STEVE RIGBY

Implications of New US Trade Tariffs for the West Midlands Economy

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for the West Midlands Combined Authority

West Midlands Combined Authority

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Summary

US new tariffs will affect the West Midlands more than any other UK region

With a high exposure to US automotive exports, the 25% tariff could cost the WM economy £6.2bn over 5 years

The broader WM manufacturing sector is less affected by the new 10% global tariff. But if it remains, the anticipated disruption to global supply chains means that 52% of businesses expect to have downgraded their profit forecasts by the end of the year.

A three-pronged approach is recommended

1 Deliver a rapid outcome from the US trade negotiations

Avoid provocation and secure a deal in 45 days

This is more important than waiting for the best deal in 180 days

'No deal' will have serious consequences within weeks not months for the WM automotive sector as the 25% tariff drives long term structural change

2 Support domestic manufacturing production

- Prepare to deploy targeted cashflow support measures such as "Time to Pay"
- Help map supply chains to proactively manage future disruption
- Seek to reduce business energy costs
- Address competitive imbalances from importers and avoid product dumping while supporting UK manufacturers importing parts
- "Buy British" through Government procurement, particularly in defence

3 Forge a new Advanced Manufacturing Partnership between HMG and WM Region

- Leverage the lessons from Brexit to grasp new trade opportunities
- Build on the region's strong track record for foreign direct investment to launch a bold new plan for on-shoring supply chains
- Foster strong relationships with major businesses to protect and support their growth in the region
- Deploy more innovation funding into the region that builds on recent successful investment
- Pilot new National Industrial Strategy initiatives in the region

Objectives

The objective of this report is to provide a rapid, high-level assessment of how new or proposed US tariffs could affect businesses across key sectors in the West Midlands. The aim is to generate clear, cluster-specific recommendations to help shape regional and national government policy responses and trade support packages, and to inform the WM Combined Authority's future engagement with the UK Government and international partners.

The key outcome is to identify where changes to government policy and regionally-led activity could meaningfully mitigate and/or assist the ability of WM businesses to manage damaging US tariffs.

The work was conducted during April 2025 led by Steve Rigby (Co-CEO Rigby Group), working with Jonathan Skinner (WMCA) and Jamie Clyde (Consultant Advisor).

Scope

1. Mapping Exposure:
    a) Identify key sectors/businesses in West Midlands likely to be affected by US tariffs.
    b) Analyse volume and/or value of exports to the US at a cluster and sector level.

2. Engagement with Industry and Regional Partners includes:
    a) Targeted engagement with regional partners including CBI, Make UK, local Chambers of Commerce and FSB, and relevant trade associations.
    b) CBI Economics detailed survey to quantify likely impacts of tariffs and likely financial impacts.
    c) Two round tables with trade associations and end users.
    d) Ten 1-1 consultations with sector leaders to gain qualitative insights into preparedness, perceived risks, and current mitigation strategies.

3. Analysis of Risk and Resilience:
    a) Understand strategic and operational implications of tariffs for supply chains, pricing, investment, and employment.
    b) Assess adaptive capacity of affected firms and sectors. Identify sectors/businesses with limited "stretch".

4. Identification of Policy Levers:
    a) Specific policy considerations
        1. Supporting domestic advanced manufacturing in the short term.
        2. Longer term support measures should current 25% tariffs continue beyond 60 days from launch.
        3. Policy recommendations to support the long-term development of advanced manufacturing in WM.

5. Development of Recommendations:
    a) Actionable recommendations for central government, shaped by evidence and business engagement.
    b) Identify any immediate regional levers or interventions WMCA could deploy to support impacted clusters.

Introduction: global context

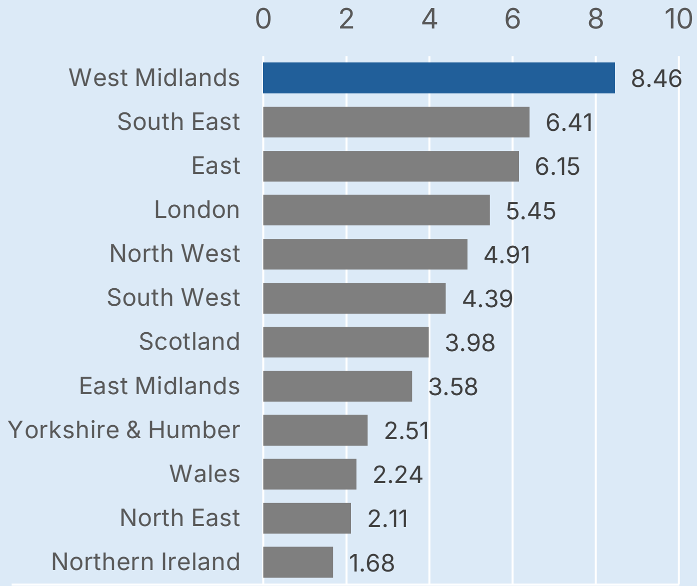
Historically elevated tariffs	Despite a 90-day pause, the US average tariff rate of 21%–23% is elevated and structurally higher than historic averages. Even if partially reversed, some form of tariff is likely to persist. The current tariff rates now align with Trump’s 2024 campaign promises but with significantly more pressure on China
Chinese trade war	Heightened trade war tension with China (the average US tariffs on China now are up to 145%), may create pressure toward a negotiated solution, but broader decoupling trends with China will likely accelerate and persist over the coming years
Sector-based tariffs	Sector-based tariffs on steel, aluminium, and autos suggest that they are being targeted on politically sensitive and strategic sectors. Tariffs on copper and lumber could be imposed by the year end, while Trump has promised to levy duties on pharmaceuticals and semiconductors in coming weeks/months
Market volatility	Market volatility has been severe amid evolving tariff-related announcements by the US administration. Over recent weeks, US markets have declined and recession fears have intensified. Trade policy uncertainty and volatility may persist even as trade deals are struck, causing longer-term damage to business confidence and investment
10% baseline	The outcome of US reciprocal tariffs beyond a baseline of 10% is highly uncertain, but key dynamics to watch include bilateral deals struck with countries during the 90-day pause, negotiations or escalatory measures with China, announcements of additional sector-based tariffs or product exclusions, and court challenges to the administration’s use of IEEPA to impose sweeping duties
Pause in escalation of a trade war	On 9 April 2025, President Trump delayed the imposition of higher duties for 90 days, until 9 July. As a result during this period, other than for imports from China and automobile, steel and aluminium products, the only applicable reciprocal tariff is the 10% baseline tariff
Indirect impact	US tariffs will inevitably reshape global supply chains which will have major ripple effects on supply, shipping, logistics and ultimately business cashflows into the medium term. The duration and extent of any impact is unknown as businesses try to examine and unravel their global supply chains

The West Midlands region’s economy is uniquely exposed to 25% automotive tariffs

WM exports more to US than any other UK region

WM US exports worth £8.46bn pa

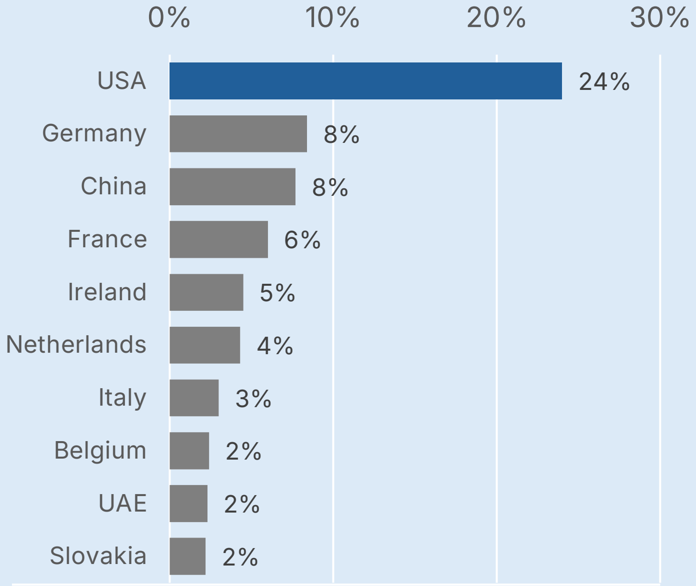
US Exports volumes 2024 (£bn)



US has the biggest share of WM’s exports and growing

24% of WM’s exports are to US

Top WM Export destinations 2024

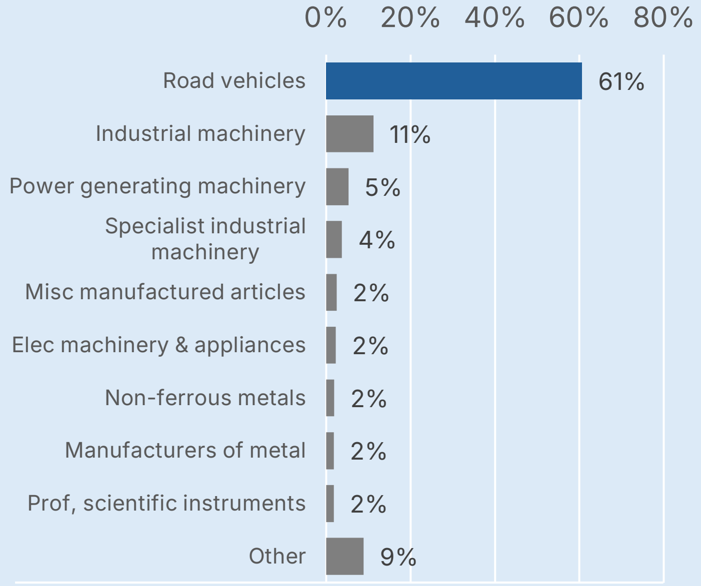


WM exports to the US totalled £35.3bn last year, the highest on record, £1.2bn (16.2%) more than 2023). Since 2013, exports to the US have increased by £4.8bn (128.8%)

Automative exports dominate WM’s exports

Automotive is 61% of WM exports

WM’s US Exports by sector



The US is a £10.3bn market[2] for the UK’s auto sector. All 80k cars sold annually by WM-based Jaguar Land Rover (JLR) in the US are imported, most from the UK. The US is Aston Martin and Bentley’s largest sales region, accounting for 25%-40% of volumes

Source: HMRC,2 ONS2024

Automotive tariffs will hit WM substantially more than other UK regions

Analysis by University of Birmingham's City-REDI finds the 10% tariffs will have a marginal direct effect on the wider regional WM economy. However, the 25% tariff on auto vehicles will have a major hit on UK businesses

Given the scale of the auto tariff rise, analysts predict increased costs will be directly passed on to consumers, creating US inflation and weakening UK exports

