for labour over the period, however, suggests future job opportunities in all occupational groups will arise as a consequence of replacement demand. Projections of future employment in the region point strongly to the need for a more highly skilled and qualified workforce and fewer opportunities for those without skills or qualifications.

Key findings and conclusions

Challenges for the region

The main issues and challenges identified in this report are as follows:

Productivity: there is a widening of the productivity gap between the West Midlands and the national average. There is scope for increasing employment rates in some parts of the region and for some sub-groups of the population, but it is likely that the main emphasis in increasing productivity will need to be on ensuring that the average productivity levels for jobs in the region are increased.

Skills: the region lags behind the national average on a range of skills and associated education and training indicators. The projections show that the changing structure of employment favours higher level non-manual occupations and a range of generic skills. There will be fewer opportunities in the future for people with low level skills. A key question for the region is thus whether labour supply can meet the challenges posed by economic change?

Labour supply: The West Midlands faces the challenges of an ageing population. Historically, there has been less investment in skills amongst older people than younger ones. This will need to change if productivity is to be maintained and enhanced. International migrants have played an increasingly important role in addressing skill shortages in the region. However, it is questionable whether the West Midlands can sustain its relative attractiveness to international migrants and it is important that use of international migrants does not divert attention away from dealing with fundamental workforce development issues.

The importance of demand: Addressing the productivity and skills challenges is not only about investing in skills. The demand side is important too. In order to move towards a higher value added economy, a greater focus on product and process innovation in making and delivering goods and services is needed. Associated with this, employers need to be encouraged to be more demanding about the skills that they require and utilise.

Globalisation: In the context of globalisation the West Midlands faces increasing external competition. Moreover, the speed and reach of change is such that the adaptive capacity of both the regional economy generally, and the individuals within it, will need to improve in order to compete. Investing in skills is once again a key factor here, as is innovation. It is important to recognise that globalisation provides opportunities as well as challenges. Management, leadership, technical and marketing skills need to be in place to ensure that these opportunities are grasped.

Manufacturing ... and diversifying the economic base: Historically manufacturing has been the mainstay of the West Midlands economy. The projections highlight the continued significance of this sector to the region – particularly in output terms. But employment continues to decline, although replacement demands mean that there are also opportunities for labour market (re)entrants. There is a potential mismatch between replacement demands in manufacturing and the numbers of young new entrants to the labour market prepared to work in this sector. The low value parts of the sector are the most vulnerable to competitive pressures. Investment in higher value manufacturing is important, as is the continuing development of services in order to enhance the adaptive capacity of the region's economic base. Promotion of entrepreneurship also has an important role to play.

Realising potential: The projections presented here focus on the regional level. However, the trends outlined will not have an even impact across local areas and population sub-groups. In order to enhance productivity, social cohesion and sustainable development it is important that account is taken of such intra-regional variations.

The Environment: The projections presented here also include some initial estimates of implications for the environment. They show increasing energy use, water use and waste arisings. The direction of these is not in line with regional, national and international policy goals. The REEIO model projects what may happen without additional intervention. Therefore it highlights the need for additional intervention to achieve energy, waste and water use targets. There are clear energy (CO2 emission) reduction targets but no clear targets for water or waste (as a whole), although in general terms there are aspirations to reduce waste and water use. The results highlight the need for regional partnerships to input to the RES review process in order to suggest region specific actions (on top of national policies) which should be put into the RES review process (and possibly the final RES) to help move towards the targets (or aspirations for improvement) that exist in this policy area.

Scope for intervention

The report emphasises that many of the key drivers of change lie outside the control of those in the region. Demographic change, technological change, globalisation, environmental change and national government policy (to name but a few) will to a large extent shape the future. However, the projections described here are not inevitable. By changing patterns of behaviour and performance, alternative, better outcomes may be achieved. Policy makers within the region have a range of instruments that they can deploy to achieve such changes. These include measures to increase “attractiveness” of place (for both individuals and investors), measures to enhance accessibility and procurement.

Issues for further investigation

The forecasts presented in the report outline a ‘business as usual’ trajectory for development, assuming a continuation of recent patterns of behaviour and performance. They are based on official data and do not reflect the impacts of planned regional and sub-regional developments that could have consequences for output and employment. Having established this benchmark view, it is now possible to supplement the present exercise by developing a set of alternative scenarios building on the economic theme, including, for example:

- a high skills high productivity scenario;
- a low skills pessimistic one.

In each case, implications for the economy, the labour market and the environment could be highlighted. There is also the possibility of exploring alternative environmental assumptions, looking at:

- the impact of economic growth or demographic change on waste generation;
- the impact of increased use of renewable energy sources;
- the impact of changing transport modes, etc.

Alternatively, a ‘backcasting’ approach may be used, where one or more desired futures are identified, and policy actions needed to achieve these images of the future are outlined.

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