MIDLANDS ENGINE
OBSERVATORY

MIDLANDS ENGINE

REGIONAL ECONOMIC IMPACT MONITOR

EDITION 48: May 2024

Executive Summary

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.

1. Economy and Labour Market Impacts

Global and National Outlook

Global

OECD Economic Outlook

In the latest release of the OECD Economic Outlook, the OECD highlighted the following summary of key findings for regional economic growth:

There are signs that the global outlook has started to brighten, though growth remains modest. The impact of tighter monetary conditions continues, especially in housing and credit markets, but global activity is proving relatively resilient, **inflation is falling faster than initially projected and private sector confidence is improving.** Supply and demand imbalances in labour markets are easing, with unemployment remaining at or close to record lows. Real incomes have begun to improve as inflation moderates and trade growth has turned positive. Developments continue to diverge across countries, with softer outcomes in many advanced economies, especially in Europe, offset by strong growth in the United States and many emerging market economies.

Global growth in 2023 continued at an annual rate above 3%, despite the drag exerted by tighter financial conditions and other adverse factors, including Russia's war of aggression against Ukraine and the evolving conflict in the Middle East. Global GDP growth is projected at 3.1% in 2024 and 3.2% in 2025, little changed from the 3.1% in 2023. This is weaker than seen in the decade before the global financial crisis, but close to currently estimated potential growth rates in both advanced and emerging market economies.

Headline inflation fell rapidly in most economies during 2023, driven down by restrictive monetary policy settings, lower energy prices and continued easing of supply chain pressures. Core goods price inflation has generally fallen steadily, but services price inflation has been stickier, remaining well above pre-pandemic averages in most countries.

Artificial intelligence (AI) holds the potential for reviving trend productivity growth and triggering an acceleration of innovation, even if estimates of the impact of AI on productivity are subject to considerable uncertainty. The share of firms making use of AI has risen rapidly, most of these are large companies. The net effect of AI on aggregate productivity will depend on many factors, including the extent new technologies are widely diffused or concentrated in a few leading firms, and the **extent to which AI is labour enhancing as opposed to replacing.**

National

Forecasts for the UK Economy

HM Treasury have published a comparison of independent forecasts for the UK economy. **Short term forecasts predict an average of forecast growth of 0.6% in GDP for May 2024, CPI rate of 2.2% in Q4 2024 and an RPI rate of 3.2% in Q4 2024. Unemployment is expected to be 4.4% in Q4 2024.**

Forecasts for 2025 predict an average GDP growth of 1.2%. CPI rate of 2.2% in 2025 and an RPI rate of 2.9% in 2025. Unemployment is expected to be 4.4% in 2025.

Measuring Progress, Well-Being and Going 'Beyond GDP'

The ONS have published Measuring progress, well-being and beyond GDP, a new release summarising progress in the UK across the economy, environment and society.

- **around 1 in 17 (5.8%) people in the UK have low satisfaction with their life** in October to December 2023. This increased from the same period five years ago (4.4% in October to December 2018).
- **economic inactivity in the UK has increased over the last quarter** and year to December 2023 to February 2024, with 22.2% of 16- to 64-year-olds now economically inactive. **Long-term sickness is the most common reason.**
- higher inflation has put pressure on household budgets, with **21.8% of people in Great Britain finding it fairly or very difficult to get by financially** in March 2024.
- in 2022 **1.1 million fewer people enjoyed the health benefits from nature than in 2020 because they didn't get to visit often or for long enough**.

UK Food Security

Farmers have been battling to establish their crops in one of the wettest winters on record, with the **National Farmers Union (NFU) now warning that the extreme weather associated with climate change presents one of the biggest threats to UK food security.** The production of wheat, barley, oats and oilseed rape may be down by 4m tonnes compared to 2023, a reduction of 17.5%. Compared to the 2015-2023 average, the decline would be over 5m tonnes, or 21.2%. This is likely to mean not only a financial hit for farmers, but **higher imports as we look to plug the gap left by a shortfall in UK supply. There's also a real risk that the price of bread, beer and biscuits could increase as the poor harvest may lead to higher costs.** Previous analysis has revealed that extreme weather had added £361 to the average food bill in the last two years.

Policy Considerations

THEME	KEY INSIGHTS
Outlook	• Recent data from the Office for National Statistics (ONS) reveals **monthly real gross domestic product (GDP) is estimated to have grown by 0.4% in March 2024,** following growth of 0.2% in February 2024 (revised up from 0.1% growth in the previous publication) and an unrevised growth of 0.3% in January 2024. This monthly figure was mainly driven by **increasing output in services sectors, particularly transportation and storage sector.** • **GDP grew by 0.6% in the first quarter of 2024** relative to the previous three-month period, a stronger-than-expected growth compared to the forecast last month. This was generated mainly by a **widespread increase in services output**. • NIESR expect **monthly GDP will continue its momentum in April, growing by 0.1% relative to March**, driven by growth mainly in services and production, particularly Agriculture. • **NIESR now forecast GDP to grow by 0.6% in the second quarter of 2024, mainly driven by services sectors**. • CBRE's Economic Outlook Q2 2024 expects the headline inflation rate to come down to the Banks 2% target rate. **However, the trajectory will not be smooth. And while it will likely first reach 2% in the summer, it may oscillate around this level for the remainder of the year before stabilising at the target in early 2025. The outlook remains conditional mainly on the trajectory of inflation.**
Trading Conditions	• The **Consumer Prices Index including owner occupiers' housing costs (CPIH) rose by 3.0% in the 12 months to April 2024, down from 3.8%** in the 12 months to March. The **Consumer Prices Index (CPI) rose by 2.3% in the 12 months to April 2024,** down from 3.2% in the 12 months to March. • NIESR's measure of **underlying inflation**, which excludes 5% of the highest and lowest price changes to eliminate volatility and separate the signal from the 'noise', **fell to 2.5% in April from 3.1% in March; core CPI fell to 3.9% from 4.2%; and services inflation fell to 5.9% from 6.0%.** • **The economic growth we all want to see will be powered to a great degree by small firms, so it is vital to get their growth ambitions back on track, not held back by cost pressures and high interest rates.** Small firms' confidence levels started to rise over the first quarter of this year, according to FSB research, and the FSB want to see this valuable momentum keep and even pick up pace, rather than stalling or slipping back again. • **Small firms' confidence is returning – in part because they are anticipating rate cuts this year.** The decision to hold the base interest rate at 5.25% was widely predicted, but there is only so long small firms can wait for a cut in interest rates. • The FSB's Small Business Index research finds welcome signs that **small firms are on the road to growth.** The headline confidence reading **jumped up over 20 points, to reach +5.5 points** in the first three months of 2024. Manufacturing was the most positive sector at +19.2 points. FSB's Small Business Index research finds welcome signs that small firms are on the road to growth. **However, challenges remain for the hospitality and food sectors, which recorded -11.8 points.** • High costs have turned into real concerns for businesses across the Midlands, as the EY-Parthenon Profit Warnings Report reports in the first quarter of 2024, **listed companies in the Midlands saw an uptick in profit warnings with a total of nine issued – an 80% increase** compared to the same period in 2023. These figures also represent the highest number of warnings recorded since Q4 2022. Nationally there was a decrease of 7%.
Labour Market	• **Real wages – measured in terms of the goods that workers can buy with their regular wages – rose by around 2% in the year to February 2024. This is much faster than the average in recent years – real wages did not grow at all in the preceding 16 years.** The positive side to this wage growth is that it has protected household incomes, but it may worry the Bank of England because real wages are rising faster than productivity per worker, which actually fell by 0.6% in the year to Q4 2023. • **Employers across the UK will welcome further signs that the labour market is cooling, but more must be done to ensure they can access the skills they need.** A British Chambers of Commerce survey showed recruitment conditions eased in Q1 with fewer firms facing difficulties hiring. BCC call for more support and investment in workplace training.

