Birmingham Economic Review 2016

Part 1: The Structure and Geography of the Economy of Birmingham
We are pleased to be partnering with City-REDI (the City Region Economic Development Institute) and the Marketing Birmingham Regional Observatory on this new report examining the economy of Birmingham.

As we work our way through this period of uncertainty following the EU referendum, it has never been more important for us all, business community, public sector and beyond, to have a clear understanding of our city and how it relates to the regional economy.

This need is accentuated by the emergence of new, regional bodies aiming to tackle challenges and maximise opportunities in an ever more joined up way; such as the West Midlands Combined Authority, Midlands Connect and the Midlands Engine.

City-REDI, and the Birmingham Business School at the University of Birmingham that it is a part of, have been the driving forces behind the analysis in this report. It is primarily thanks to their knowledge and expertise that we have this valuable addition to the evidence base, setting out the strengths and challenges facing our great city.

For our part, the Greater Birmingham Chambers of Commerce, remains as ready now to champion the business community as we did when we were founded in 1813.

Today’s Chamber represents over 2,500 members of all sizes and sectors and exists to help connect, support and grow local enterprises. Our members, some of whom feature in this report, form the bedrock of our communities through jobs creation and civic leadership.

Many of us in the business community feel as though Birmingham’s time has come. National media coverage of Birmingham has begun to reflect the city’s status as a world class place to live and work. Barely a week goes by with a report of a new organisation choosing to move to or increase its investment in Birmingham. With the high profile move of HSBC UK to Arena Central and the opportunities represented by HS2 on the horizon, our city’s renaissance is truly in full swing.

This report highlights that there is much that we can be proud of as a city. But no city is without challenges. We hope to promote a shared understanding of what those challenges are, so that we, alongside many other organisations in the city, can stand ready to help play a part in finding a solution.

Paul Faulkner
Chief Executive of the Greater Birmingham Chambers of Commerce
Welcome to the 2016 Economic Review of Birmingham, produced jointly by the Greater Birmingham Chambers of Commerce and City-REDI (the City Region Economic Development Institute), which is part of Birmingham Business School at the University of Birmingham.

Birmingham is our regional capital and the UK’s second largest city. A thriving metropolitan centre with a growing population of over one million and economic output of over £23 billion. This review gives a clear and comprehensive analysis of Birmingham’s economy, labour market and industry structure. It maps a wide range of economic data and key indicators to help us answer some critical questions.

To support firms in the region and maximise economic growth we need to better-understand our unique regional economic assets, the kinds of firms located here and our skills and capabilities. What is distinctive and different, attractive and unattractive about Birmingham relative to other UK (and global) city-regions? How do these differences underpin specific competitive strengths that we can build on and weaknesses that we must overcome?

Answers to these questions will form the basis of a stronger industry strategy, help local managers leverage our regional assets to grow their firms, and help us attract more business to the region. They will also help policymakers provide more precise and effective forms of enterprise support, to improve our growth prospects and turn our latent, potential competitive advantages into real growth, jobs and well-being for the people of Birmingham.

Our review is published in a post-Brexit context of uncertainty which poses a wide range of political, social and economic challenges. The current renaissance of the city-region, under a strong regional coalition of businesses, policymakers and anchor institutions, like the University of Birmingham, provides the foundations for us to succeed in this environment. An aspirational regional growth agenda, based on clear empirical evidence and robust analysis provides a key focus for this coalition and we are pleased to be contributing to this agenda.

I hope you find it informative and useful.

Professor Simon Collinson,
Deputy Pro-Vice-Chancellor for Regional Economic Engagement and Director of the City-Region Economic Development Institute (City-REDI), Birmingham Business School, University of Birmingham
Executive Summary

This report provides an analysis of the current state of Birmingham's economy and labour market and how this may change and develop in the future. This section forms the executive summary of three reports focusing on:

1) The Structure and Geography of the Economy of Birmingham
2) Workforce and Skills in Birmingham
3) Enterprise and Business Opportunities in Birmingham

Outside of London, Birmingham is the largest city economy in the UK. It is the West Midlands’ regional centre of business, retail, leisure and culture. It is also the regional heart of employment with almost half a million people working in the city. Birmingham has a growing reputation as a location of international business. The city economy performs well on a number of measures. Economic output is growing and reached £23.2bn in 2014.

Birmingham has an advantage compared to many other areas of the UK due to its geographical position. The city is within four hours travel time of 90% of the UK’s population and business. It is located at the hub of the UK’s motorway and rail network, and is home to Birmingham Airport, the third busiest UK airport outside of London and the South East. The city’s advantageous geographical connectivity brings significant growth opportunities for the local economy. This is highlighted by and enhanced by recent investment in Birmingham airport, New Street gateway, city centre Metro and Birmingham Airport. This will further increase national and international connectivity.