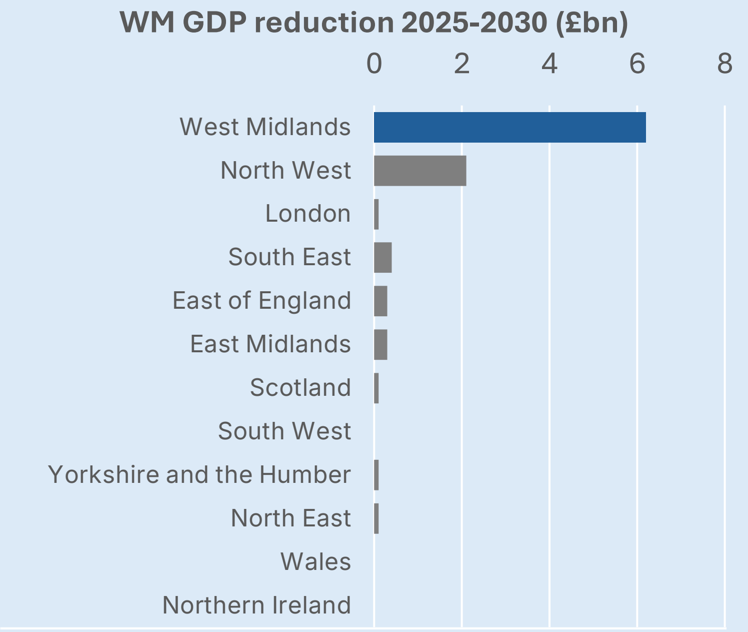
It is not yet clear how price increases will affect US consumers, but forecasts suggest that the cost of a Land Rover could increase by around $30,000[1]

The reduction in demand for UK trade has been modelled to be 37.5% - £3.1bn per year

This means that UK tariffs could cost the UK £9.8bn in GDP over 5 years, £6.2bn of which will be in the WM. While this represents less <1% of the overall WM economy, it is concentrated in an important sector

In addition, given high volumes of Chinese students at WM's universities (5k Birmingham students and 18% of Warwick's students), there is concern that a weakened economy in China through US tariffs will result in a significant drop in both student numbers and fee income

A loss to the wider WM economy of
£6.2bn between 2025-30 [2]



Losses include the indirect effects on supply chains in the region

US tariffs are being levied at a time when UK businesses are already under pressure. A City-REDI[3] study in 2022 found 22 of the 50 largest WM automotive firms were already at risk of insolvency due to poor liquidity ratios

Annual exports to the US from WM automotive firms have been increasing over the past decade

Annual Trend of WM Auto Exports to US [4]

The US is the UK's 2nd largest car market (in 2024 16.9% of all car exports, totaling 101,000 units)[4]. In the luxury car market US consumers are particularly important buyers and targets. Any tariffs will have repercussions as OEMs must consider pricing strategies and responses. Across Europe pricing updates have already been announced

Sources: [1]IPPR/This is Money, [2]UoB/City-REDI, [3]UOB-City-REDI 2023, [4]Society of Motor Manufacturers and Traders (SMMT)

Ongoing tariffs could impact 29% of WM's manufacturing businesses significantly by Dec 2025

Sixty eight WM businesses were surveyed by CBI Economics for this report between 17-28th April 2025. Nearly two thirds (62%) were manufacturing businesses, the majority (65%) were small businesses (10-249 staff), and around a fifth (19%) were large businesses (250+ staff)

Effect of tariffs on WM businesses

Profits ↓
For **52%** businesses

Just over half of all respondents (52%) anticipate a fall in profits due to the tariffs. 36% of large businesses foresee a decline, compared to 56% of SMEs. 55% of manufacturers expect lower profits

Turnover ↓
For **50%** businesses

Half of businesses (50%) expect turnover to decline, 54% of SMEs versus 36% of larger firms. The impact on manufacturing is stark: 61% expect a decrease, compared to 36% in other sectors.

Investment ↓
For **30%** businesses

Three in ten businesses expect to reduce investment in response to the current tariffs that could undermine growth and innovation over the medium term. Within manufacturing, this figure rises to 35%, compared to 21% among other businesses

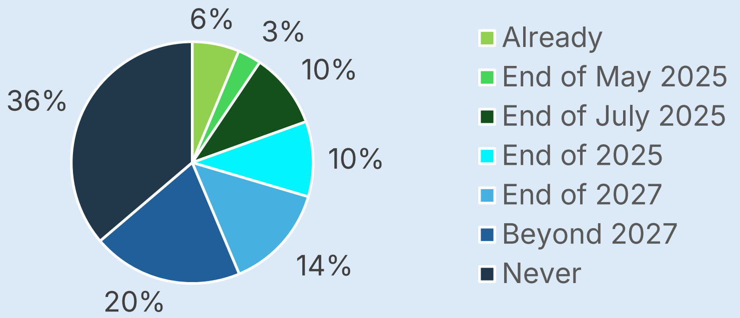
Larger companies appear more resilient, with over half (54%) confident they will avoid major disruption

However, among SMEs, who often have fewer buffers against external shocks, only 31% share this optimism

Timing of "significant impact" on businesses

While 56% businesses do not believe the current tariffs will have a major effect on them in the short-medium term, nearly a third (29%) expect them to have significant impact (e.g. job losses) this year

Nearly one in ten (9%) are already struggling



Businesses calls for action by UK Government

When asked how Government can ease the potential effects that global trade disruption may bring, the top 3 responses were:

1. Forge a stronger relationship with the EU was the most popular measure, noted by 64% of respondents
2. Reduce wider burdens on businesses such as employment rights was next at 54%
3. New bilateral trade agreements were requested by 42%

Source: CBI Economics

Strategic and operational implications of the tariffs (1)

The following common topics were raised during round tables and one-to-one discussions.

Topic	Detail
10% tariffs	Whilst it was considered that 10% long term tariffs could be absorbed within the price elasticity, there is concern on the terms of a broader global trade deal, its implications for the myriad of cross border supply chains and the likely implications on prices and supply
25% tariffs	25% tariffs are viewed as structural. Changes that cannot be absorbed without material changes to workforce, investment, demand and supply chains
EU opportunity	The UK has two potential advantages 1) Brexit has prepared us for a complex cross border environment 2) if the EU are unable to strike a deal and tariff rates of 20% are enacted, this creates a UK advantage over our European peers
Layering of impacts	Concerns exist in the layering of impacts e.g. demand / freight challenges / supply chain disruption / currency movement and an inability to plan for unknown scenarios and the knock-on effect to cash flow and business plans
UK Govt's measured response	Common consensus is that the UK's Government's approach is the most balanced approach on the global stage. We are seen as a mature and considered partner who has not threatened retaliation
Automotive disproportionately impacted	The UK car industry, including manufacturers like JLR and Aston Martin, is disproportionately impacted. In turn these businesses have deep supply chain relationships that also have high levels of dependency
Retaliatory tariffs	Unanimous feedback that retaliatory measures should be avoided by the UK Government as this will further exacerbate an already challenged environment

Strategic and operational implications of the tariffs (2)

The following common topics were raised during round tables and one-to-one discussions.

Topic	Detail
Automotive is at the heart of a trade deal	With 25% automotive tariffs making up 61% of WM's exports, the sector must be the primary concern for any trade deal
Weeks not months	The automotive sector has weeks not months before long term structural effects are enacted that will likely have a permanent effect on the UK automotive industry
Global price rises and inflationary impact	Changing US retail prices may necessitate price changes in the UK and the knock-on inflationary effect, exemplified by the global iPhone pricing policy
Compounding tariffs	Products crossing multiple borders are likely to pick up multiple punitive tariffs potentially impacting supply chains and pricing
Concerns on vehicles off road (VOR) / repair / servicing	With a contracting supply chain already under pressure, auto part tariffs are likely to increase "vehicle off road" issues, resulting in productivity reductions and reputational damage through reduced customer service levels
Foreign exchange	The recently devalued US dollar means a 5% price increase for UK exports. If this is passed on to US customers, this in itself could impact demand
Short term vs long term	There is a need to consider the long-term impacts on our sectors and industrial strategy alongside short term measures to sustain sectors and help them transition through these challenging times
Shift to new markets unrealistic	A shift to new markets is unrealistic in the short to medium term. Markets require regulatory clearance and certification. It is unlikely any combination of markets can replace the loss of income from the US

Strategic and operational implications of the tariffs (3)

Alongside issues raised directly relating to the imposition of tariffs, WM businesses and representative bodies identified the following indirect issues emerging as global supply chains show initial signs of disruption. These impact a much wider range of businesses beyond automotive.

Indirect impact	Detail
Cashflow	Larger businesses delaying settlement in order to preserve cash alongside issues with extended shipping times
Stockpiling	Lack of certainty leading to traders holding on to stock until there is clarity on future tariff direction - including in country bonded warehousing
Freight disruption	Supply chain interruptions causing delays and price rises to freight as shipments are delayed and rerouted
Material shortages	Import supply chain shortages resulting in production delays and input price inflation
Automotive tariff contagion	Supply chains outside of the automotive sector hit with input price increases as some of their parts are shared with the automotive sector
Contagion from other trade disputes	Disputes between US and other markets causing supply chain disruption (e.g. timber supply as a result of the US/Canada trade dispute)
Investment appetite thwarted / suppressed	Global trade and economic uncertainty impacts companies' appetite to invest along with the cost and ease of raising capital
Warehouse shortages	Stockpiling results in capacity issues and an increased price of warehousing

Policy considerations for trade negotiations

To support businesses in the West Midlands affected by the tariffs the following policy considerations were identified. Insights-were gathered from the CBI Economics survey, roundtables and one-to-one interviews

No retaliation	Dialogue with suppliers and Tier 1s suggests there is currently no appetite for retaliatory measures. This is deemed counterproductive, and action is not recommended. However, as the US stance changes, this should be kept under review
Auto tariffs at the heart of the US trade deal	The UK automotive industry, and by affiliation the WM, is disproportionately impacted by tariffs and auto tariffs. A reduction in the 25% tariff to 10% or ideally pre-tariff levels is essential for the on-going health and prosperity of this sector. As such this should form a key non-negotiable plank of the negotiation for a new US – UK Trade deal
Stacking and transformation	Concern remains on whether the stacking of tariffs can occur and on the rules of the transformation of goods and related HS codes. To maximise UK trade in the near term, UK Government support is required to negotiate using industry input
US auto import tariffs	US auto imports total 18,000 units pa. These imports attract a 10% tariff rate. Removal of the US import tariff is likely to cost HMT c£150m-£200m. Whilst significant, this will support the long-term prospects of the WM and broader auto sector, far exceeding short-term loss of revenue
China steel	The China/US relationship has the potential to impact UK steel imports, as the UK is seen as a gateway to the US. UK Government should consider interventions to ensure that loopholes are avoided for US export and that supply chains are restarted. This matter is urgent with a “cashflow problem on the sea” already occurring as freight deliveries are delayed. This also threatens to contribute to UK inflation within industries such as construction
UK / China relationship	The complexity of the UK / China relationship has expanded and considerations to 2nd and 3rd order effects need to be considered. These include excess importation (dumping) of autos and auto parts, steel and aluminium, tariff rates and freedom of movement, China – UK – US exports, US and UK relationship dynamics
EU trade deal	A big and bold EU trade deal should be prioritised alongside a US trade deal and given equal priority. We have a unique position to now progress this deal with the current UK Government’s mandate and global positioning
Chinese students	UK Government should consider the importance to the WM economy of Chinese students as part of a reset between China v UK relations. A significant number of students at both The University of Birmingham and University of Warwick are Chinese

Policy considerations to support WM businesses directly affected by the impact of tariffs

Below are policy considerations to provide direct support to those WM businesses affected by the tariffs. Insights were gathered from the CBI Economics survey, roundtables and one-to-one interviews