Construction Skills Network Industry Outlook: 2024 - 2028

The UK economy is showing signs of improvement from what was seen at the end of 2023. Growth is forecast to be modest and there is a need for extra construction workers by 2028 to meet the expected levels of work. The latest Construction Skills Network report provides insights into the UK construction economy and its future labour requirements.

National Predications for 2024-2028

251,500 extra workers will be required to meet UK construction output by 2028 (50,300 per year, an increase on the 44,890 in the 2023-27 Outlook). **Output growth is forecast for all devolved nations and the nine English regions.** Modest growth is expected in 2024 which will increase from 2025. **The major sectors for demand are private housing, infrastructure and repair & maintenance. 2.75 million workers in construction if projected growth is met by 2028.**

West Midlands Region

Context

2022 saw output growth in West Midlands in line with the UK rate of growth. While UK construction output continued to grow by 2% in 2023, **output in the West Midlands dropped by -4.5%, ending the year at £14bn in 2023.** This was mainly due to a drop in new work output, with private housing (-£765m) and infrastructure (-£273m) seeing the largest falls. Growth in both public non-housing (£204m), public housing (£165m) and non- housing R&M (£186m) protected from a steeper decline. **Going into 2024, it is expected that the output in the West Midlands will decline to around £13.9bn.** Forecasted growth in R&M work provides some resilience for construction output in the region, whilst new work is expected to continue its decline during 2024.

Growth Rate

The West Midlands has an average annual output growth rate of 2.0%, which is just below the UK rate of 2.4%. This is due to a combination of a drop in new work for 2024, which picks up from 2025 onwards, alongside low growth for the R&M sectors from 2025. This is like the pattern we expect to see across the UK, just at a slightly reduced level.

West Midlands Construction Output – (£million, 2019 prices):

	ACTUAL LEVEL	FORECAST ANNUAL % CHANGE					ANNUAL AVERAGE
	2023	2024	2025	2026	2027	2028	2024-2028
Public housing	274	0.3%	3.1%	3.3%	3.3%	3.2%	2.6%
Private housing	2,884	-5.3%	11.6%	3.2%	3.5%	3.4%	3.2%
Infrastructure	2,210	-9.6%	-1.2%	1.0%	0.7%	0.5%	-1.8%
Public non-housing	864	2.7%	4.3%	3.0%	2.6%	2.3%	3.0%
Industrial	565	-5.7%	2.0%	2.2%	1.8%	1.4%	0.3%
Commercial	1,369	0.8%	3.4%	3.3%	3.1%	3.1%	2.7%
New work	**8,166**	**-4.4%**	**5.1%**	**2.6%**	**2.5%**	**2.4%**	**1.6%**
Housing R&M	2,616	2.0%	3.4%	1.9%	1.7%	1.6%	2.1%
Non-housing R&M	3,247	6.3%	2.5%	2.4%	1.7%	1.6%	2.9%
Total R&M	**5,863**	**4.4%**	**2.9%**	**2.2%**	**1.7%**	**1.6%**	**2.6%**
Total work	**14,030**	**-0.7%**	**4.1%**	**2.4%**	**2.2%**	**2.1%**	**2.0%**

Source: Experian

Job Creation

The level of output growth in the West Midlands gives an annual average increase of 0.4% in the construction workforce, which is lower than the UK figure of 0.6%. It is forecasted that the 2023 workforce of 231,450 in the region will decrease slightly to 228,430 in 2024 before increasing to reach 236,520 by 2028. This is the same pattern seen across the UK with the construction workforce reducing in 2023 and 2024.

Annual Recruitment Requirement (ARR)

The ARR in the West Midlands is set to average 3.1% per year, based on 2023 workforce levels, which is higher than the UK figure of 1.9%. This means the construction industry would have to increase current recruitment by 7,120 new workers each year (totalling 35,600) to deliver the expected work between the start of 2024 and end of 2028.

Main Growth Drivers and Contracts

The **£1.9bn Smithfield Development** is a 10-year regeneration project to provide a new market to Birmingham's city centre and create cultural spaces for music and art in the community. There will be hotels, bars and restaurants, along with plans for over 3,000 new homes. **The £1bn West Midlands Interchange project** will be the country's largest intermodal logistics site, sitting alongside 8 million square feet of warehousing facilities and will be directly connected to the West Coast Mainline. **Coventry City Centre regeneration scheme estimated at £450m** is expected to provide 1,550 new homes. Project plans offer 8,000 square metres of commercial space and 17,000 square metres of open space.

Construction Skills Network Industry Outlook: 2024 - 2028

East Midlands Region

Context

The East Midlands experienced only marginal growth in 2022. Output growth in 2023 was much more positive increasing by almost 10%, which is significantly above the UK figure of 2.0% and putting **the value of output at £11.3bn**. Growth was mainly due to an increase in non-housing R&M work, which grew by almost £325m. New work also had significant contributions with strong output growth from both public housing (+£300m) and infrastructure (+£220m) sectors. Following a positive year of growth, **it is expected that the output will reduce in 2024 by approximately 2.4%, led by a slowdown in private housing and industrial sectors.**

Growth rate

East Midlands has an average annual output growth rate of 1.9%, which is below the UK rate of 2.4%. The region is expected to show a strong performance in the R&M sectors during 2024 and then continue a steady rate of growth to 2028. New work in the East Midlands is expected to see a sizable reduction in output during 2024, before recovering with a 5.2% increase in output in 2025 and then stabilising at around 3% growth per year for the remainder of the forecast period. These patterns are like what we expect to see across the UK.

East Midlands Construction Output – (£million, 2019 prices):

	ACTUAL LEVEL	FORECAST ANNUAL % CHANGE					ANNUAL AVERAGE
	2023	2024	2025	2026	2027	2028	2024-2028
Public housing	562	-3.6%	1.4%	2.8%	2.9%	2.4%	1.2%
Private housing	2,832	-12.2%	9.7%	2.3%	3.1%	3.4%	1.0%
Infrastructure	1,344	-1.2%	3.6%	4.1%	3.5%	3.2%	2.6%
Public non-housing	494	3.1%	3.4%	3.0%	2.6%	2.3%	2.9%
Industrial	1,025	-7.4%	2.0%	4.2%	3.7%	3.3%	1.0%
Commercial	1,270	-1.3%	2.6%	2.2%	1.9%	1.8%	1.4%
New work	**7,527**	**-6.1%**	**5.2%**	**2.9%**	**3.0%**	**2.9%**	**1.5%**
Housing R&M	1,909	5.0%	1.8%	2.5%	2.7%	2.7%	2.9%
Non-housing R&M	1,908	5.1%	1.6%	1.7%	1.7%	1.5%	2.3%
Total R&M	**3,816**	**5.0%**	**1.7%**	**2.1%**	**2.2%**	**2.1%**	**2.6%**
Total work	**11,343**	**-2.4%**	**3.9%**	**2.6%**	**2.7%**	**2.7%**	**1.9%**

Source: Experian

Job Creation

The level of output growth in the East Midlands gives an annual average increase of 0.3% in the construction workforce, which is lower than the UK figure of 0.6%. It is forecasted that the 2023 workforce of 191,210 in the region will decrease to 184,480 in 2024 before increasing to 193,900 by 2028. This is the same pattern seen across the UK with the construction workforce reducing in 2023 and 2024.