As an employment centre within the West Midlands and a core city, Birmingham's economy and labour market sits at the heart of a set of complex interlinked relationships with its neighbouring areas that together form the wider functional economic geography of the area.

Its labour market links are particularly strong both in terms of providing employment for residents of neighbouring areas within the city and in terms of Birmingham residents commuting to neighbouring areas for work. When positioned next to the city’s fairly low employment rate, the high level of people who commute into the city suggests an imbalance in the local labour market between residents’ skill levels and jobs based in Birmingham.

Nevertheless, the city possesses strong innovation resources and networks. It offers five universities with internationally recognised research facilities in areas such as engineering, creative industries, low carbon fuel technology and medical sciences.
Demographic Profile of Birmingham

One of the key drivers of the economy is population growth, especially working-age population. The latest data available, for 2014, showed that the total population Birmingham was 1,101,360 million.

Birmingham's working age population has relatively low rates of economic activity and employment and high levels of unemployment. Low levels of economic activity and employment and high unemployment tend to be concentrated in the inner city and some deprived outer city estates.

- 714,556 aged 15-64
- 235,226 children under 16
- 142,548 65 and over

Chart 1: Population Change over Time

Source: ONS Crown Copyright, Mid-year Population Estimates

From 2001 the figures in Chart 1 show a continual growth in the population of Birmingham, but more recently this appears to have stabilised with figures indicating slower growth. The population level aged 18-24 increased over the past ten years, partly due to growth of the city's three universities, but there was a significant drop in those aged 25 to 44 years. Nevertheless, the city is the youngest major city in Europe, with under 25’s accounting for nearly 40% of its population. There is also a gap that exists in terms of the proportion of 30 to 44-year-olds living in the area. This is especially significant as people in that age group might be expected to play a big part in increasing entrepreneurship. The challenge is to encourage greater retention of university graduates as well as more inward migration.
Birmingham Key Statistics

A number of datasets provide information about Birmingham’s economic performance, including levels of employment, self-employment, part time, full time levels and overall economic activity. Much of this data comes from the Annual Population Survey 2015.

The Annual Population Survey (Table 1) estimated that 67.7% of those aged 16-64 in Birmingham were economically active – this is below the UK as a whole and below many comparable areas. Likewise, self-employment is also behind national levels.

Table 1: Employment and Unemployment (Jan 2015- Dec 2015)

<table>
<thead>
<tr>
<th></th>
<th>Birmingham (numbers)</th>
<th>Birmingham (%)</th>
<th>Great Britain (%)</th>
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<tbody>
<tr>
<td>Economically Active</td>
<td>481,300</td>
<td>67.7</td>
<td>77.8</td>
</tr>
<tr>
<td>Employment Rate</td>
<td>437,600</td>
<td>61.5</td>
<td>73.6</td>
</tr>
<tr>
<td>Employees</td>
<td>376,500</td>
<td>53</td>
<td>63.1</td>
</tr>
<tr>
<td>Self-employed</td>
<td>59,100</td>
<td>7.9</td>
<td>10.2</td>
</tr>
<tr>
<td>Unemployed</td>
<td>45,300</td>
<td>9.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Claimant count</td>
<td>29,710</td>
<td>4.2</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: ONS, Annual Population Survey

Gross Value Added (GVA) is the most commonly used measure of economic output. Birmingham’s economic output totalled £23.2bn in 2014. In the same year GVA per head in Birmingham was £21,093. In most of the core cities, GVA per head has fallen relative to the national average since 1997. In those cities where there has been a fall, most of the fall has occurred since 2003.

An important aspect of developing the economy, both in terms of higher levels of GVA and higher job numbers, rests in developing the skills of the population. Chart 3 represents how Birmingham is above the national average for no formal qualifications but below average for all qualifications above and including NVQ1. It has a relatively low proportion of highly skilled residents. This suggests a ‘skill gap’ in the city, with the working age resident population of the city not holding the necessary skills to fully meet the skills requirements of employers in the city. This manifests itself in Birmingham being a large importer of workers from outside the city. This should not detract from the significant improvements made within the city over the past five years, dramatically raising the skills of pupils leaving secondary school and significantly reducing the number of 16 -24 year olds claiming unemployment benefits; a Birmingham City Council report released in July 2016 highlighted that the number of young claimants had fallen from 14,450 to 5,965 between 2012 and 2016.
Median gross weekly pay for full-time workers in Birmingham in 2015 was £488.20. This figure is a 1.9% increase on 2014. It is below the UK figure of £527.70 which saw a 1.8% increase from 2014.

Data on business births also give an indication of Birmingham’s economic performance through enterprise and innovation. 2014 saw 5,295 business births in Birmingham. Whilst this figure is constant with 2013 levels, there has been a 43% increase in business births since 2009.