JLR criticality and its supply chain	JLR's supply chain is highly exposed to "Just in Time" manufacturing and a heavy, or in some cases, total dependency on JLR for orders. Working with industry, a list of supply chain providers should be reviewed to consider cashflow support whilst the supply chain transitions. This could be provided by British Business Bank from existing allocated funds
Wider supply chain "icebergs"	The impact of tariffs on lower levels (tier 2/3/4) supply chain providers is still very unclear. To secure and re-establish resilience of supply OEM/tier 1s need to understand the full global supply implications for each business who indirectly supplies them. Consideration should be given to those who deliver 'just in time production' who are highly exposed to any production fluctuations higher up the chain and supply disruptions further down. Public sector (e.g. DBT) could help overcome barriers by handling commercially sensitive information about individual business supply chains
Time to pay	An existing HMRC mechanism allows for cashflow extension to businesses which can demonstrate hardship. Hardship could be redefined for industries with 25% tariffs to allow immediate cash flow pressure release
HMRC easement	Feedback from supply chain businesses alluded to friction with HMRC on the claiming of duties on imports and the knock-on cash flow consequences. It is recommended that HMRC accelerate repayment of duties to those industries affected by 25% tariffs with immediate effect
Targeted loan relief (e.g. "TBILS ")	Recognising the recent extension of the Growth Guarantee Scheme that backs lenders of small business loans up to £2m, further support should be considered for businesses in the coming months if the automotive tariffs continue and/or the 10% tariffs start to disrupt broader supply chains. For example, an industry-specific Tariff Business Interruption Loan scheme (TBILS) could be created using the established CBILS mechanism as a precautionary measure (only to be enacted after 90 days, if a trade deal is not reached and only if 25% tariffs remain). Focused on the auto, steel and aluminium sub-sectors this would allow cashflow in key supply chain businesses as they transition and adapt
UK banking support	As with Covid, UK Gov should consider working with UK banks to agree a support package for key SME supply chain providers with covenant waivers, temporary cash flow or working capital loans. This may require a first loss provision underwrite

Policy considerations to support WM businesses directly affected by the impact of tariffs (cont.)

Below are policy considerations to provide direct support to those WM businesses affected by the tariffs. Insights-were gathered from the CBI Economics survey, roundtables and one-to-one interviews

Business energy costs	In addition to recent National Living Wage and National Insurance changes, the UK manufacturing sector's dominant concern is that elevated UK energy prices are damaging UK competitiveness. Despite schemes for energy intensive industries including British Industry Supercharger (BIS), Energy Bills Discount Scheme (EBDS) (replacing EBRS) and the Energy Intensive Industries Exemption Scheme, many manufacturers remain convinced they are paying significantly higher energy prices than international competitors. Consideration should be given to reviewing the wholesale electricity pricing model (currently based on gas prices for all types of generation), to reflect the actual cost of production. Given limited renewable energy generation in the region, zonal power pricing would be detrimental to the region's manufacturing base and could trigger relocation at a time of sustained business stress. Further deferral of environmental levies and encouragement of group purchasing schemes should also be considered
Energy cost VAT relief / rates relief / NI relief	If the 90 day period from 2 April expires without a trade deal, further measures should be considered to assist businesses affected by the 25% tariff. This could include, but not be limited to, VAT relief on energy, rates relief (partial or full) and NI relief. Such measures and others will be needed if structural changes to our automotive industry are to be avoided
Protection of skills	UK Government should prioritise the protection of UK skills currently offered by apprenticeship courses. Consideration to provide additional financial support for developing young skills by allowing the Employment and Skill levy to be used to support 50% of salary costs for those industries affected by the 25% levy
Furlough	It is not recommended that a furlough scheme (CJRS equivalent) is considered. This is viewed as disproportionate and has the potential to have contagious effects across sectors and material budget consequences for HMT

Policy considerations for developing new trade

Below are considerations for policy measures to help WM businesses reposition and generate new sustainable trade that have been compiled from the insight gathered from the CBI Economics survey, roundtables and interviews

Domestic trade	The UK procurement process prioritises price in favour of the long-term cost impact. A holistic approach on procurement should be taken with a review of domestic industries that are at risk of failure due to the US and China geopolitical changes
UK defence	The SME supply chain could play a critical role in UK Defence procurement. A change in approach to allow for the inclusion of SMEs into the MOD procurement landscape could allow for a transition from reliance on automotive as a sector into our domestic defence industry
Reset automotive industry’s Net Zero objectives	The UK and EU differ on automotive net-zero targets, primarily in their approach to achieving them and the timeline for phasing out the internal combustion engine (ICE) vehicles. The EU has a more gradual approach, allowing for some flexibility with carbon neutral fuels for cars even after the 2035 deadline, while the UK mandates zero-emission vehicles by 2035 for all new cars and vans. A harmonised approach should be considered
Sector transformation fund	Utilising the existing Catapult and University capabilities, UK Government could develop a transformation fund to accelerate the transition from traditional automotive capabilities to new industry sectors (heat pumps being one an example of an adjacent technology). The Catapults would provide both grants (funded from Innovate UK reallocation) and transitionary expertise. This could be led in the WM by the University of Birmingham, Warwick University, WMG and MTC in partnership with cluster bodies. This would build on the existing Supply Chain Transition Programme which forms part of the Investment Zone

We propose a three-pronged strategy for Government in response to tariffs

Whilst there is strong support for the Government's current level-headed approach, the following recommendations are made by businesses in the West Midlands to support companies through instability and facilitate future growth

1. Deliver a rapid outcome in the US trade negotiations

a) Avoid provocation and keep our heads down
   - Retaliatory action will generate a negative outcome - "It's pointless going to a knife fight with a spoon" quote from an automotive supplier

b) Secure a deal in 45 days. This is more important than waiting for the best deal in 180 days
   - No deal will have serious consequences within weeks not months for the WM automotive sector as the 25% tariff drives long term structural change

2. Support domestic manufacturing production

a) Be prepared to implement a range of highly targeted support measures to protect viable businesses most hit. Provide cashflow support for those, notably tier 2-4 manufacturers, that can demonstrate distress from the tariff changes:
   i. Immediate cashflow support in 4-6 weeks if required: e.g. Through Time to Pay, Growth Guarantee Scheme
   ii. Long term support if the situation endures – targeted loans e.g. a "TBILS scheme"

b) Help businesses map their supply chains to understand their exposure to future disruption and using DBT expertise

c) Guide HMRC to be receptive to challenges facing manufacturing businesses and ease those affected sectors

d) Review opportunities to further address spiralling energy costs for businesses (e.g. restructure wholesale pricing based on cost of production rather than the current model pegged to gas the market)

e) Address competitive imbalances from importers in the domestic market (e.g. low-cost retail product import into UK) and product dumping. This may require China specific tariffs to underpin any domestic support measures

f) Support UK manufacturers importing parts from China and other countries to avoid blockages from US restrictions and tariffs

g) Consider lowering import tariffs on industrial components to improve UK manufacturing competitiveness

h) Review opportunities to "Buy British" through Government procurement, particularly in defence

3. Help business exploit new trade opportunities

a) Position the UK to attract foreign direct investment targeted at the European market (notably from China)

b) Support businesses to capitalise on new global UK trade agreements as they are signed

The West Midlands must work with HM Government to create a new Advanced Manufacturing Partnership

There is a pressing need now to leverage the unique strengths of the West Midlands and recent economic development successes to protect and transform the region's advanced manufacturing capabilities and skills

	Approach	Recommended action
1) Leverage the lessons from Brexit to grasp new trade opportunities	Through Brexit, WM supply chains have adapted to manage complex export mechanisms. If the UK can strike a nationally beneficial deal with the US, overall consensus by companies interviewed is that the UK can grasp the opportunity to drive new supply chain opportunities. Furthermore, a new bold deal with the EU will go a long way to bridge any adverse impact from the global trade war	Forge a new partnership between DBT and The WM Growth Company (as it evolves into the new WM Economic Development Vehicle-EDV) to play an active role in testing, executing and promoting the new trade deals relevant to manufacturing clusters in the region
2) Build on WM's strong FDI track record to launch bold new plan to on-shore supply chains	With a move away from globalisation, the UK can materially benefit from on shoring both UK and European production. The UK Gov should consider an accelerated FDI strategy for affected industries	Consider mini–Investment Zone status to be given to entities looking to invest in the UK in the immediate 24-month period post 2 April 2025. This could be regionally aligned and linked to WM Local Growth Plan
3) Strategic Account Management to retain and support key businesses in WM	Tariff challenges highlight the importance of strategic relationship management of key companies who can support the UK’s growth strategy. This requires senior level engagement with target companies with a value proposition that covers access to local skills and innovation, guidance on public procurement, planning, and local community engagement	Ensure the new WM Economic Development Vehicle (EDV) is suitably resourced to deliver effective strategic relationship management of key companies in the region
4) Build on past WM innovation delivery to release Innovate UK in region	The successful pilot West Midlands Innovation Accelerator deployed £33m into the region from Innovate UK. WM needs a long-term innovation fund which not only promotes new ventures but also drives innovation in established industries and businesses	Build on the current Action Plan between WMCA and Innovate UK, to create a WM Innovation fund, co-curated as the region further expands its capability to manage delivery of investment
5) Leverage national Industrial Strategy resources into the WM as a pilot	With the launch of Industrial Strategy output in June 2025, the WM can pilot key initiatives related to advanced manufacturing. In the event of long-term tariffs being imposed, this can evolve to the deployment of resources to deal with economic fallout and the need for repurposing	Through Cluster Management in the new WM Economic Development Vehicle (EDV), growth policy-based initiatives from the Industrial Strategy and WM Growth Plan should be driven through the relevant regional Cluster Bodies with performance fed back through to WM Combined Authority
6) Leverage the National Wealth fund in the WM	With a National Wealth fund focusing on national objectives, this fund could be allocated regionally to support major viable WM growth initiatives. This could include transition to EV's and associated capital costs, together with development of the electrification supply chain	The new Business Growth Capital Attraction function within the WM Economic Development Vehicle (EDV) should seek to secure private co-investment alongside any National Growth Fund allocation to WM

Thanks to our many contributors

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ANNEXURE

CBI Economics

Briefing Note: Implications of New US Trade Tariffs for the West Midlands Economy

April 2025

Introduction

Following President Trump's imposition of trade tariffs, CBI Economics, in collaboration with Steve Rigby and the West Midlands Combined Authority, undertook an exercise to understand the impact on businesses with a presence in the West Midlands.

This exercise had two key components:

1. A roundtable of affected manufacturing businesses and
2. A survey of West Midlands based businesses, which yielded 68 responses across several sectors.

The combined insights from these activities are presented below.

Overview of the survey and roundtable findings

- Businesses in the West Midlands are already feeling the effects of the current US trade tariffs and anticipate further challenges ahead. While many non-automotive manufacturers currently support the UK Government's cautious response, they emphasise the need to remain alert to customer uncertainty and potential supply chain issues arising from the tariffs.

- In contrast, automotive manufacturers are significantly more exposed and stressed the urgent need for a trade deal. They warn that the sector cannot afford delays in negotiations, highlighting the significant costs of prolonged tariffs and general uncertainty.

- Survey findings show that manufacturing businesses, particularly SMEs, feel the most vulnerable to prolonged tariffs. Nearly a quarter of survey respondents across all sectors anticipate significant negative impacts, such as business closures or substantial redundancies, by the end of 2025. When only considering manufacturing firms, this rises to 41%. Many businesses are already looking to take action, including reviewing profit margins, scaling back production, pausing investments, and exploring entering new markets.