Annual Recruitment Requirement (ARR)

The ARR in the East Midlands is set to average 1.8% per year, based on 2023 workforce levels, which is slightly lower than the UK figure of 1.9%. This means the construction industry would have to increase current recruitment by the equivalent of 3,500 new workers each year to deliver the expected work between the start of 2024 and end of 2028 (totalling 17,500 extra workers).

Main Growth Drivers and Contracts

Work continues on the **£1.5bn Midland Mainline electrification upgrade, with phase 3 valued at £500m** and concentrating on the 155km stretch of track from Market Harborough to Sheffield**. The East Midlands Freeport's (EMF) three sites** continue to attract investment in zero-carbon technology, energy hub, rail-logistics infrastructure and modern manufacturing. This benefits construction output over a number of sectors such as industrial, commercial and infrastructure. **Major developments such as the £750m, 3,000 home development at Fairham Pastures**, near Clifton in Nottinghamshire, along with plans by several local authorities could result in over 60,000 new homes being built.

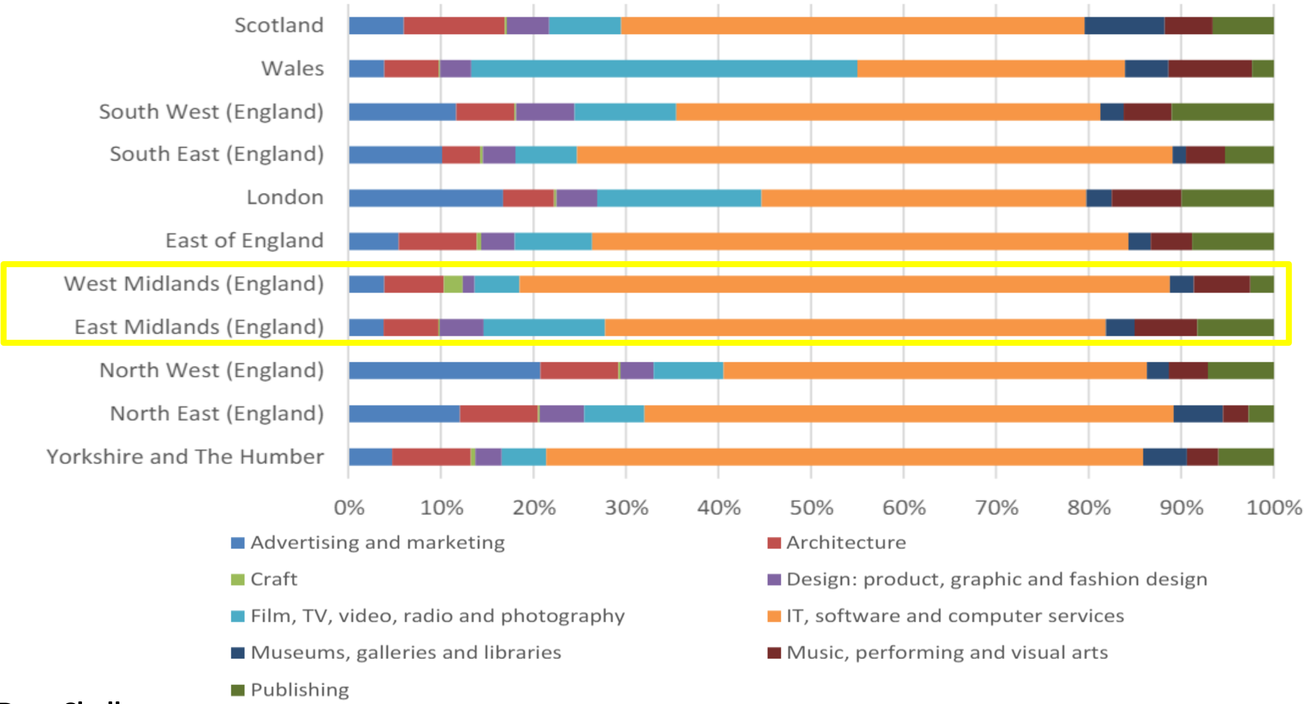
Improving Economic Statistics in the Creative Industries

A recent report by The Creative Industries Policy and Evidence Centre considers what steps would be required to advance the development of the statistics in the creative industries through a review of international approaches, stocktaking of the data required and the presentation of an 'ideal case' Multi-regional Creative Industries Satellite Account (MR-CISA) for the UK. The creative industries represent a small, but fast-growing sector of the UK economy. **In 2022, the creative industries contributed £124.6 billion in GVA representing 5.7% of UK GVA. Between 2010 and 2022 the growth in creative industries GVA outperformed the UK economy between 2021 and 2022 (9.8% compared to 4.4%).**

Creative Industries and Regional Imbalances

Measuring the economic character and contribution of the creative industries (CIs) is increasingly important to policymakers at all levels. **In recent years there has been increased emphasis on the ability of the CIs to catalyse growth, innovation, and export potential in other sectors.** There is increasing evidence of the economic potential of CIs outside London and major urban areas with clusters of CI activity present in all corners of the UK – CIs may have a role in addressing regional imbalances across the country. **The creative industries are not homogenous, with each region having a different mix and specialism in sub-sectors - for example, video games in the West Midlands.**

Percentage of FTE employment 2021 in the creative industries in each region:



Data Challenges

Support and investment in the sector to date has been informed by DCMS economic estimates of GVA and employment. This poses a problem as the economic evidence is not highly detailed and it **fails to consider the regional spillover and feedback effects associated with changes in the economy.** The data available for the economic analysis of the CIs is not as straightforward as traditional industries, as some CIs are sub-sectors spread across different standard industrial classifications (SICs) and therefore, partially hidden from national statistics. The production vectors published by the ONS are not sufficiently disaggregated for the creative industries even at the national level. A more detailed analysis at the regional level is therefore even more data intensive.

A Multi-Regional Creative Industries Satellite Account for the UK

The report finds that a MR-CISA developed to cover multiple regions of the UK will allow policy makers to see in more detail the value of CIs to regional economies and model the direct and indirect impact of policy measures and shocks across regions. The regional and sectoral spillovers revealed by a MR-CISA would provide important context to the extent spatially targeted funding decisions critical to the levelling up agenda. The report states there are two key building blocks to developing a MRCISA. Firstly, developing regional CISAs this reveals regional characteristics but, not the relationships between regions. Secondly, gathering detailed survey data on the inter-industry relationships between creative industries businesses in different regions.

