

MIDLANDS ENGINE
OBSERVATORY
Regional Economic Impact Monitor

Executive summary | June 2024

REGIONAL ECONOMIC IMPACT MONITOR

The June edition of the Midlands Engine Regional Economic Impact Monitor is published at a critical time in the UK. With an imminent General Election, the focus is firmly on the UK economy. The economy has struggled in recent years under the pressures of economic shocks such as the Covid-19 pandemic and Ukraine war. GDP growth came in at only 0.1% over 2023, with the dual headwinds of high inflation and increased interest rates weighing on economic activity.

While underlying price pressures have moderated somewhat, they remain uncomfortably high, with services inflation running at 5.7%. The Bank of England will need to see a continued fall in services inflation before it can be confident that headline inflation will stay sustainably at its 2% target in the medium term. A slower pace of pay rises may lead to weakening services inflation, helped by a loosening labour market.

There is mixed news for Midlands businesses during this the election period in terms of business sentiment:

Business Activity

▲ The West Midlands Business Activity Index decreased from 55.5 in April 2024 to 54.2 in May 2024, despite falling from a 25-month high this is the eight consecutive month of business growth. The increase in activity was linked to higher demand, new clients and better economic conditions. While the East Midlands Business Activity Index increased from 51.2 in April 2024 to 52.3 in May 2024, the highest rate of growth for activity for three months. The increase in activity was linked to further rises in new orders and continual improvement in demand conditions. The **UK Business Activity** Index decreased from 54.1 in April 2024 to 53.0 in May 2024.

▲ Trade figures reveal the Midlands is performing well compared to the wider UK, with an increase in goods exported decreasing the trade in goods deficit. This comes amid **SMEs** calling for reduced costs to export goods.

FDI

▼ The Midlands saw a 22.3% decrease in FDI projects over the past year, with 206 projects in 2023-24. The UK also decreased during this period (-6.0%). FDI jobs also decreased in the Midlands and the UK. The manufacturing industry, on balance, experienced growth this quarter. Although, overall, performance fell short of expectations, the sector is moving upwards as businesses secure new work providing security in the medium term. With inflation slowing and supply-chain disruption easing, manufacturers are naturally feeling more upbeat these days. West Midlands manufacturing confidence is at 7.0, with the East Midlands at 6.6.

Barriers to growth

▼ Following on from reports in previous Economic Monitors, 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.

Labour market

▼ Over the past five years, the labour market has seen the weakest employment growth since 1979-1983 and the largest increase in economic inactivity since 1971.

▲ The latest job postings data shows that the number of postings across the Midlands dropped 22.2% over the last six months to 719,466.

▼ There were 286,260 claimants aged 16 years and over in the Midlands Engine area in May 2024, an increase of 6,565 claimants (+2.3%, UK +2.2%) since the previous month. There are 64,690 more claimants (+29.2%, UK +28.4%) when compared to March 2020.

Productivity

▲ In 2022, unsmoothed GVA per hour for the overall Midlands Engine area was £35.45. Since 2021, the Midlands Engine area increased by 3.3% (+£1.14), the UK increased by 5.7% (+£2.20). In 2022, UK unsmoothed GVA per hour was £41.00 meaning the Midlands Engine area had a shortfall of £5.55.

▲ **The Tech Nation Report 2024: UK Tech in the Age of AI** provides a comprehensive overview of the investment data and trends shaping the future of UK tech.

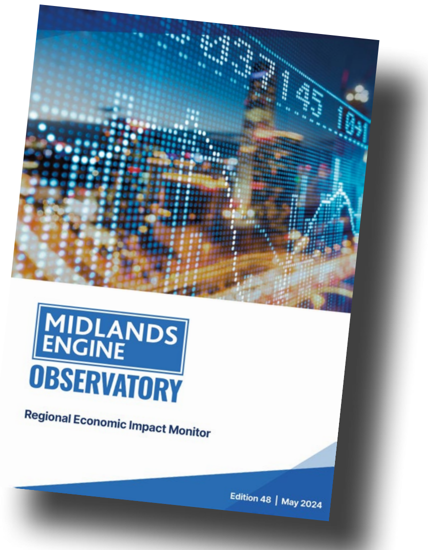
▲ A report from **Bidwells** addresses the challenges in tackling the UK's productivity problem and the role that space and land usage has in doing this. It explores how housing affordability pressures mean that high-potential, young professionals could be priced out of some of Britain's most productive places.

Levelling Up

▼ Data from Beauhurst reveals how following a boom in funding during the pandemic period, we have seen investment levels slip away globally. While early stage funding has returned to levels not far short of the pre-pandemic period, later stage fundraising, which effectively makes the important step in the commercialisation of innovation, remains severely suppressed. This is the area where the UK has historically fallen short relative to competitor counties.

▼ **Centre for Cities** reveals there is a large prosperity gap between the UK and the leading economies of the G7. The prosperity gap exists partly because the largest cities outside the UK capital such as Birmingham, Manchester, and Glasgow, do not make the contribution to the UK economy that their peer cities such as Los Angeles, Lyon, and Frankfurt make to their national economies.

▼ While a report from **NIESR** explains how the combination of insufficient central government resources and the slow disbursement of relatively small pots of money has meant that there are few signs of Levelling Up.



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