- Most respondents expect declines in turnover and profitability as a result of the tariffs. More than half of manufacturers anticipate reduced profitability, and 61% expect a drop in turnover.
- There is a strong appetite for immediate support measures, independent of a trade deal, to help ease the burden on affected firms. Suggested interventions include employer NICs and energy cost relief, tax deferrals, and reducing the complexity of the regulatory and legislative environment to reduce the cost of doing business.
- While a favourable US trade deal is seen as essential, businesses have also expressed a desire for the UK Government to pursue a closer relationship with the EU, including strengthening the existing Trade and Cooperation Agreement. Many cite that the burden of the US tariffs could be alleviated by this, through reduced regulatory complexity, lower tariffs, and fewer processing delays. Businesses also expressed concerns about potential trade-offs in a US deal, particularly if it results in greater divergence from the EU or shifts trade flows away from China and towards the US, potentially resulting in higher purchasing costs.
- Finally, firms highlight ongoing structural challenges, including a lack of strategic direction on trade and industry policy, persistent regulatory and customs barriers, and rising business costs, that continue to undermine confidence and resilience.

Detailed findings

Non-automotive manufacturers support the Government's response so far and believe retaliation will be damaging

- A manufacturer of household hardware believes a 10% tariff is manageable and that the Government is largely playing its cards well so far. It advises keeping a low profile, but did note that customers think they can play a waiting game and are delaying orders a month in the hope of avoiding tariffs. From a production point of view, this is when inefficiencies start to arise.
- A different manufacturer of household hardware reported customer uncertainty regarding who will bear the cost of tariffs.
- An SME manufacturer predicted that tariffs would be short-lived and advised maintaining a low profile.
- An automotive hardware manufacturer recommended a wait-and-see approach, expecting a more palatable outcome than the status quo. They highlighted a huge information gap amongst large manufacturers regarding their supply chains, saying many do not know about Tier 3 or Tier 4, and urged everyone to map their supply chain down to the basic raw materials. This indicates that if there is currently a lack of worry, this could be due to a lack of knowledge.

The automotive sector stressed the urgent need for a trade deal

- A smaller automotive manufacturer emphasised the critical need for a deal, as a 25% tariff on cars is unsustainable. They wanted to see the automotive sector prioritised in any deal and suggested that a deal should be carved out for cars before a wider economic deal given the urgency of the situation. They asked that if there is a deal for UK goods, that it provides clarity on non-UK origin goods coming from the UK too.
- This manufacturer said that prolonged tariffs could have significant expenses: if a car is off the road and needs a part, they are contractually obliged to provide and fix this, even if the cost is unduly high at that point.
- Overall, they stressed that the general air of volatility is incredibly difficult and leads to an overall feeling of paralysis in the sector. They are not as protected as some other manufacturers, who have big sibling manufacturers that can cushion the

blow to some extent. They emphasised that temporary reliefs are not a pass for slower negotiations – they need to run at full speed regardless of measures.

- Temporary tariff suspensions and relief on import duties are potential short-term measures. In addition, they would ask for potential NICs or energy cost reliefs.
- A larger automotive manufacturer echoed the urgency of reaching a deal, saying the sector has weeks, not months. Even a 10% tariff would not be sustainable in the longer term and they must see progress soon.
- One participant involved in automotives said that that getting a better trade deal with EU could make UK a preferred destination.
- This sentiment is reflected in our survey analysis. In response to an open-ended survey question asking what policy changes businesses felt could alleviate the impact of tariffs, the most frequent answer was from respondents stressing the need for the UK to continue to negotiate for a favourable trade deal with the US. Many indicated that businesses would benefit from reduced uncertainty.

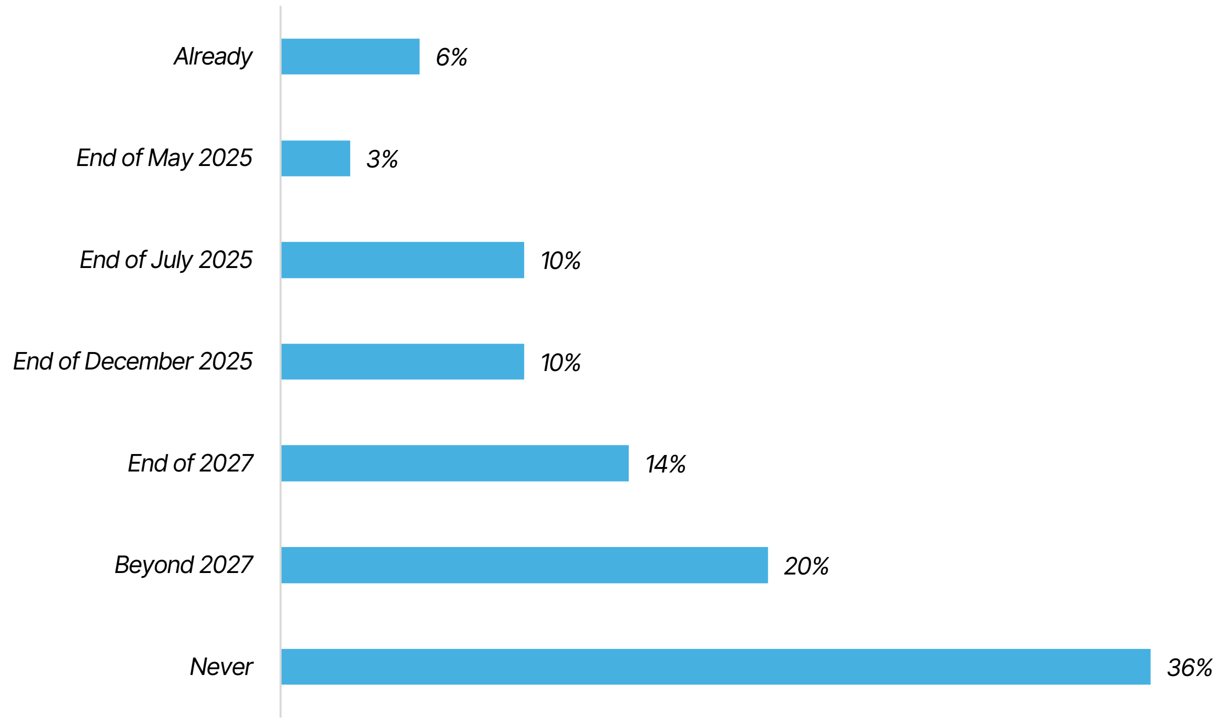
Businesses anticipate negative impacts before the end of 2025, with the manufacturing sector disproportionately affected.

- While some businesses in the West Midlands are optimistic about their ability to weather the disruption, many, especially in manufacturing and among smaller firms, are bracing for more serious consequences.
- 29% of respondents report that they will experience significant negative impacts, such as business closure or substantial redundancies, by the end of 2025 if the tariff regime remains unchanged, with 6% of these already facing these impacts. These concerns are not evenly distributed, with small and medium-sized enterprises (SMEs) and manufacturers expecting more pessimistic outcomes than larger firms and non-manufacturing businesses.[1]

[1] *For a comparative analysis between SMEs and large businesses, please refer to the Appendix*

- Larger companies appear more resilient, with over half (54%) confident they will avoid major disruption. However, among SMEs, who often have fewer buffers against external shocks, only 31% share this optimism.
- The gap is even more pronounced when comparing sectors. Nearly half (45%) of non-manufacturing businesses believe they will remain largely unaffected, while only a quarter (26%) of manufacturing firms say the same. In fact, 17% of manufacturers expect to experience major negative effects by the end of 2025, compared with just 3% in other sectors.
- These findings underscore the risk of disproportionate harm to the manufacturing base in the West Midlands, especially among SMEs, which could have wider implications for regional employment, supply chains, and economic resilience.

Figure 1: How long can your organisation continue operating under the current tariff regime without experiencing significant negative impacts, such as business closure or substantial redundancies? (% of respondents)



Businesses are already taking actions in response to tariffs

- Rather than waiting for further clarity, many businesses in the West Midlands are already making strategic decisions to mitigate the financial and operational impact of trade tariffs. The data suggests a growing sense of urgency, with firms actively adjusting their operations, exploring new markets, and revisiting investment plans.
- Nearly half (49%) of respondents expect to review their profit margins before the end of 2025, with almost one in ten needing to act immediately. This reflects the increasing pressure to absorb or pass on additional costs, often in the face of intense global competition.
- Similarly, 49% are exploring entry into new markets or regions before 2025 in a bid to diversify their customer base and reduce dependency on US-linked trade. Over a fifth (23%) of those are already at the point of decision-making, indicating that for many, this is no longer a hypothetical scenario but a live strategic response.
- A significant proportion of firms are also planning to scale back activity: 24% intend to reduce production by the end of 2025. This could have knock-on effects for supply chains, employment, and regional output – particularly if the manufacturing sector continues to bear the brunt of tariff-related disruption.
- Investment decisions are also being reviewed. Around 13% of respondents expect to decide immediately whether to pause or cancel investments, with a further 18% planning to make this call later in the year. For some, these delays may reflect caution; for others, it may signal that tariff uncertainty is already eroding business confidence and growth plans.
- Beyond short-term adjustments, some businesses are weighing more fundamental changes. One in ten respondents expect to make a decision on closure before the end of 2027, signalling that for some, the economic environment may no longer be sustainable. In parallel, 14% are considering relocating production to the United States within the same timeframe – a move that reflects growing concern about competitiveness and access to key markets.

- Together, these responses paint a picture of a business environment in which many firms are no longer simply waiting and watching but are proactively adapting their strategies to cope with ongoing trade uncertainty.

Businesses anticipate declines in profit, turnover and investment

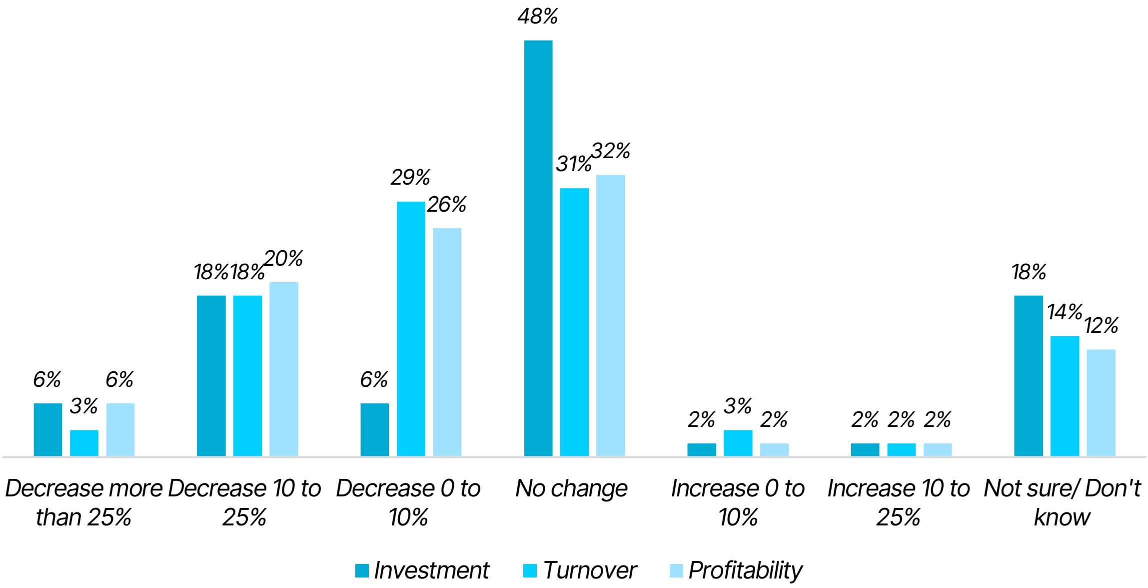
- The current tariff regime is expected to have a significant dampening effect on business performance across the West Midlands, with many firms predicting declines in profits, turnover, and investment in the coming years. While some larger businesses may be able to absorb additional costs, SMEs and manufacturers appear particularly vulnerable to sustained financial strain.