Regional Business Activity

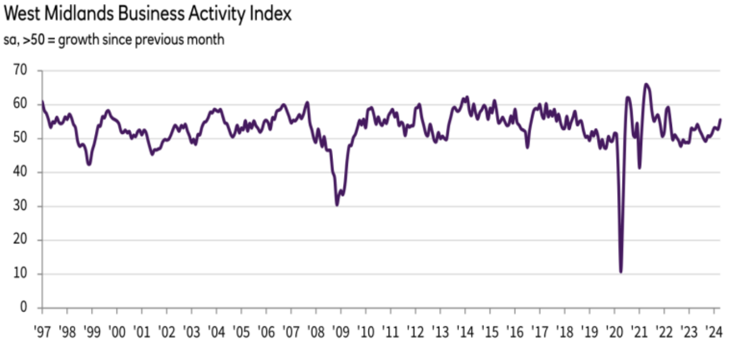
Business Activity Index

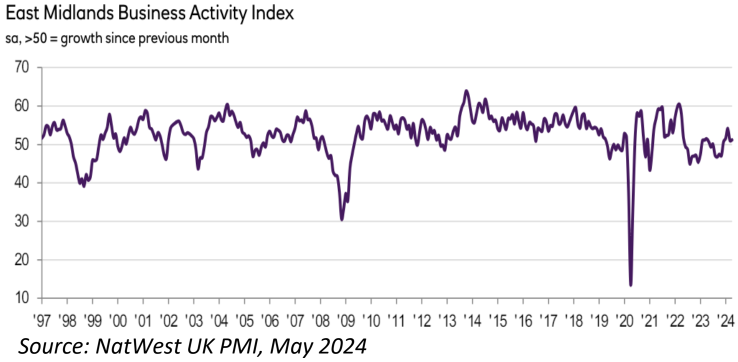
The West Midlands Business Activity Index increased from 52.8 in March 2024 to 55.5 in April 2024, the strongest rate of growth since March 2022. The increase in activity was linked to a rebound in demand, new business gains and an improvement in the market sentiment.

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.

The UK Business Activity Index increased from 52.8 in March 2024 to 54.1 in April 2024.

Business Activity Index Trends:





Source: NatWest UK PMI, May 2024

Demand

The West Midlands New Business Index increased from 50.2 in March 2024 to 53.0 in April 2024, this is the fifteenth consecutive month of growth. The latest monthly change was the strongest rate increase seen since June 2023. The East Midlands New Business Index decreased from 50.2 in March 2024 to 52.2 in April 2024, the fourth consecutive month of growth and the increase was the second fastest seen since June 2023. Growth was linked to stronger client demand.

Exports

The West Midlands Export Climate Index increased from 51.5 in March 2024 to 51.8 in April 2024, the fourth consecutive month of improvement in trade conditions. The East Midlands Export Climate Index increased from 51.7 in March 2024 to 51.8 in April 2024, the strongest improvement in trade conditions since May 2023.

Business Capacity

The West Midlands Employment Index increased from 47.4 in March 2024 to 47.5 in April 2024 but signals a third consecutive month of falls in employment. The East Midlands Employment Index dropped from 49.3 in March 2024 to 49.0 in April 2024, which is the tenth consecutive monthly drop in employment.

The West Midlands Outstanding Business Index increased from 47.5 in March 2024 to 48.0 in April 2024. The East Midlands Outstanding Business Index increased from 46.9 in March 2024 to 47.0 in April 2024, the contraction period now extends to over 18 months.

Prices

The West Midlands Input Prices Index increased from 60.4 in March 2024 to 64.3 in April 2024, the rate of inflation was the sharpest seen in 13 months. The East Midlands Input Prices Index increased from 62.4 in March 2024 to 65.9 in April 2024, the rate of inflation was the fastest seen in eight months.

The West Midlands Prices Charged Index increased from 56.2 in March 2024 to 56.3 in April 2024. The ongoing cost increases led to firms to increase selling prices, but the rate of charge inflation was broadly similar to the previous month and one of the weakest in over three years. The East Midlands Prices Charged Index decreased from 56.4 in March 2024 to 54.9 in April 2024. Although, the average output charge has continued to increase as firms passed on costs to customer. The rate of inflation has slowed to the second-weakest since January 2021.

Outlook

The West Midlands Future Business Activity Index decreased from 79.7 in March 2024 to 78.7 in April 2024. Despite falling from March's 26- month high, firms remained optimistic with 64% forecasting output growth in the upcoming twelve months. Only 6% expected a fall in output. Optimism is link to expectations of greater inbound tourism, recovery in the construction sector, new product releases and marketing efforts.

The East Midlands Future Activity Index decreased from 70.3 in March 2024 to 67.9 in April 2024. Despite the fall, firms remained optimistic for the upcoming 12 months due to hopes of stronger customer demand and greater investment in new products. Optimism was restricted due to current business conditions impacting future expectations.

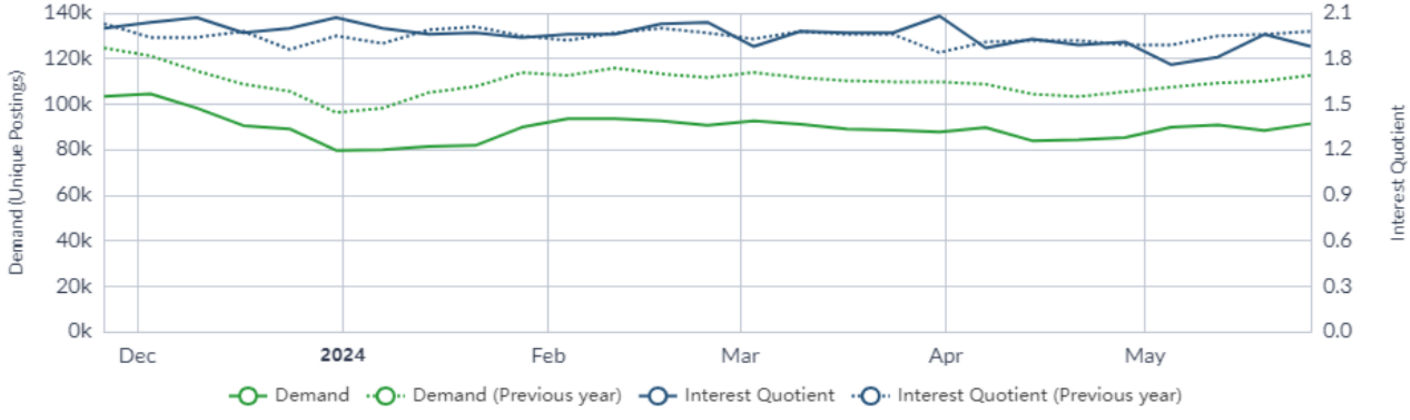
Source: NatWest: UK PMI report for April 2024, released May 2024.

Labour Market and Job Postings

Across the UK, the number of vacancies continues to fall this month. In terms of nominal earnings, annual growth in both real (including bonuses) and regular (excluding bonuses) continues to be strong but not as strong as seen in recent period. 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.

