



Executive summary | May 2024



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MONTHLY IMPACT MONITOR

The May 2024 edition of the Midlands Engine Regional Economic Impact Monitor covers a wide-range of topics, bringing together recent data releases, insight and real-time business intelligence from across the region. It reports at a time as the UK economy appears to be heading back to more normal ranges for most key economic indicators with forecasts pointing to further growth and headline inflation expected to come down to the 2% target rate in the summer.

Competition for skills, increased wage costs and high interest rates are continuing to ramp up pressure on businesses and act as a drag on investment and growth. There are still tentative signs that the jobs market is beginning to cool, with both a fall in the headline employment rate and a drop in the total number of people on payrolls.

▼ The number of claimants continues to increase, with **61,665 more claimants in the Midlands Engine now compared to March 2020**. Youth claimants are of particular concern in wards of Birmingham and Stoke-on-Trent where they constitute over 17% of 16-24 year olds.

This edition of the monitor explores worrying news about the lack of innovation and R&D in the UK:

▼ **UK innovation has fallen to its lowest level in over a decade, according to new data.** The percentage of businesses actively engaged in innovation dropped by 9 percentage points from 45% in 2018-20 to 36% in 2020-22. 35.1% of East Midlands businesses were innovation active, a decrease from 46.8%.



- ▼ For the West Midlands **35.4% of businesses were innovation active**, a decrease from 48.6%.
- ▼ The top reasons Midlands businesses are citing as barriers to innovation include excessive perceived economic risks, increases in energy prices, issues arising from the coronavirus pandemic and the cost of finance.
- ▼ This decline, coupled with a recent fall in private research and development (R&D) investment, raises concerns about the UK's ability to compete in the global innovation landscape.
- ▲ More businesses are recognising they must invest in **R&D and innovation** to remain competitive in a world where technology changes in fast, impactful and often unpredictable ways. The UK is one of the few countries in which business R&D spending is falling. Data published by the ONS in February showed total business investment in R&D falling by 0.4% in real terms between 2021 and 2022.
- ▼ This looks worse still when compared with a global rise of 5% in the same period, reported in OECD data released at the end of March. This means the UK is missing out on attracting and building the companies that would bring growth and resilience to our economy.
- ▲ Despite this, Midlands Universities are strong in their ability to create spin-outs, with the University of Warwick ranked 12th in the UK, creating 47 spin-outs.
- ▲ Recently equity investment in UK spinouts fell by 30.7% year-on-year, from £2.36bn to £1.66bn. Despite this drop, **spinouts have seen robust growth over the last decade.**

Midlands businesses however are resilient, as business births are up and deaths falling at faster rates than seen nationally over the past year, but recent increases in deaths are still a cause for concern. Even with all this, small firms confidence has grown this quarter.

- ▲ **The West Midlands Business Activity Index increased from 52.8 in March 2024 to 55.5 in April 2024, the strongest rate of growth since March 2022.** The increase in activity was linked to a rebound in demand, new business gains and an improvement in the market sentiment.
- ▲ **The East Midlands Business Activity Index increased from 51.0 in March 2024 to 51.2 in April 2024.** The increase in activity was linked to more favourable demand conditions and a further rise in new orders.

Separately, this month's monitor summarises key findings from recently released data on sectoral specific research:

- ▲ The Construction Industry Training Board's annual industry forecast has highlighted the need for **250,000 extra construction workers** over the next 5 years to keep up with the rising demand, with 35,600 needed in the West Midlands and 17,500 in the East Midlands.

- ▲ Furthermore, the UK's **construction output** rose by 2% in 2023 and 1.8% in the East Midlands...
- ▼ ... but declined by 4.5% in the West Midlands.
- ▲ Understanding the regional imbalances within the creative industries and how this is potentially holding back opportunities to catalyse growth, innovation and export potential in other sectors.
- ▲ A report on the importance of **strengthening the manufacturing sector** and the opportunities for the sector from the net zero transition. The net zero transition brings a generational opportunity for the Midlands to rebuild the diversity of its manufacturing strengths while paving the way to a more sustainable era of prosperity.
- ▲ More broadly, this month covers a series of work on inequalities in the UK, understanding the differences in Gross Disposable Household income (GDHI), Fuel Poverty, and Financial Vulnerability