- Just over half of all respondents (52%) anticipate a fall in profits as a result of the tariffs. Specifically, 36% of large businesses foresee a decline, compared to 56% of SMEs. Among sectors, 55% of manufacturing businesses expect lower profits, while 48% in other sectors anticipate the same.[2]
- Expectations around turnover follow a similar patten. Half (50%) of businesses expect turnover to decline, with SMEs again more pessimistic: 54% of SMEs anticipate lower turnover, versus 36% of larger firms. The impact on manufacturing is particularly stark: 61% of manufacturing businesses expect a decrease, compared to 36% of all other sectors. This suggests that trade disruption could have a significant knock-on effect on regional output and business volatility, especially as a region where manufacturing plays a central economic role.
- Investment intentions have also been affected. Three in ten businesses expect to reduce investment in response to the current tariff regime, a trend that could undermine growth and innovation over the medium term. Within manufacturing, this figure rises to 35%, compared to just 21% among businesses in other sectors. For many manufacturers already

[2] Analysis for sectoral and business size splits are available in the appendix.

operating on tight margins, this pullback in investment could delay product development, capacity expansion, and competitiveness at a time when agility is most needed.

Figure 2: Can you quantify the expected impact that the current tariff regime will have on these indicators over the next two years, all else equal? (% of respondents)



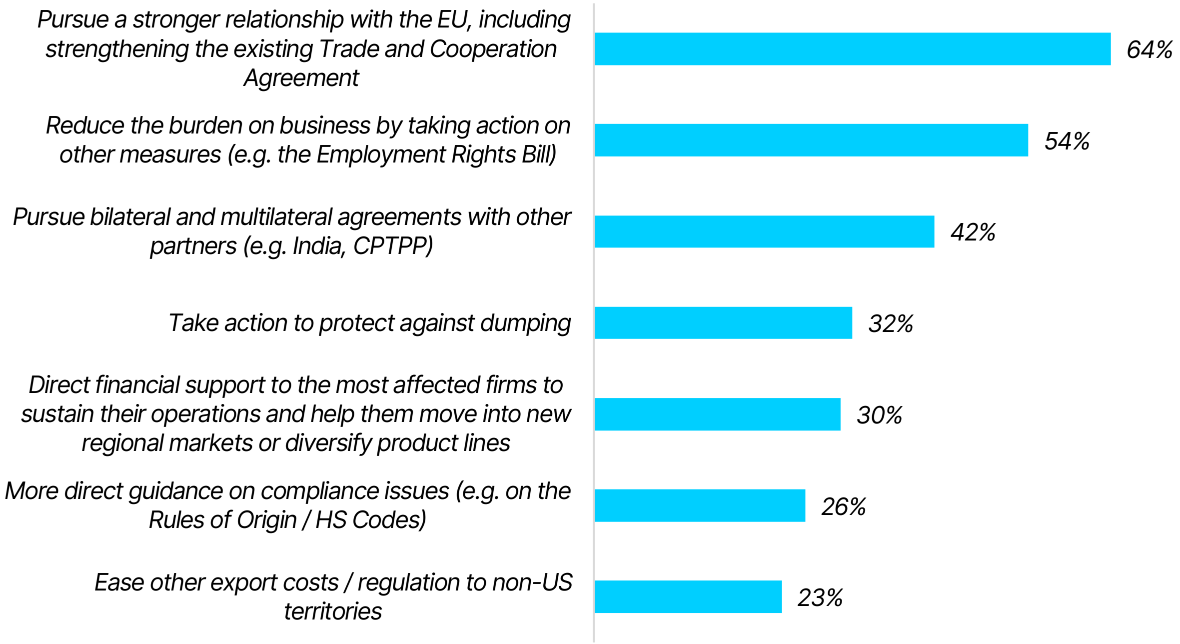
Many participants wanted to see immediate support, regardless of and separate to a deal

- Many participants expressed a clear need for immediate support measures to help them cope with the current tariff pressures, separate to and not contingent on the outcome of any UK–US trade negotiations. The consensus was that urgent action is needed to support business continuity, particularly for SMEs, which face acute cashflow and planning challenges.
- One automotive hardware manufacturer suggested that an immediately effective measure for SMEs would be deferral of payments to Government. Time to Pay is an established method that could be implemented very quickly. However, they raised the concern that, in the event support was offered, those who most need support will likely fail the criteria for it as they may be bust by the time it is available.
- Another SME participant echoed this, highlighting that small firms need certainty around payment structures before they take on new debt – a concern that is preventing investment and forward planning.
- Several participants reinforced the idea that targeted, short-term financial interventions could buy time and provide breathing space. Suggestions included National Insurance and VAT holidays, as well as reductions in energy costs – particularly relevant given the strain placed on supply chains by COVID-19, semiconductor shortages, and the shift to electric vehicles. These measures were seen not only as lifelines but also as tools to enhance competitiveness in the face of mounting global pressures.
- While participants broadly supported the UK Government's current approach to avoiding retaliation, one expert in automotive innovation cautioned against underestimating the complexity of tariff-related impacts. They warned that tariffs often apply multiple times as goods cross borders – amplifying costs – and noted that price-sensitive consumers may shift to other aspirational purchases (e.g., yachts), particularly in high-end manufacturing. For SMEs in particular, such volatility makes planning extremely difficult and increases the risk of contagion across sectors.
- An automotive trade body emphasised the importance of supporting the domestic industry directly, rather than increasing burdens on importers. While developing a stronger UK procurement strategy could play a role in bolstering domestic demand, it was clear that this would not substitute for access to the US market. The body also challenged the assumption

that companies can easily pivot to new markets, noting that many manufacturers already operate at full export capacity where feasible.

- Looking beyond US trade specifically, many participants pointed to the potential benefits of improving the UK's trading relationship with the EU. The EU remains the UK's largest trading partner, and with new Rules of Origin requirements due in 2027, closer alignment could mitigate future risks. Survey results back this up: 64% of respondents selected a stronger EU relationship as the most important action the UK Government could take to reduce the burden of global trade disruption. Respondents cited reduced regulatory complexity, lower tariffs, and fewer processing delays as key advantages of such a reset.
- As reflected in Figure 3, reducing the burden on businesses by taking action on other measures and pursuing bilateral and multilateral agreements with other partners were the next most popular choices, at 54% and 42% respectively. Direct financial support was chosen by 30% of respondents, but several respondents noted this in our open-ended question about suggested policy changes, writing that financial support for exporters to help access alternative markets would help to replace lost business and increase competitiveness.

Figure 3: What actions that the UK Government should take to ease the potential cost-burden on businesses that global trade disruption may bring (% of respondents)



- Regarding potential trade-offs that the government might consider when negotiating a deal with the US to lower tariffs, closer regulatory alignment with the US potentially leading to increased divergence from and additional trade barriers with the EU, and reorientation of trade flows away from China and towards the US, potentially resulting in higher purchasing costs, were the options selected by the highest number of survey participants as measures that would impact their sector the most, at 35% and 30% respectively.

- Figure 5 reflects how respondents expect their business to be impacted by several potential trade-offs in a US trade deal. The measures with the highest number of respondents indicating that they would expect negative impacts were closer regulatory alignment with the US, reorientation of the economy away from China and towards the US, and agreeing dispute resolution mechanisms which favour US interests, at 52%, 48%, and 37% respectively.
- Removal of certain fiscal revenue sources, such as the Digital Services Tax, was the measure that received the highest number of respondents indicating that they would be unaffected by this change, and the least number of respondents indicating that they would be negatively affected by this.

Figure 4: When it comes to negotiating a deal with the US to lower tariffs, which potential trade-offs would impact your sector? (% of respondents)

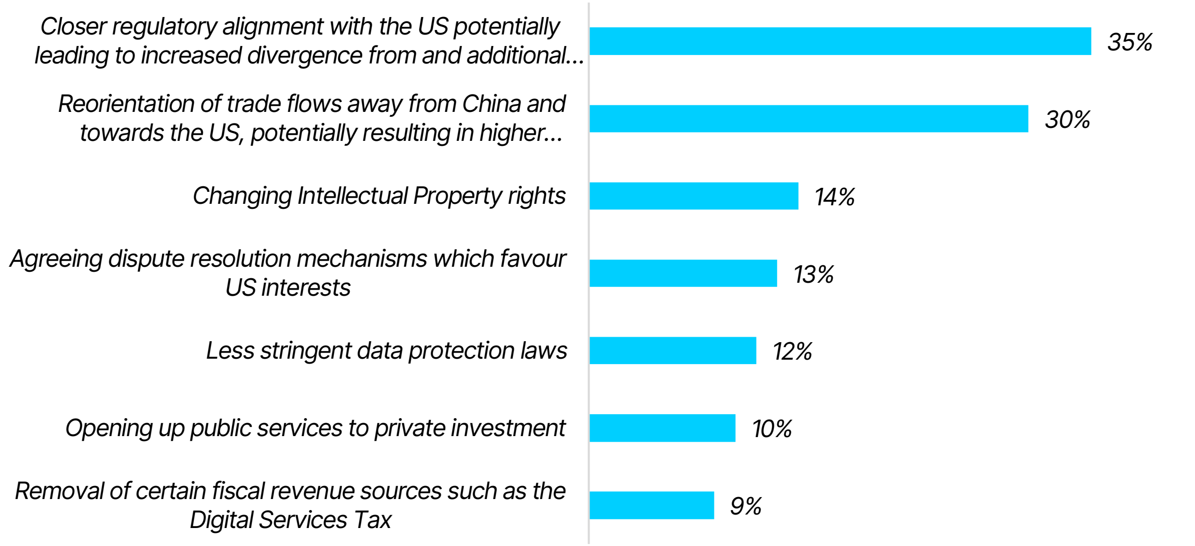
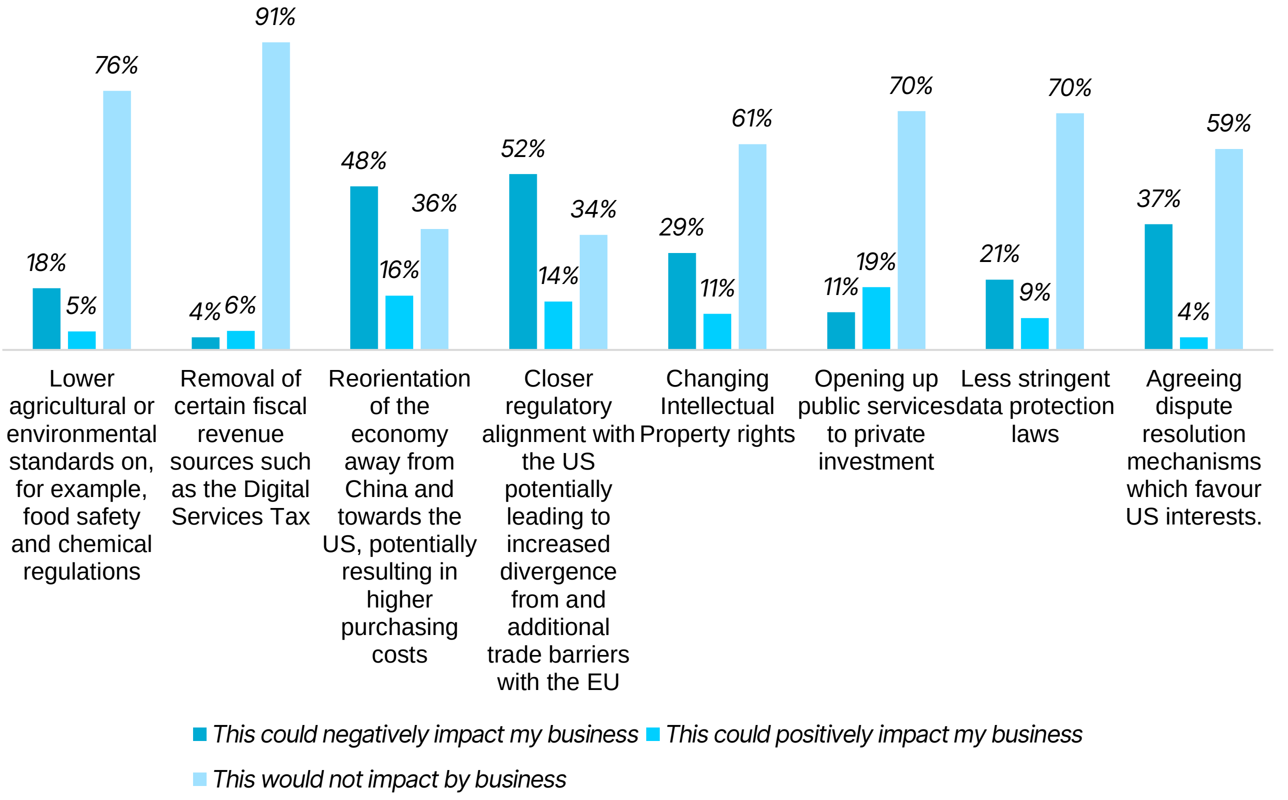