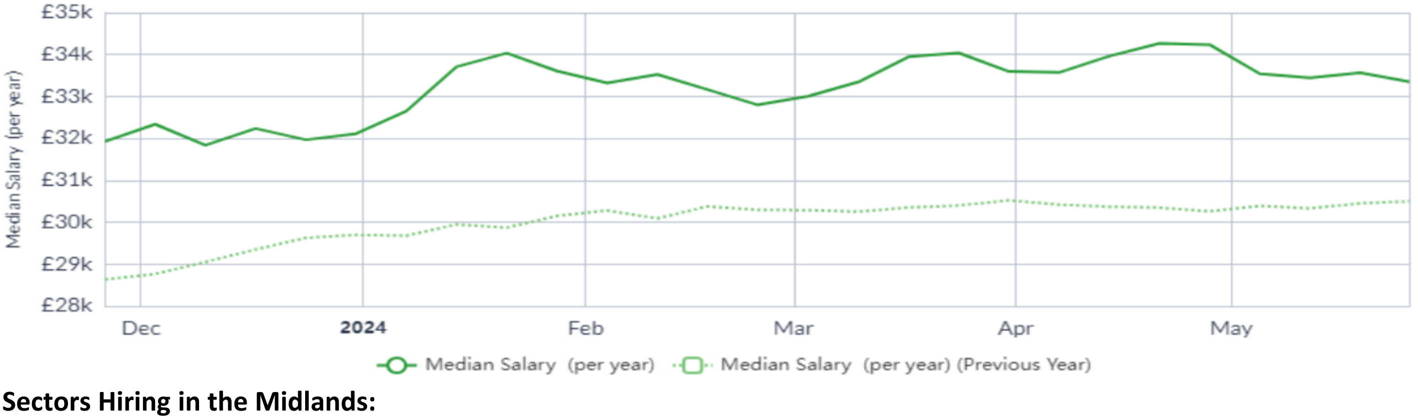
The latest job postings data shows that the **number of postings across the Midlands dropped 21.2% over the last six months to 754,499**. Despite employer demand narrowing, those seeking work - wanting a job, currently remains heightened (2.0 Interest Quotient).

Overall Demand and Interest for the Midlands:

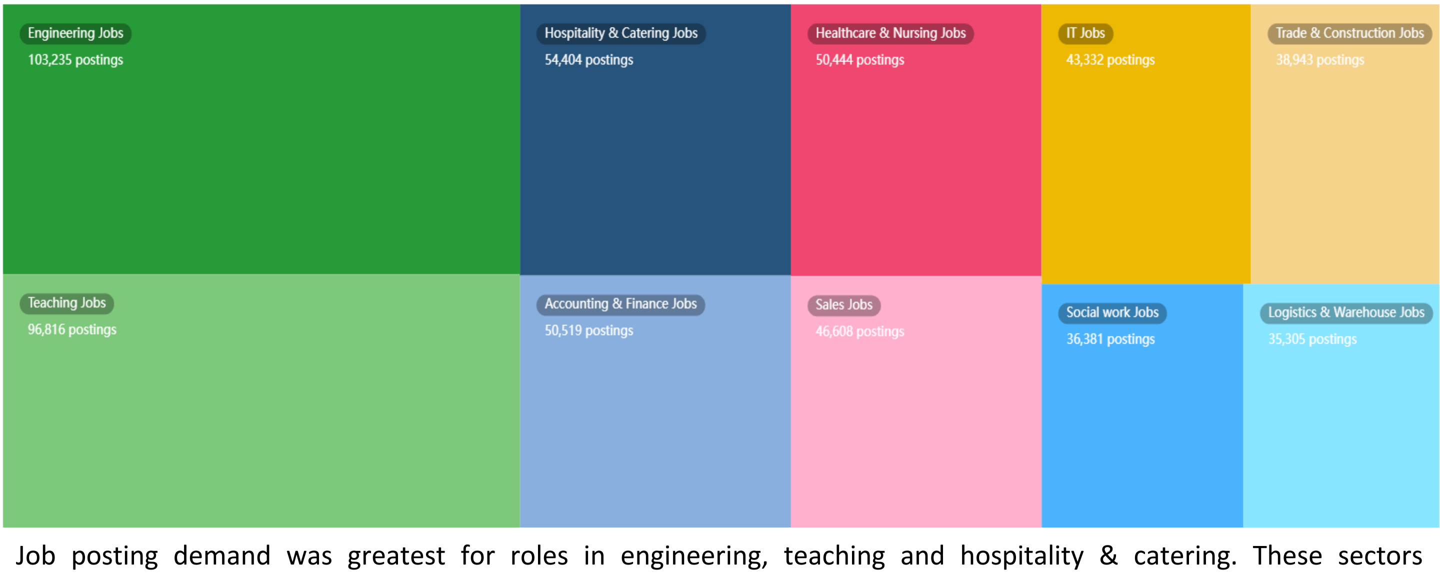


The **advertised median salary across the Midlands has increased by 10.4%** year-on-year to £32,341 per year.

Salary Trends for the Midlands:



Sectors Hiring in the Midlands:



Job posting demand was greatest for roles in engineering, teaching and hospitality & catering. These sectors accounted for 33.7% of all job postings in the last six months.

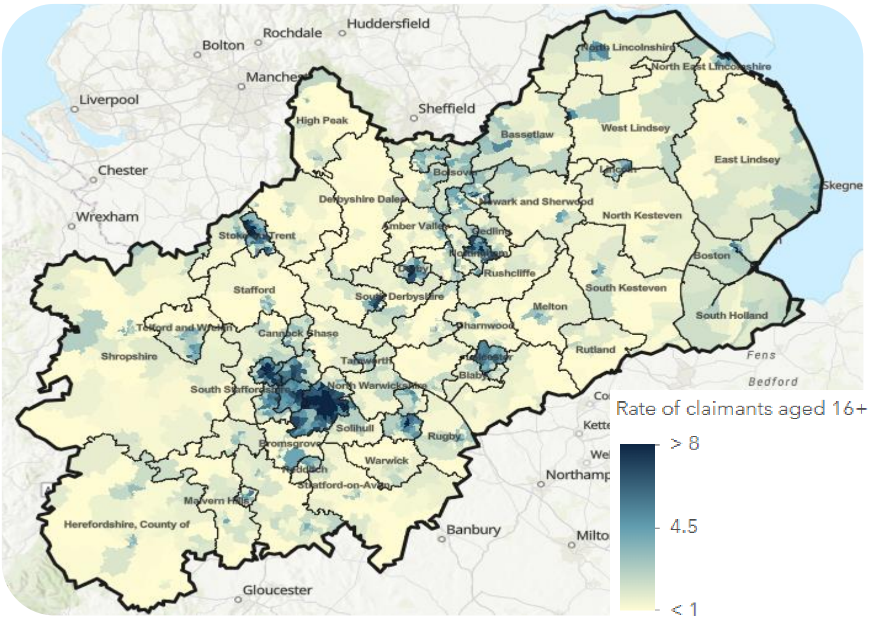
Source: Adzuna Limited Job Posting Intelligence, Accessed May 2024. The Interest Quotient uses jobseeker data to quantify the level of interest in particular roles.