Data highlights that Birmingham has a large number of business start-ups, more than any other city outside of London, however only 36.3% of businesses survive beyond five years. Statistics also highlight that 7.9% of Birmingham’s working age population is self-employed; less than the 10.2% national average.

Looking at the different sectors and industries within the city lets us consider their importance to the local economy. The analysis reveals that Birmingham has a much greater specialisation than national in jewellery manufacture, automotive, activities auxiliary to insurance and pension funding, and legal activities.

Birmingham’s visitor economy has grown in recent years. Visitor numbers increased 2% between 2014 and 2015 to reach 38 million. This was 16% higher than 2010. Data also shows that Birmingham attracted 51 inward investment projects in 2015/16; 74% more than 2011/12.
We frequently hear that Birmingham is the youngest city region in Europe; that we’re adding more jobs to our economy than France; even that we have more canals than Venice. However, understanding what these things actually mean for the city is difficult.

This report looks to dig beneath the general understanding of our city’s economy to better explain our current position and the challenges we face, what makes our city unique, and the opportunities ahead.

Given the disruption and uncertainty instigated this year by the EU Referendum, the GBCC believes that now is a perfect moment to take stock so that we may look forward with confidence and define our own future. The statistics presented in this executive summary are a useful starting point for this exercise.

Looking at Birmingham’s demographics provides us with a perfect example of how the city’s challenges and opportunities are often interlinked. Such a large population of Under 25s in the city is incredibly exciting because these young people will become the workforce of tomorrow and represent a great amount of potential. However, we need to understand this aspect of our city with relation to the current issues we have with skills and unemployment.

Our unemployment levels are still unacceptably high compared to national averages and the other core cities. As of August 2016, Birmingham’s claimant rate was 6.3%. The next highest rate was in Liverpool at 5.1%. Understanding this in real terms is even more important considering how much larger Birmingham’s population is than other cities. To put this into perspective, Birmingham has around 23,300 people claiming Job Seekers Allowance compared to Manchester’s 6,000.

A young population is only an asset if we are able to equip them with the skills and opportunities they need to thrive as they enter the local workforce. In practice, this means closing the gap between business and education to help develop our skills base, becoming more attractive to graduates so that we retain talent in the city, and working together to address unemployment and skills gaps across Birmingham.

The city has made good progress in many of these areas, including strong performance on youth unemployment; however there is still a great deal of work to be done.

Elliot Mason
Policy & Patron Advisor at the Greater Birmingham Chambers of Commerce
Key Challenges and Future Opportunities

Post EU referendum, already challenging macroeconomic conditions have become more unpredictable. The main areas to watch are:

Trade: The EU is the largest trading partner for the UK, and with demand from emerging markets and China slowing the outcome of tariff and non-tariff barriers, the trade in services and renegotiation of trade deals outside the EU will all lead to uncertainty in export markets.

Foreign Direct Investment: membership of the EU is one of many factors affecting investment, outside the EU the UK could create a system of regulation more attractive to foreign investment and more beneficial to UK, the parallel fall in sterling could also help create favorable conditions.

Migration: skilled migrants have a significant impact on business and growth, currently and future changes to immigration policy could restrict that movement, at all levels of skills. This could lead to labour shortages in an already tight market. The sectors most affected are likely to be hotel and food, manufacturing and admin and support.

Business: the EU legislates in a number of areas and we have yet to understand how these areas will be affected, these include; product specification; competition; employment terms; health and safety; and consumer protection. If the UK leaves the EU it will be free to regulate businesses as it seems fit, however businesses that export to the EU will still have to adhere to EU laws.

Overall the economic conditions globally were challenging, and have been shaken by the referendum; however the underlying issues and opportunities within the city region remain the same.
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This report provides an analysis of the current state of Birmingham's economy and labour market and how this may change and develop in the future. This document focuses on 'The Structure and Geography of the Economy of Birmingham'. It gives an overview of the national context to show how Birmingham is situated within this. It then explores the spatial economy of Birmingham through transport, commuting patterns and the geography of industry. It also analyses the economic structure of the city.

Introduction

166,272 people commute into Birmingham

3000 jobs were created by the redevelopment of New Street Station

£4 billion per annum - the expected contribution of HS2 to the local economy

10.2 million passengers travelled through Birmingham airport in 2015

23% Public administration, education and health accounts for this percentage of economic output in the city
The national context has been characterised by low inflation, moderate GDP growth, and rising employment. It has also seen a widening of the UK’s deficit on trade in goods and services and little change in take-home pay. In order to understand the current economy of Birmingham it is necessary to consider the national context.