Figure 5: How would the following potential trade-offs in a US trade deal impact your business? (% of respondents)

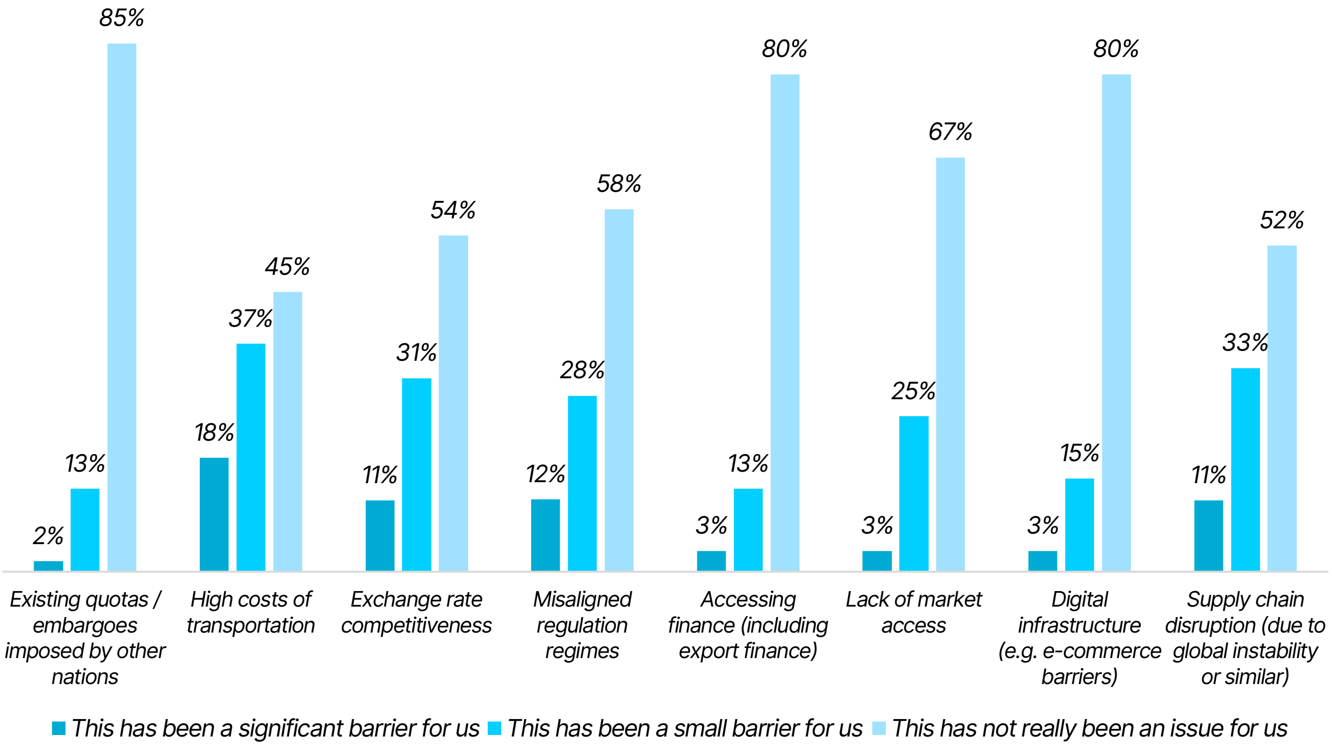


Ongoing structural issues undermining business resilience

- In addition to concerns about tariffs and trade negotiations, businesses raised a number of broader and longer-standing structural issues that are undermining their ability to plan, invest, and grow. Many participants pointed to a lack of strategic clarity from Government, as well as persistent regulatory, financial, and operational barriers that continue to weigh on business confidence.
- One automotive manufacturer expressed deep frustration at the continued absence of a Trade and Industrial strategy, arguing that businesses are being asked to make decisions in a policy vacuum. Without a clear sense of direction, they said, it is difficult to understand where the UK economy is headed and how sectors like manufacturing are expected to compete globally. This lack of clarity also makes it harder for businesses to align their own long-term plans with national priorities.
- They stressed that trade negotiations are especially important, but that even in a country such as Australia where we have an FTA in place there are other regulation-related barriers to market access.
- They have found barriers elsewhere. For example, retrospective reclaims from HMRC are increasingly difficult with cash being held up. For businesses already navigating uncertainty, such delays can tip them into crisis or stall investment unnecessarily.
- The pressure on margins is already forcing difficult decisions. Two SMEs noted that they had made changes because of NICs increases. One had laid off personnel while the other had put prices up more than usual to maintain viability. This demonstrates that they do not have much wiggle room to withstand an economic downturn.
- One of the household hardware manufacturers noted abnormal demand trends coming from the USA. Demand was 40% down in Feb year-on-year, bouncing back up in March and April has been busy again. However, budgeting has been much harder with changes to the Dollar.
- We asked survey respondents what export barriers they faced prior to President Trump's tariff regime announcement to understand what ongoing issues could be addressed to partially alleviate the impacts of the regime. As reflected in Figure 6, high costs of transportation was selected as a significant or small barrier by the highest number of respondents, followed by supply chain disruption, exchange rate competitiveness and misaligned regulation regimes. These findings suggest that the challenges faced by exporters extend well beyond tariffs alone.
- In response to our open-ended survey question regarding policy changes that could alleviate the impact of tariffs on businesses, several respondents stressed the need for government to reduce wider burdens faced by businesses, such as the changes to

employer NICs, Business Rates, and reducing the complexity of the regulatory and legislative environment to reduce the cost of doing business and alleviate the burden on small businesses.

Figure 6: Which export barriers did you face before President Trump's tariff regime was announced? (% of respondents)



Conclusion

This research highlights a clear and growing concern among West Midlands businesses – particularly manufacturers and SMEs – about the impacts of the current US trade tariff regime. While larger firms appear more resilient, many smaller and regionally rooted businesses are already taking difficult decisions that will affect local investment, production, and employment. The uncertainty created by prolonged trade disruption is compounding pre-existing structural challenges, from regulatory complexity and rising costs to limited access to alternative markets.

Recommendations:

For the UK Government:

- Businesses are calling for immediate, practical support alongside a clearer long-term trade and industrial strategy. In the short term, measures such as deferring tax payments, reducing employer NICs, offering targeted financial support for exporters, and easing energy costs could provide much-needed breathing space – especially for SMEs. Critically, these interventions must be timely, accessible, and designed with the most vulnerable firms in mind.

- At the same time, Government must continue to press for a comprehensive and favourable trade deal with the US while recognising that many businesses also want to see progress on resetting the UK's trading relationship with the EU. With new Rules of Origin requirements due to take effect in 2027, the case for closer alignment with the EU to reduce costs and complexity is growing stronger.

For the West Midlands Combined Authority (WMCA):

- There is a vital role to play in helping the region adapt and respond by championing the needs of manufacturing and SME sectors in national discussions on trade and industrial policy.

- WMCA should work with business support organisations to provide guidance on navigating tariff impacts, diversifying markets, and managing supply chain risks. There is also an opportunity to explore the development of regional initiatives to support firms with export advice, skills development, and digital trade tools; as well as advocate for greater investment in infrastructure and innovation that supports the resilience of local supply chains and export capacity.

Ultimately, a joint effort is needed to reduce immediate cost pressures, provide clarity on future trade arrangements, and ensure that the West Midlands economy remains internationally competitive in the face of global uncertainty.