Labour Market Impacts: Claimants

There were **283,205 claimants aged 16 years and over** in the Midlands Engine area in April 2024, an increase of 660 claimants (+0.2%, UK +0.4%) since the previous month. **There are 61,665 more claimants (+27.8%, UK +27.3%) when compared to March 2020**. East Lindsey and North East Lincolnshire have lower levels of claimants now than in March 2020 (-735 and -170 respectively).

The number of claimants as a percentage of residents aged 16 years and over was 3.4% in the Midlands Engine and 3.0% for the UK in April 2024.

Claimants as a Percentage of Residents Aged 16 Years and Over in April 2024:



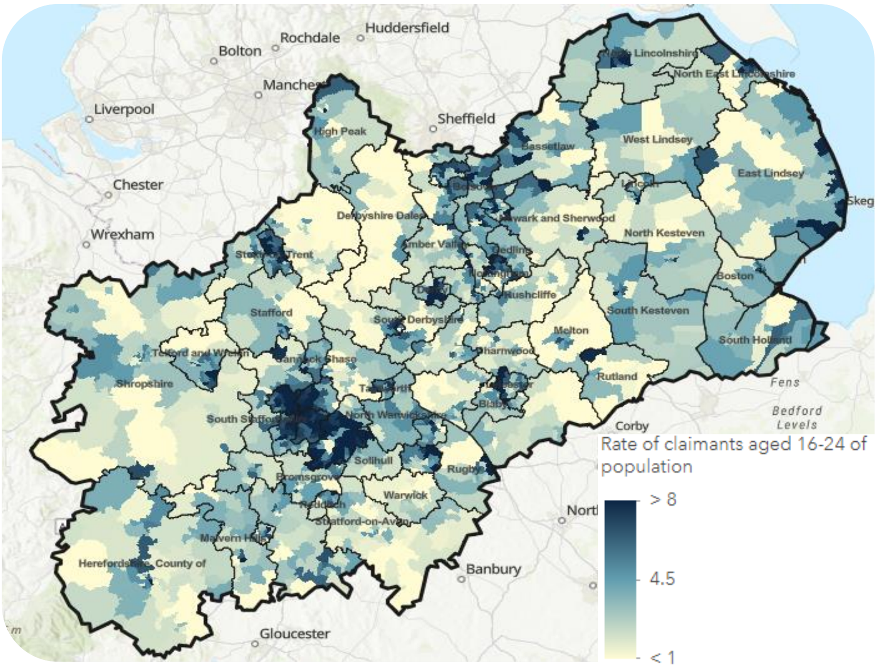
Out of the 1,511 wards within the Midlands Engine, 419 were at or above the UK average of 3.0% for the number of claimants as a percentage of the population aged 16 years and over in April 2024.

The wards with the highest number of claimants as a percentage of the population were based in Birmingham, with Lozells and Handsworth highest at 17.2% and 16.5% respectively. In contrast, Ashby Castle (North West Leicestershire) had no claimants.

There were **54,890 claimants aged 16-24 years old** in the Midlands Engine area in April 2024 – a decrease of 270 youth claimants since March 2024. This equated to a decrease of 0.5%, with the UK decreasing by 0.6%. Since March 2020, **the number of youth claimants has increased by 10,695** (+24.2%, UK +18.4%). There were 7 local authorities in the Midlands Engine that had lower levels than March 2020 and a further 2 that were the same level.

The number of claimants as a percentage of residents aged between 16-24 years old was 4.8% in the Midlands Engine and 4.1% for the UK in April 2024.

Claimants as a Percentage of Residents Aged 16-24 Years in April 2024:



Out of the 1,511 wards within the Midlands Engine, 600 were at or above the UK average of 4.1% for the number of claimants as a percentage of the population aged 16–24 years and over in April 2024.

The ward with the highest number of claimants as a percentage of the population was Handsworth (Birmingham) at 17.3%, followed by Joiner's Square (Stoke-on-Trent) at 17.1%. In contrast, within the Midlands Engine there were 96 wards with no youth claimants in April 2024.

An interactive version can be found here.

Source: ONS/ Department for Work and Pensions, May 2024.

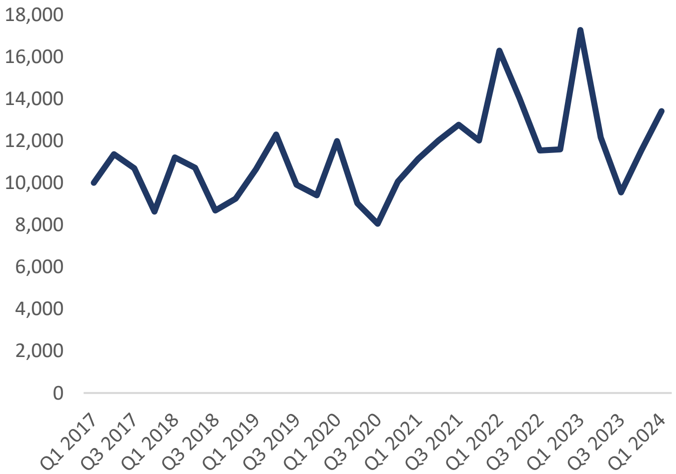
2. Business Environment

Local Business Births and Deaths

The latest [experimental low-level geographic analysis on business births and deaths] was released by the ONS in May 2024, highlighting that business births had increased at the start of 2024 but business deaths increased at a slightly faster rate. However, when compared to the same period in the previous year, deaths have decreased, and births have increased.

In Q1 2024, there were **13,420 business deaths in the Midlands Engine geographic area, an increase of 16.3% from the previous quarter (Q4 2023),** compared to a 17.3% increase nationally. However, Q1 2024 deaths figures are lower (-22.3%) than the same quarter a year ago (Q1 2023) and this reflects the national picture where deaths decreased by 17.2%. For the Midlands Engine area, the latest quarterly figures are the fourth highest (behind Q1 2023 at 17,280, Q1 2022 at 16,300 and Q2 2022 at 14,025) since 2017 (data availability).

Trends in Midlands Engine business deaths:



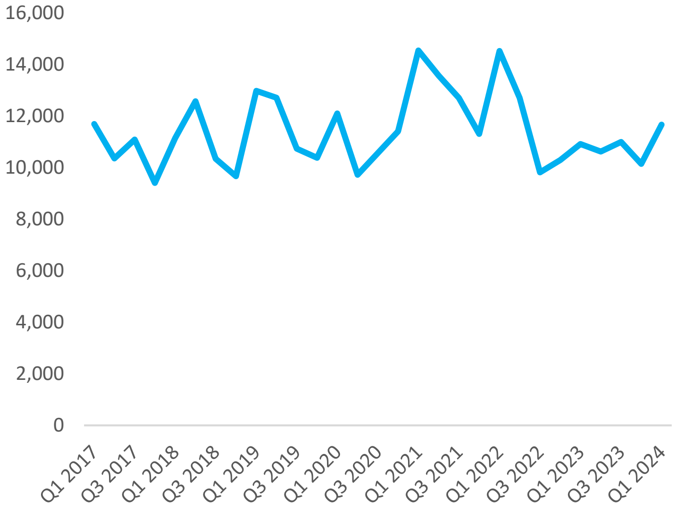
Across the Midlands Engine local authorities, when compared to the previous quarter (Q4 2023), business deaths in 8 local authorities decreased, 7 remained the same level and 50 increased. When compared to the same quarter in the previous year (Q1 2023) there were 56 local authorities that decreased, 1 remained the same level and 8 increased.