**Consumer Prices Index**

In the UK, the Consumer Prices Index (CPI) rose to 1% in the year to September 2016. The rate has increased gradually since October 2015 although is still relatively low in the historical context.

**Gross weekly earnings for all employees**

In 2015, the median gross weekly earnings for all UK employees was £425.80 which saw a 1.85% increase from 2014.

**Gross Domestic Product**

Change in gross domestic product (GDP) is the main indicator of economic growth. GDP is estimated to have increased by 0.6% in Q2 2016 (April to June) compared to growth of 0.4% in Q1 2016 (Jan to March). Looking back to Q2 2015, GDP has grown by 2.2%.

**The UK’s deficit on trade in goods and services**

**Table 1: UK Trade**

<table>
<thead>
<tr>
<th>Date</th>
<th>Balance of trade in goods</th>
<th>Balance of trade in services</th>
<th>Total trade balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EU</td>
<td>Non-EU</td>
<td>Total</td>
</tr>
<tr>
<td>2015 Jul</td>
<td>-7.1</td>
<td>-4.2</td>
<td>-11.3</td>
</tr>
<tr>
<td>2016 May</td>
<td>-7.8</td>
<td>-3.6</td>
<td>-11.4</td>
</tr>
<tr>
<td>2016 Jun</td>
<td>-8.2</td>
<td>-4.7</td>
<td>-12.9</td>
</tr>
<tr>
<td>2016 Jul</td>
<td>-7.6</td>
<td>-4.2</td>
<td>-11.8</td>
</tr>
</tbody>
</table>

Source: Office for National Statistics

Table 1 shows that the UK’s deficit on trade in goods and services was estimated to have been £4.5 billion in July 2016. This represents a narrowing of £1.1 billion from June 2016 which largely reflects an £0.8 billion increase in the export of goods between the two months.

Between Q1 and Q2 2016, the UK’s total trade deficit widened by £5.1 billion to 14.1 billion (Chart 1). This is the widest deficit since Q4 2013.
Employment

Chart 2 highlights that in Q2 2016 there were 32.17 million economically active 16-64 year olds in the UK. This has gradually increased since Q3 2015. The number of inactive people has fallen by 124,000 in this time period. In June 2016 the UK inactivity rate was 21.6%, the joint-lowest since records began.

During this time the number of people in work increased from 30.04 million to 30.54 million. In June 2016, 74.5% of people aged between 16-64 were employed. This is the highest level since records began in 1971.

Proportion working full or part time or self-employed

In June 2016 there were 23.22 million people working full-time, which is a 374,000 increase from June 2015. There were 8.53 million people working part-time, 231,000 more than the previous year.

Unemployment rate

Since Q3 2015, the number of unemployed people aged between 16 and 64 has fallen from 1.73 million to 1.62 million. This equates to an unemployment rate of 4.9% (Chart 2).

Claimant figure

In June 2016 there were 759,100 people claiming unemployment related benefits. This consisted of 590,200 people claiming Jobseeker’s Allowance and 168,900 people claiming Universal Credit.

Chart 3 shows that the UK Claimant Count rose steadily between February 2016 and June 2016 although it plateaued between May and June.
Birmingham has tended to reflect these national trends. For more detailed analysis of employment trends in Birmingham see Part 2 of this publication: Workforce Skills in Birmingham.

Chart 2: UK Labour Market Conditions

![Chart 2: UK Labour Market Conditions](image)

Source: ONS, Labour Market Statistics

Chart 3: Seasonally Adjusted Claimant Count (millions)

![Chart 3: Seasonally Adjusted Claimant Count](image)

Source: ONS, Labour Market Statistics
Birmingham is the second largest city in the UK and employs over 45,000 people in financial and related professional services offering local, national and international clients a wealth of locally accessible expertise. The city is also home to around 200 law firms and according to the Birmingham Law Society there are currently over 1,200 solicitors registered with The Law Society within 25 miles of Birmingham. All of the large national UK law firms have offices, and firms such as Pinsent Masons can trace their roots back to Birmingham.

In addition to this vibrant legal sector the city boasts a wealth of banking specialists (to be bolstered by HSBC moving its retail bank HQ to the city in 2018), and many top accountancy firms including strong offices of the Big 4, who run many global audit relationships from Birmingham.

Birmingham is regarded as a centre of legal excellence, and is one of the largest legal centres in the UK outside London. The unprecedented infrastructure spend in the city over the last few years and over the next decade (Grand Central; HS2; Paradise Circus; Arena Central; and Curzon Street to name just a few), will provide significant work and growth for the larger local law firms.

London headquartered law firms increasingly invest in regional cities, gaining from lower costs for premium office space and salaries for skilled staff. Birmingham has the double advantage of non-city costs yet close proximity to the London market. Long-haul flights from Birmingham Airport also open up further international client opportunities. The arrival of HS2 will provide shorter commuter times than many people currently living in the South East. This will increase the importance of Birmingham as a centre of professional services excellence.