Appendix:
Business profile of survey respondents

Figure 7: How many people does your business employ? (% of respondents)

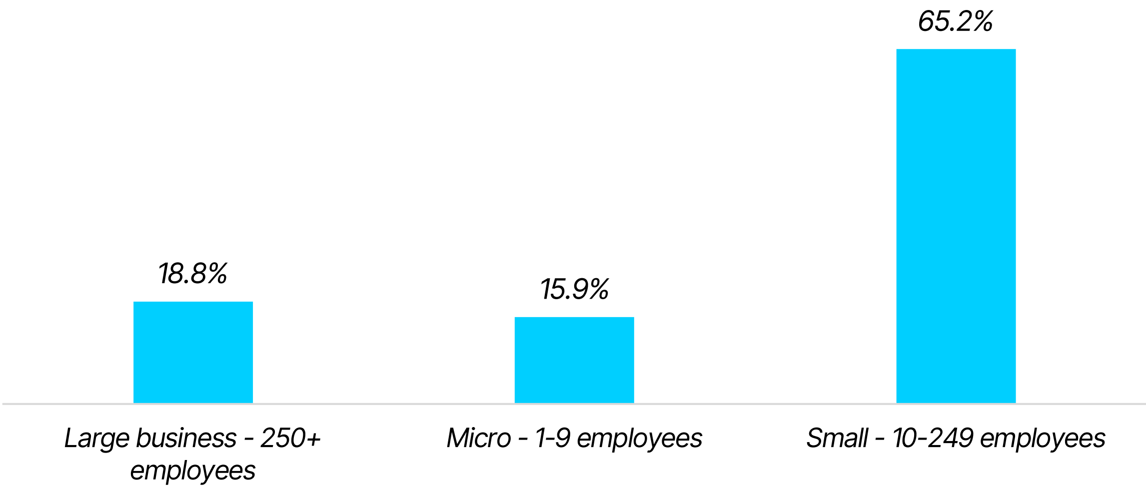


Figure 8: What sector does your business (primarily) operate in? (% of respondents)

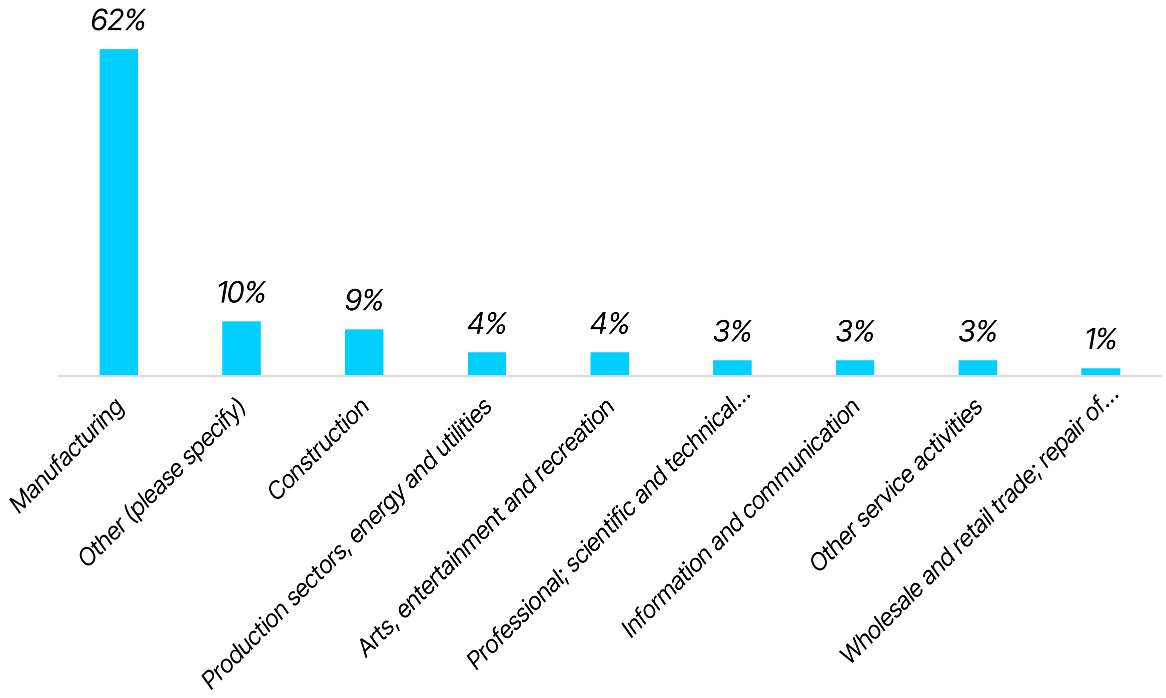


Figure 9: What position in the supply chain does your company occupy (% of respondents)

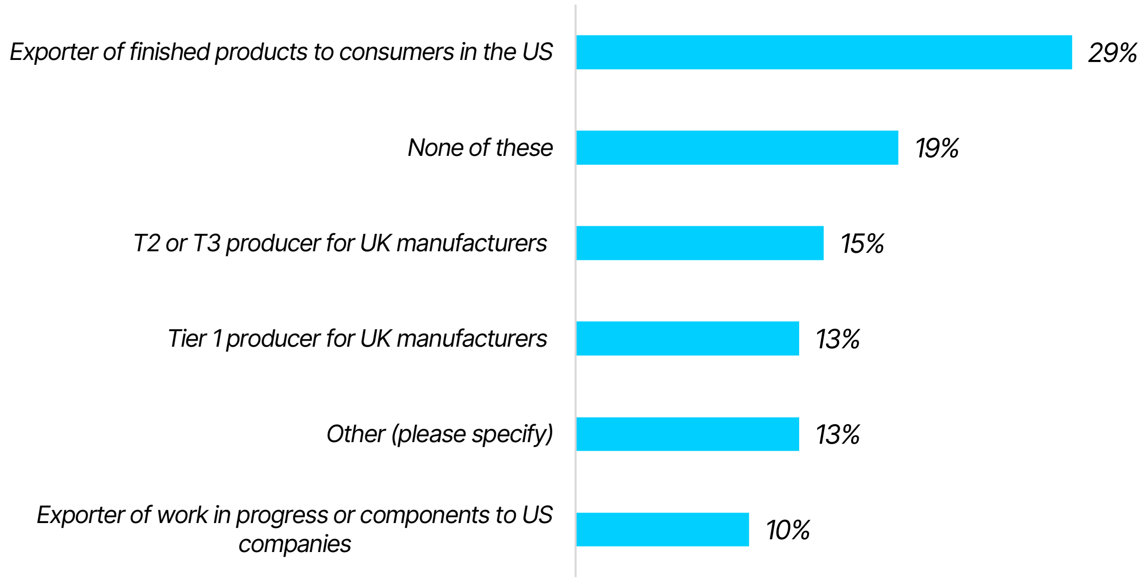


Figure 10: Main export destination of survey respondents

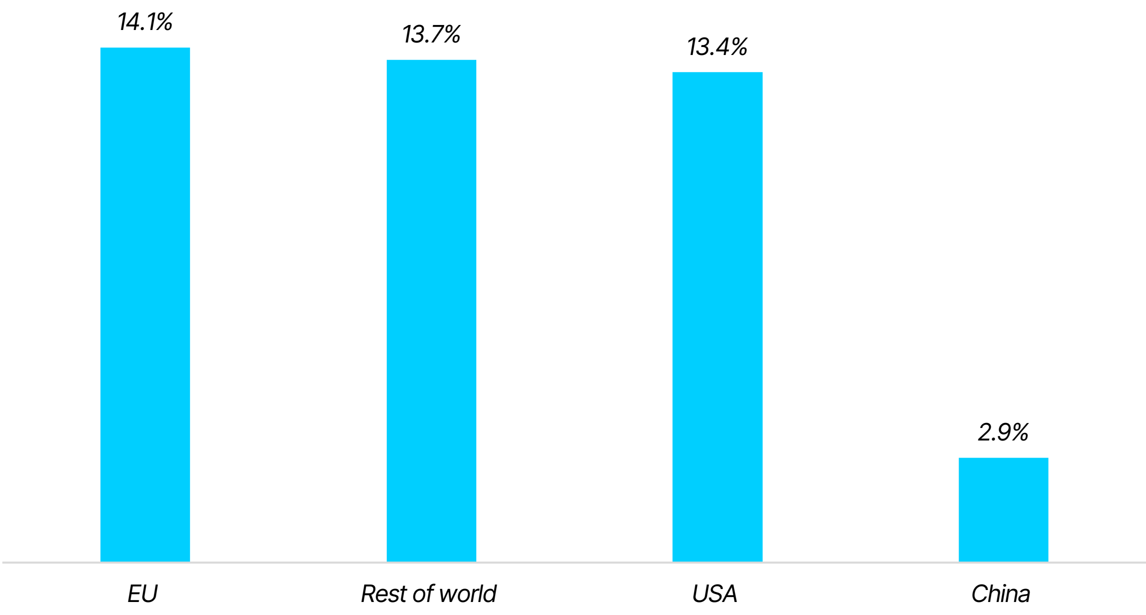


Figure 11: How long can your organisation continue operating under the current tariff regime without experiencing significant negative impacts by business size (% of respondents by business size)

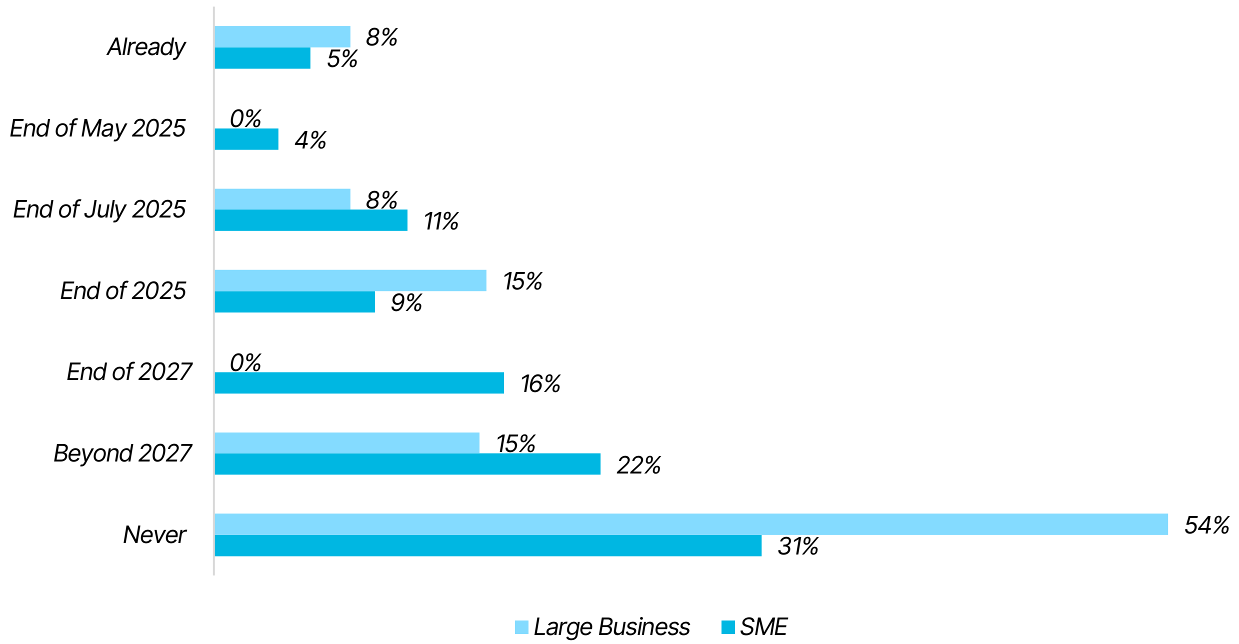


Figure 12: How long can your organisation continue operating under the current tariff regime without experiencing significant negative impacts by business size (% of respondents by sector)