National data for main industrial groupings shows when compared to Q1 2024, there was a significant decrease in business closures in the transport and storage industry (down 32%) and within this industry, freight transport showed the most significant fall.

Regarding business births, **there were 11,655 in the Midlands Engine geography in Q1 2024.** This was an increase of 15.0% from the previous quarter (Q4 2023), compared to a 17.9% increase nationally.

When compared to Q1 2023, business births were 6.9% higher in the Midlands Engine area, reflecting national trends (+6.1%).

Trends in Midlands Engine business births:

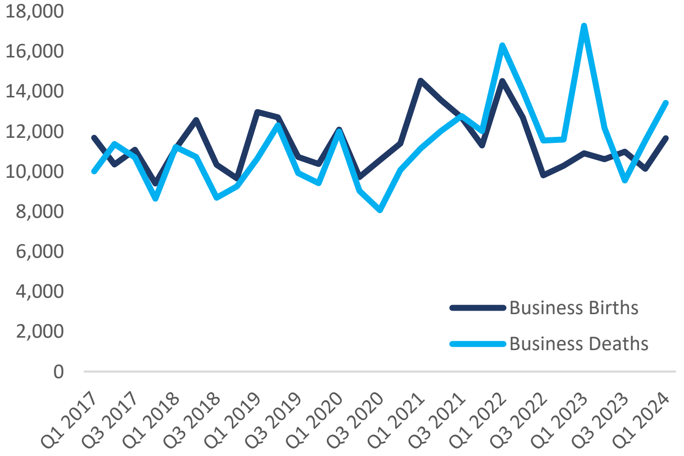


Across the Midlands Engine local authorities, when compared to the previous quarter (Q4 2023), business births in 7 local authorities decreased, 8 remained the same level and 50 increased. When compared to the same quarter in the previous year (Q1 2023) there were 23 local authorities that decreased, 5 remained the same level and 37 increased.

Nationally, the number of business creations increased in 10 out of 16 main industrial groups during this quarter compared with Q1 2023. The most significant increase came in the business administration and support services industry, where business creations were up by 28%.

For the past two quarters, there were more business deaths than business births in the Midlands Engine area (+1,405 in Q4 2023 and +1,765 in Q1 2024).

Quarterly trends in Midlands Engine business births and deaths:



Innovation

The Department of trade have released the thirteenth version of the UK Innovation Survey (UKIS). The survey is conducted every 2 years, and is used widely across government to help improve policy, and by the research community for understanding the innovation landscape.

Defining Innovation

The UK definition of innovation is based on an Organisation for Economic Co-operation and Development (OECD) definition, outlined in the Oslo Manual 2018. This definition includes any of the following activities:

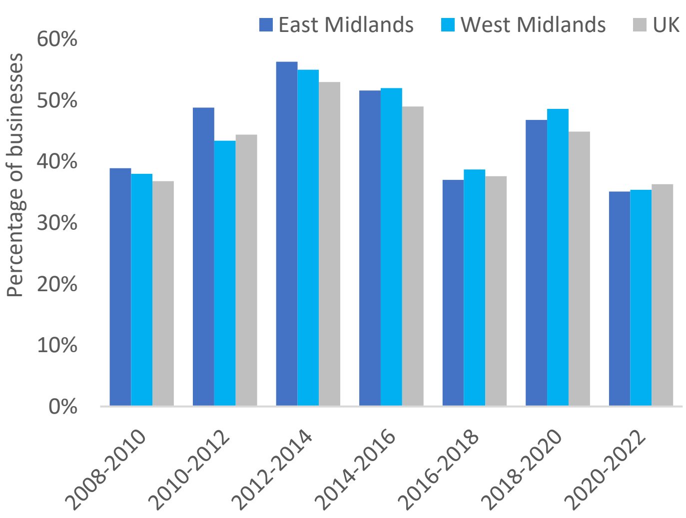
1. The introduction of a new or improved product (goods or services);
2. Business processes used to produce or supply all goods or services that the business has introduced, regardless of their origin. These innovations may be new to business or new to the market;
3. Engagement in innovation projects not yet complete or abandoned;
4. Investment activities in areas such as internal research and development, training, acquisition of external knowledge or machinery and equipment linked to innovation activities.

A business that had engaged in any of the activities described in points 1 to 3 is defined as being 'innovation active'. A business that had engaged in any of the activities described in points 1 to 4 is defined as a 'broader innovator'. A business that undertakes activity only is described as a 'business process innovator'.

Changes in Innovation

In 2020-2022, 36.3% of UK businesses were innovation active. This is a decrease compared to 44.9% in 2018-2020. **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%.

Innovation active businesses:



Innovation Activity Varies by Size of Business

Large businesses were more likely to have innovated than SMEs. In 2020-2022, 50% of large businesses were innovation active, compared to 36% of SMEs. This trend was true for each type of innovation activity.

Change in innovation investment and expenditure over time

In the UK, there were decreases in the percentage of businesses investing in each innovation activity between 2018-2020 and 2020-2022. The percentage of businesses investing in computer software was highest in the West Midlands

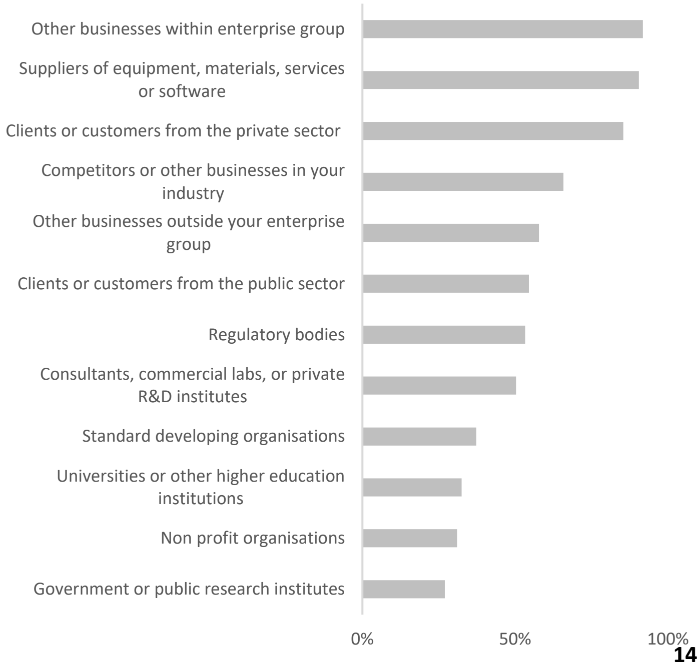
Percentage of businesses investing in each type of activity:

Innovation Activity	EM	WM	UK
Internal R&D	15.3%	13.2%	13.8%
Acquisition of external R&D	5.3%	4.2%	4.8%
Total machinery and equipment, computer hardware or software	28.2%	28.3%	27.1%
Machinery and equipment	14.7%	13.5%	13.0%
Computer hardware	18.0%	17.6%	17.2%
Computer software	16.8%	20.4%	17.7%
Acquisition of existing knowledge	3.0%	2.4%	3.2%
Training for innovative activities	8.2%	11.2%	10.4%
Any form of design activity	11.5%	10.8%	11.5%
Total market introduction of innovation	9.5%	8.3%	8.5%
Changes to product or service design	4.6%	4.1%	4.0%
Market research	2.9%	2.2%	2.7%
Changes to marketing methods	3.5%	4.6%	4.1%
Launch advertising	5.1%	5.0%	4.7%

Collaboration

Nationally, 92% of broader innovators with any co-operation arrangements reported co-operating with other businesses in their enterprise group.