Key drivers of change in the legal services market are the economy/business environments, new entrants, how clients purchase legal services, technological advances, government policy around funding and regulation.

Greg Lowson
Head of Birmingham Office, Pinsent Masons
While this review focuses on Birmingham itself, economic activity does not stop at local authority boundaries. An assessment of the linkages within the city and between neighboring areas provides useful insight into Birmingham's wider economic role as well as internal economic and labour market dynamics. The quality and speed of linkages between areas (connectivity) are key factors that drive economic performance. The role that locations play within a given area are influenced by connectivity.

Transport

Birmingham is served by a range of key transport infrastructure. Birmingham International Airport is in close proximity and provides a gateway to a range of international destinations. Key rail and road links include:

• London Midland Trains, Virgin Trains and Cross Country provide direct services to London and the South West, the West Midlands, Scotland, the North West and Yorkshire.
• The M6 provides access to the North West
• The M5 provides access to the South West
• The M42 provides access to the East Midlands
• The M40 provides access to the South East

Looking forward, improving connectivity across the functional economic area whilst satisfying the expected increase in demand on the area's road and rail network presents a significant challenge. In order to tackle this, there are a number of major infrastructure schemes in the area that should significantly enhance connectivity across the functional economic area and to other parts of the UK and internationally.

Birmingham New Street Station

In September 2015 a £600 million refurbishment of Birmingham New Street Station was completed to accommodate increased passenger numbers as well as expected future growth in traffic. The station also includes the Grand Central shopping complex. The project created around 3,000 jobs and is expected to boost regional economic output by £3bn a year.

High Speed 2

High Speed 2 is potentially the most significant transport infrastructure project in the UK since the motorways were built in the 1950s and 1960s. HS2 will have a substantial impact on the economic and transport environment in Birmingham and its surrounding areas. In February 2016 the headquarters of HS2 were opened in Birmingham city centre. Up to 1,300 will be employed at the premises. Phase One, under which trains would run from Curzon Street, Birmingham, is due to begin in 2017 and is earmarked for completion in 2026. It is expected to reduce rail times between Birmingham and London by 32 minutes. Connections to Crewe are expected to open in 2027, with lines to Leeds and Manchester planned for completion in 2033. The £50bn project will be one of the largest civil engineering projects ever undertaken in the UK. It is estimated that the project could create 104,000 jobs in the West Midlands area and bring £14bn additional economic input.

The project is expected to have significant economic benefits for the local area attracting new business and investment to the city as well as enabling existing businesses to benefit from greater connectivity with London and other major UK cities and markets on the continent. The new station to be built in Birmingham city centre will also help to transform the Eastside area of the city centre stimulating regeneration in this part of the city.
Midland Metro

Work to extend the Midland Metro into Birmingham city centre has recently been completed and has significantly improved links between the Black Country and Birmingham city centre by connecting to the National Rail network at New Street (Birmingham Gateway). It is thought that it will add £50 per year to the region's economy and create around 1,500 jobs. Further extensions to the network are planned. These will provide transport through some of the most deprived local areas, improving access to jobs and services for residents as well as attracting new business and developments to these areas.

Birmingham Airport

Birmingham Airport is one of the largest employers in the West Midlands. Over 8,000 people are employed either on-site or within its immediate vicinity and are engaged in activities relating to the operation of the Airport and air services. In 2014, the Airport delivered approximately £11 billion to the regional economy and £1.7 billion to the national economy. This will have only increased as passenger numbers have risen. 10.2 million passengers travelled through Birmingham airport in 2015, 5 per cent more than the previous year, however this is still considered to be an under-utilisation of one of the area's most significant economic drivers.

The three year runway extension project opened in summer 2014. This allowed aircraft to carry more fuel and fly further. It brought with it new direct long-haul destinations for the first time. These routes cater to both business and leisure travellers. Between 2015 and 2014 long haul traffic increased by 21.4 per cent due to greater capacity from Birmingham to destinations such as Dubai, Delhi and Amritsar.

Over £300 million has been invested in the Airport over the past 10 years, including in an extended and full-length runway for serving global destinations. This opened in 2014. The runway extension gives the airport the capacity to increase its passenger numbers and as a result the economic impact of Birmingham Airport is eventually expected to rise to 19,000 full time equivalent jobs and £824m of annual economic output by 2030. The airport would like to add a second runway but to date plans for this have been rejected.
Data is available (now somewhat dated - but nevertheless the message remains relevant) that allows an analysis of commuter flows and flows of people engaged in leisure and retail activities. As the labour market has changed over the past few decades, so have commuting patterns with more people travelling longer distances to access employment opportunities.