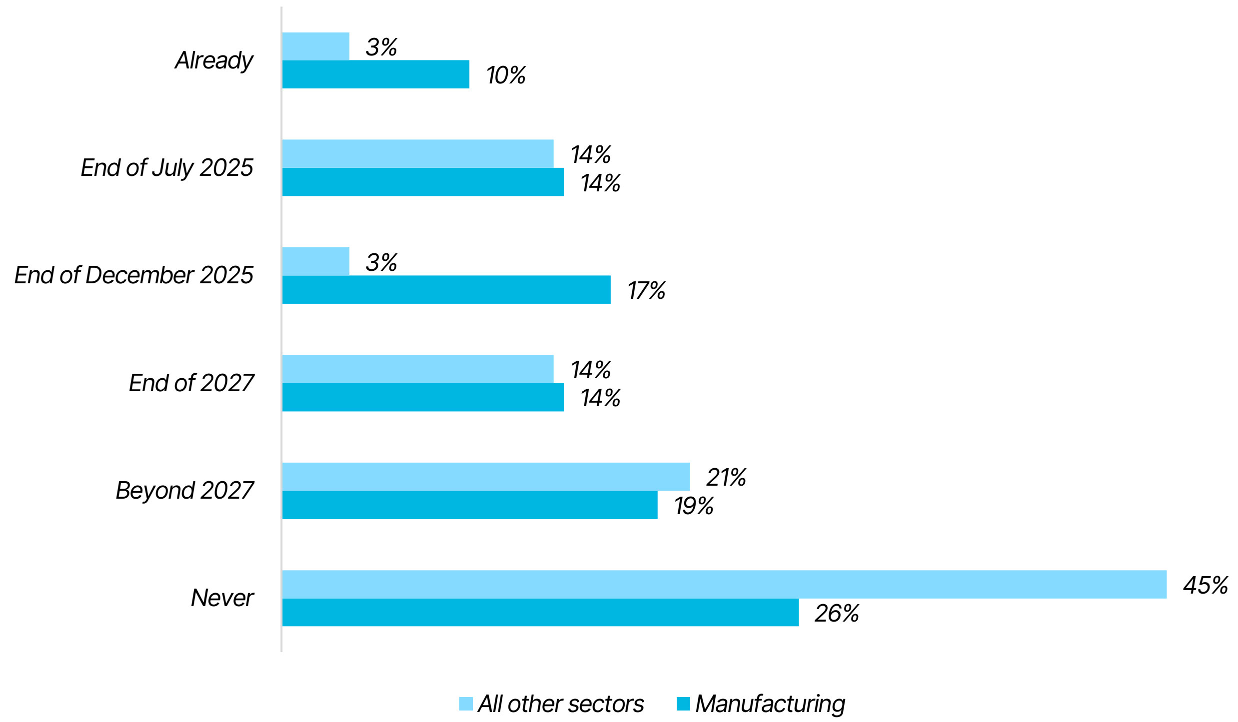


Figure 13: Can you quantify the expected impact that the current tariff regime will have on these indicators over the next two years, all else equal? (% of manufacturing respondents)

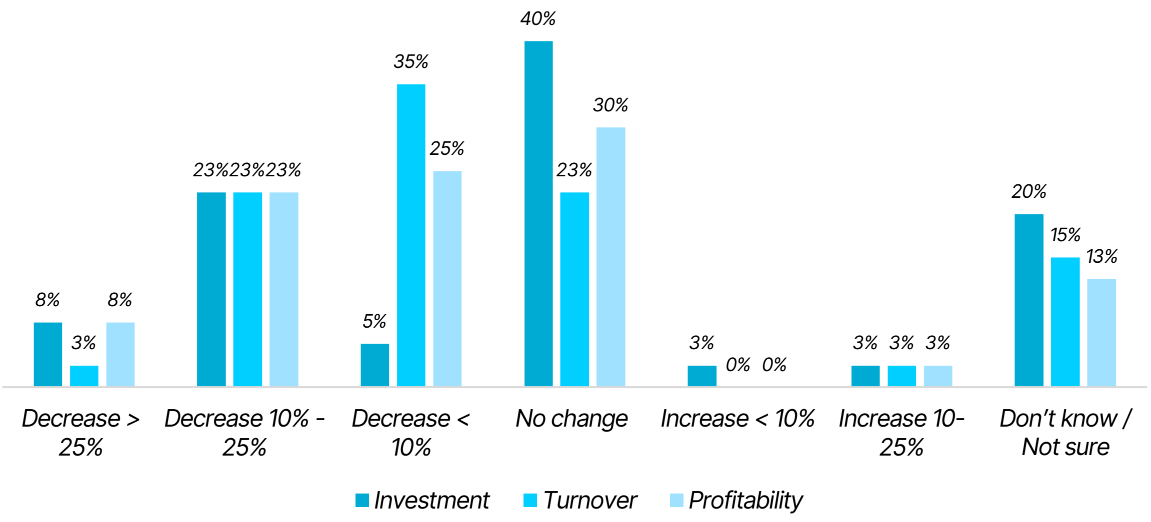


Figure 14: Can you quantify the expected impact that the current tariff regime will have on these indicators over the next two years, all else equal? (% of all other sector respondents)

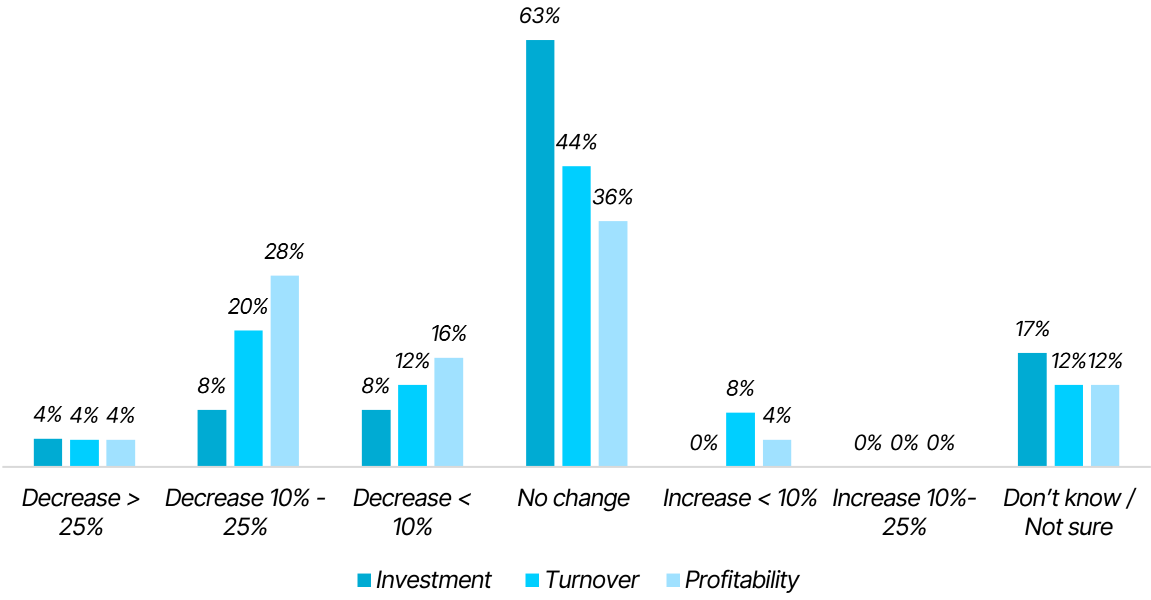


Figure 15: Can you quantify the expected impact that the current tariff regime will have on these indicators over the next two years, all else equal? (% of SME respondents)

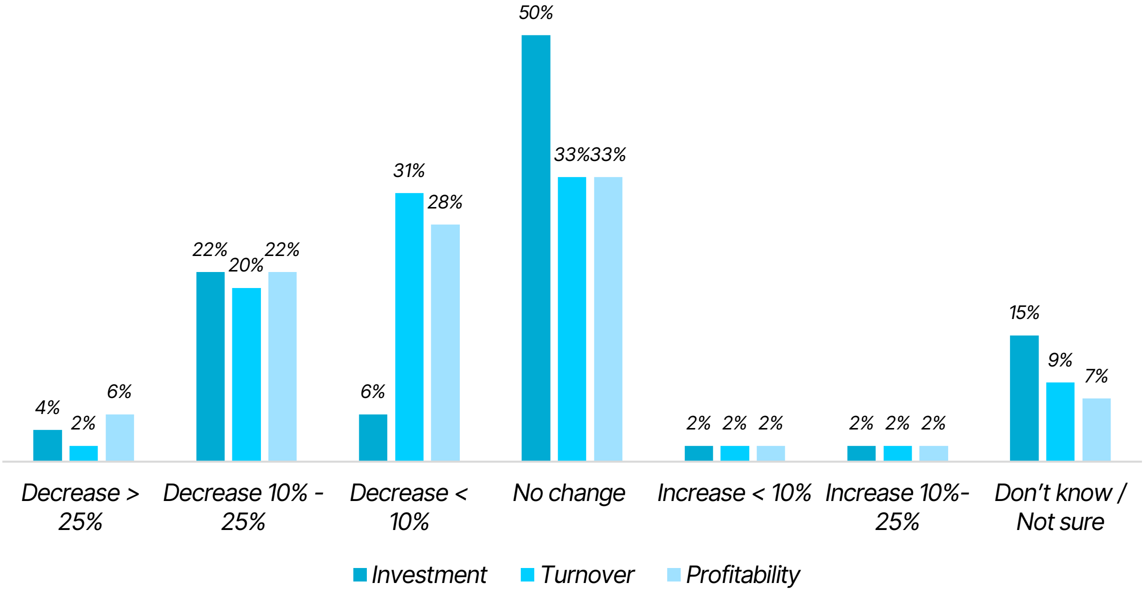
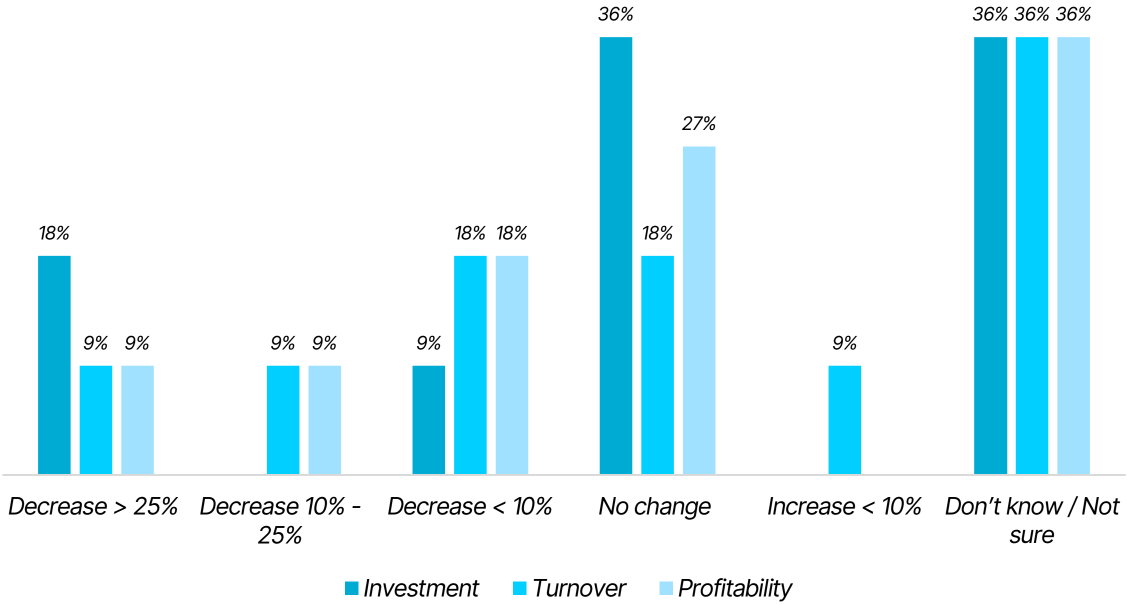


Figure 16: Can you quantify the expected impact that the current tariff regime will have on these indicators over the next two years, all else equal? (% of large business respondents)



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