People are more likely to commute if employment is available that pays a higher wage than that which is available locally and covers the cost of the commute. There is some data to support this. Workplace earnings are generally higher in key commuting destinations.

**Chart 4: In - Commuting to Birmingham**

Source: ONS Census, 2011
Chart 5 shows a detailed analysis of where Birmingham residents work. It highlights the significant contribution they make to the local labour markets of the surrounding authorities. As with the in-commuting patterns identified earlier the strongest out-commuting links are with Solihull, where nearly 26,500 Birmingham residents work. Again strong links are evident with Sandwell, Walsall, North Warwickshire, Bromsgrove, Coventry and Dudley.
The following charts display the geographical concentration of industries in Birmingham and the surrounding authorities of the Combined Authority. They use the measure of location quotients. The data used has been derived from the Business Register and Employment Survey. A location quotient of 1.0 indicates that the local share of employee jobs in an industry is equal to the local share of total employee jobs. A location quotient greater than 1.0 therefore indicates a relative concentration of the industry in the geographic area.

If spatial concentration occurs in an industry, it reflects the fact that individual firms must see the benefits of such co-location as greater than the costs. This applies whether the spatial concentration is in the form of an industry cluster or an urban agglomeration. The benefits of spatial concentration occur through increased productivity, due to a number of spillover effects usually labelled ‘agglomeration economies’. There are also costs associated with spatial concentration, particularly costs of congestion and increased land prices. Because of this balance of benefits and costs, it is not always clear what the optimal level of spatial concentration is, either within a specific industry or over the whole economy. The balance will vary by industry and location. To an individual spatial concentration matters because the spatial pattern of employment across industries influences the economic opportunities available in the area in which they live. To a policy maker, spatial concentration is of interest because of the positive productivity benefits to the economy that spatial concentration can produce. There may also be an interest in any impacts on spatial inequalities across the economy.

To summarise, the industries located in Birmingham in a significant concentration are:

- Administration and Support Services
- Health and Social Work
- Finance and Insurance
- Public Administration and Defence
- Transport and Storage

It is important to note that this data represents the concentration of number of enterprises by sector across the West Midlands Combined Authority. It does reflect the size of enterprises or their contribution to the economy.

The presence of Administration and Support Services (Chart 6) is significant within the city of Birmingham. It is equally significant in Solihull, Wolverhampton and Coventry.

**Chart 6 - Distribution of Administration and Support Services**
Transportation and Storage are significant industries in Birmingham and the surrounding central authorities of Solihull, Sandwell and Walsall (Chart 7). This reflects the highly developed transport infrastructure within Birmingham and the surrounding authorities that serve it. Health and Social Work (Chart 8) are significant in Birmingham, along with a number of other local authorities of the West Midlands.
The UK’s automotive industry has been one of the ‘star performers’ of the UK economy in recent years. Birmingham and the wider region is at the heart of this thriving sector which has attracted so much inward investment in recent years and which has led the way in driving export growth.

Not surprisingly, the Brexit vote and its aftermath has the potential to play out in different ways. For example, any slowdown in economic growth (still penciled in by the OECD for next year) is likely to impact on car sales in the UK.

Meanwhile, on the currency front, the UK saw a significant depreciation in the value of sterling after the Brexit vote. For UK based auto assemblers, this depreciation should boost exports.

So ‘output up but domestic sales down’ seems the immediate likely impact on UK auto.

At the same time, though, imported cars and components will become more expensive. This is an issue as on average around 60% of the components going into a UK assembled car are imported. Higher import prices were a contributing factor to Shanghai Automotive deciding to cease production at Longbridge. By August the exchange rate depreciation was already feeding through into inflation, especially in relation to imported components and factory input prices.

Looking forward, if sterling settles down at the new lower level, this could push opportunities for reshoring further. These short terms opportunities on exports and reshoring are, however, offset by the huge uncertainty over the nature of the UK’s trading relationship with the EU. That uncertainty has the potential to impact on foreign investment in the UK auto sector, especially when auto firms are looking to replace models. Plants and jobs could be at risk if that uncertainty isn’t ‘nailed down’ as quickly in the form of clear parameters for a trade deal.

So far the government has failed to commit to prioritising Single Market access when Article 50 negotiations get started. That needs to change.

David Bailey
Professor of Industrial Strategy, Aston Business School
Whilst manufacturing (Chart 9) is shown to be present in a lower concentration in Birmingham, it is highly significant in neighbouring authority Sandwell. It is also significant in Walsall, Wolverhampton and Dudley forming a manufacturing cluster in the Black Country to the west of Birmingham. The construction industry (Chart 10) is shown to be present in a lower concentration in Birmingham. It is significant, however, in Dudley, Sandwell and Solihull.

Chart 9 – Distribution of Manufacturing

Chart 10 – Distribution of Construction
Finance and Insurance (Chart 11) are also significant in Birmingham. With Coventry being the only other local authority of the West Midlands Combined Authority to have a significant concentration of this industry.

Chart 11 - Distribution of Finance and Insurance

Chart 6/7/8/9/10/11 Source: ONS
Wesleyan has been at the heart of Birmingham’s financial services sector for 175 years. We have seen the sector flourish and it continues to do so with the anticipated arrival of HSBC UK’s Head Office in 2017.

There are many reasons why Birmingham is an attractive destination for companies like ours. Its place at the centre of the UK, with excellent transport links and a growing infrastructure, including the HS2 development, means Birmingham is well-located for doing business nationally and also attracting staff from a wide pool.

We consider the growth of the financial services sector in the city as an opportunity as it will create a wider set of skills and experience on which to draw. We will however have to work harder as a sector to attract and retain talented people. Wesleyan has invested in growing its own talent and, in partnership with Birmingham Metropolitan College, created an apprenticeship programme that has seen over 50 apprentices join the company in recent years.

The decision to leave the EU has inevitably cast some doubt on business confidence within the industry. We are better placed than many to weather this uncertainty, as we have a strong capital position. However, we are not complacent as to the issues this may bring and look forward to receiving more clarity as the Government agrees a plan for Brexit.

A key challenge faced by our industry, not just in Birmingham but nationally and even internationally, is the pace of technological change. This is impacting both how businesses use technology to improve processes and efficiencies and how consumers interact with businesses. Banks have led the way in this area but insurance and investment companies are catching up. The use of innovative new technologies presents a significant opportunity to lead change and increase market opportunities.

Ahmed Farooq
Chief Financial Officer, Wesleyan
Birmingham does not have a significant concentration of Wholesale and Retail Trade Industries (Chart 12). They are significant in Walsall, Sandwell and Dudley, adjacent to the city. It does, however, have a highly significant concentration of Public Administration and Defence (Chart 13), and along with Wolverhampton, is the only authority in the Combined Authority to have a significant concentration of this industry.

**Chart 12- Distribution of Wholesale and Retail Trade**

**Chart 13 - Distribution of Public Administration & Defence**
Both Accommodation and Food Services (Chart 14) and Professional, Science and Technical (Chart 15) only show significant concentrations in Solihull. This can perhaps be used to explain the high commuting flows to Solihull.

**Chart 14 - Distribution of Accommodation and Food Services**

**Chart 15 - Distribution of Professional, Science and Technical**

*Chart 12/13/14/15 Source: ONS*
As has been the case with a number of large regional cities in the UK, Birmingham’s strong economic performance in the last few years, boosted by record levels of inward investment, has led to strong demand for both office and industrial property. Office rental values have grown strongly and are higher than in all regional cities except Manchester and industrial rents and land values are the highest in the country.

High quality sites and premises are now in short supply in the city, however, with the supply of grade A office space now running out. A new tranche of strategic employment sites has been identified across Birmingham and the wider area and bringing these forward for development is now an urgent priority.

Table 2: Office and Industrial Property Costs

<table>
<thead>
<tr>
<th>OFFICE</th>
<th>Grade</th>
<th>Grade</th>
<th>Grade A growth</th>
<th>Grade B growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manchester</td>
<td>£35.00</td>
<td>£24.50</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Birmingham</td>
<td>£32.50</td>
<td>£22.50</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>Newcastle</td>
<td>£23.00</td>
<td>£15.00</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>Liverpool</td>
<td>£21.50</td>
<td>£12.50</td>
<td>26%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Office Rents Map, Colliers

<table>
<thead>
<tr>
<th>INDUSTRIAL</th>
<th>Prime Rent</th>
<th>Land Value per Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Big shed 200k sqft+</td>
<td>Small shed 10-30k sqft</td>
</tr>
<tr>
<td>Birmingham</td>
<td>£5.75</td>
<td>£5.75</td>
</tr>
<tr>
<td>Manchester</td>
<td>£4.75</td>
<td>£5.75</td>
</tr>
<tr>
<td>Liverpool</td>
<td>£4.50</td>
<td>£5.25</td>
</tr>
<tr>
<td>Newcastle</td>
<td>£4.50</td>
<td>£5.25</td>
</tr>
</tbody>
</table>

Source: Office Rents Map, Colliers
Key Sector Comment

There is a business cluster in the heart of the Jewellery Quarter which is rarely understood as it is mostly invisible. The visible part i.e. retail trade, only forms a small part and is relatively a recent phenomenon. It was the existence of this cluster that drew Fattorini & Sons and Thomas Fattorini Ltd (competing family businesses) into the Jewellery Quarter in Birmingham in 1915 and 1919 respectively.

Over the years the Fattorini businesses have benefited enormously from being in the Jewellery Quarter industry cluster as it is able to run their factory with infinite capacity, (being under capacity or not having enough capacity is very costly for manufacturing companies). Working with these local subcontract manufacturers for many years, allows the company to minimise their operation and interface costs significantly.

The JQ cluster also offers access to specialist craftsmen which the company is not able to absorb into their operation. These craftsmen include spinners, stone setters/mounters and casters. These locally resourced skills allow the company to offer creative solutions expediently and cost effectively. The other benefits of the cluster, which are more obvious, are the local availability of raw material suppliers (bullion dealers, findings etc.) and specialist suppliers (specialist tools, machinery and equipment etc.).

The Jewellery Quarter is recognised as a key place for the manufacture of National Awards & Honours in the world. Fattorini and their competitors are successfully working together to service very large national and international orders - another key benefit of being in a cluster.

Having an internationally recognised Jewellery School, an Assay office and the National Association of Jewellers in the Quarter is the icing on the cake. This cluster is however being threatened by the increased rents and rates due to property speculation, development and the perceived need by the well-intentioned to sanitise and gentrify the Quarter.

Gregory Fattorini
Managing Director of Fattorini’s
Economic Structure of Birmingham

Chart 18: GVA by Industry, Birmingham 2014

Chart 18 shows that in terms of economic output public administration, education, health is the largest sector accounting for a 23% of economic output in the city, with distribution, transport, accommodation and food the next largest contributor with 26.7%.

As a core city, Birmingham hosts a number of nationally and internationally significant companies reflecting both its manufacturing heritage and the city centre’s function as a professional and business services hub for the wider region.

The city has offices for a large number of financial and professional services companies focused in its financial district of Colmore Row and also in Brindleyplace. Such companies include Royal Bank of Scotland; Deutsche Bank; KPMG; PwC, Deloitte and Ernst and Young. Looking forward, global bank HSBC has announced that it will be locating the national head office of its ring-fenced bank, which will serve its personal and business customers, in Birmingham city centre. The move will involve relocating some 1,000 roles currently based in London to Birmingham from mid-2017 onwards. Birmingham also has a significant amount of legal services, with key companies including DLA Piper, Wragge Lawrence Graham and Co., Pinsent Mason, Eversheds and Shoosmiths.
Reflecting its function as a core city, Birmingham has a high public sector presence, comprising a number of very large public sector employers. Key amongst these is Birmingham City Council, the Queen Elizabeth Hospital (employing around 6,900) and University of Birmingham (amongst the global top 100 universities). Birmingham has also seen its creative industries sector grow significantly in size and importance in recent years.

Birmingham has a greater specialisation than nationally in the following sectors:

- Financial and insurance activities
- Public administration and defence; compulsory social security
- Human health and social work activities
- Education

This reflects Birmingham’s position as one of the leading financial centres in the country outside London but also the city’s over reliance on the public sector to provide employment. A lot of work has recently gone into trying to rebalance the economy to attract and grow more private sector employers to Birmingham; between 2013 and 2016, estimated gross City Council expenditure has decreased from £3.4 billion to 3.1 billion. For a more in-depth look at business and innovation within Birmingham you may wish to read the third part of this report which is focussed upon the city’s Enterprise and Business Opportunities.

Looking at a more detailed sector breakdown we can see that Birmingham has a much greater specialisation than nationally in the following industries.

- Jewellery manufacture
- Automotive
- Activities auxiliary to insurance and pension funding
- Legal activities

**Key Challenges and Future Opportunities**

This analysis provides us with an extremely useful look at the contexts within which Birmingham exists. By more clearly understanding the national and regional situation alongside a breakdown of Birmingham’s economy, we can more readily identify the opportunities available to the city, as well as the hurdles which we will need to overcome.

As outlined, there are incredible infrastructure developments coming into the city and it will be intriguing to see how these projects, especially the arrival of HS2, impact upon commuter flows in and out of Birmingham and also upon the concentration of different sectors within the region. We are already seeing firms turning their attentions toward Birmingham. HSBC relocating the headquarters of their business bank to Birmingham is a milestone for the city and it is expected that many could follow, especially with HS2 making travel between the capital and the second city even more efficient.

Nevertheless, it would be remiss to forget the issue of Brexit whilst looking ahead. As the details of the UK’s exit from the European Union materialise, it will be important to consider how arrangements will impact upon Birmingham’s key industries and those of the region as well.

In the absence of detail however, it is important that Birmingham forges ahead with confidence and builds upon the progress made over recent years so that the city can continue to develop and capitalise on the opportunities ahead.
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If you have any further questions about the report please contact the Greater Birmingham Chambers of Commerce:

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