Percentage of businesses with each type of cooperation arrangement (national), 2020-2022:



Innovation

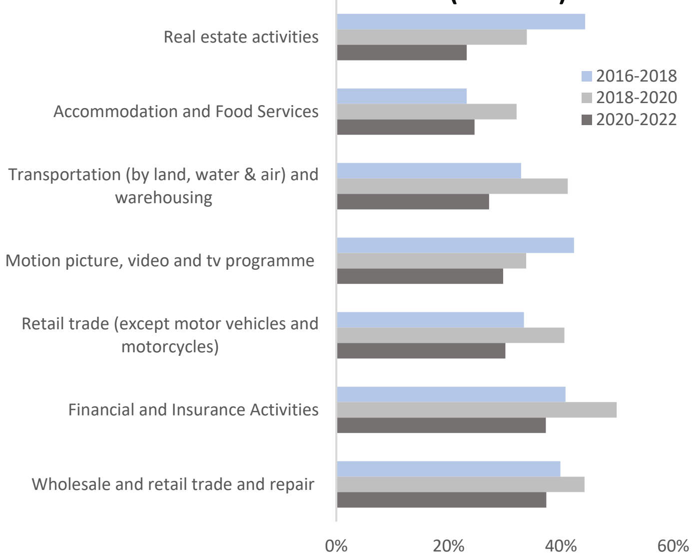
Innovation by Industrial Sector

Innovation engagement varies across different types of industrial sector and the type of innovation can vary according to sector, in particular whether businesses are [supplying products or services](#).

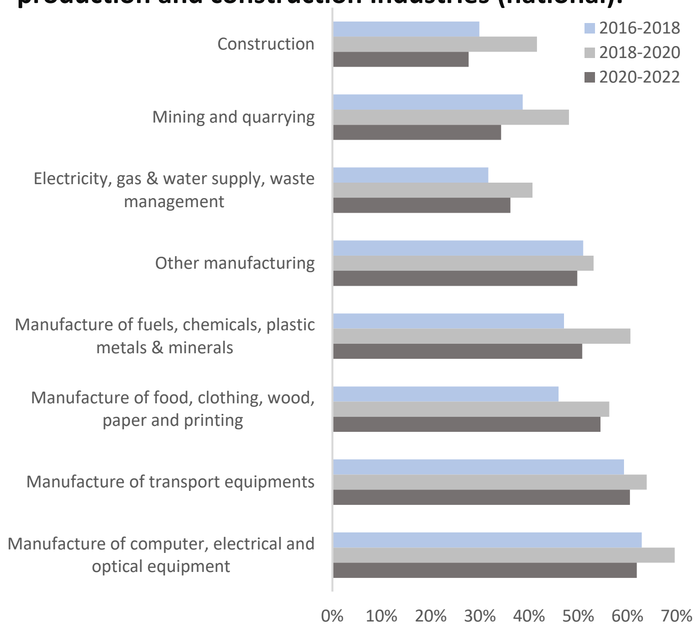
The percentage of innovation active businesses has decreased in all industrial sectors between 2018-2020 and 2020-2022. The three industrial sectors with the largest percentage point decreases in innovation activities (each of 14 percentage points) were in: transportation (by land, water & air), warehousing and storage, construction and mining and quarrying.

Businesses in production industries generally remained more innovative than businesses in distribution and service industries.

Percentage of innovation active businesses by distribution and services industries (national):



Percentage of innovation active businesses by production and construction industries (national):

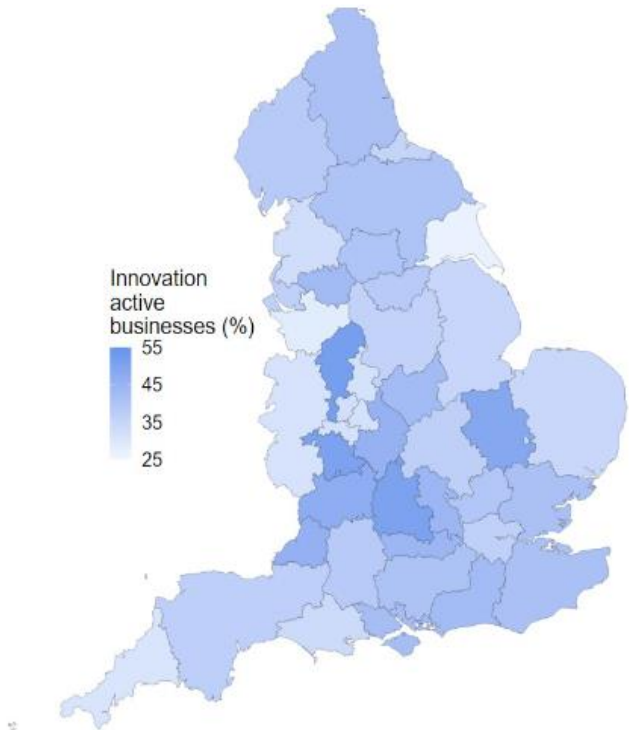


Geography of innovation

The South East and the East of England were the English regions with the highest percentage of innovation active businesses in 2020-2022 (40% and 39% respectively). The North West, **East Midlands, West Midlands,** and Yorkshire and the Humber were the English regions with the **lowest percentage of innovation active businesses in 2020-2022 (35% for each).**

Across all Local Enterprise Partnerships (LEP), **Stoke-on-Trent and Staffordshire** and Oxfordshire had the highest percentage of innovation active businesses in 2020-2022 (**52%** and 51% respectively). Hull and East Yorkshire was the LEP with the lowest percentage of innovation active businesses in 2020-2022 (27%).

Percentage of innovation active businesses by LEP:



Barriers to Innovation:

	EM	WM	UK
Excessive perceived economic risks	20.5%	20.5%	19.0%
Direct innovation cost too high	15.9%	20.2%	17.3%
Cost of finance	22.3%	22.2%	20.5%
Availability of finance	23.7%	22.4%	21.2%
Lack of qualified personnel	16.6%	23.8%	20.8%
Lack of information on technology	10.1%	11.3%	6.9%
Lack of information on markets	9.4%	6.8%	7.0%
Market dominated by established businesses	10.7%	12.6%	10.6%
Uncertain demand for innovative goods or services	13.9%	12.5%	13.6%
UK Government regulations	16.4%	15.5%	16.5%
EU regulations	8.9%	9.4%	10.5%
Withdrawal of United Kingdom from the EU	19.9%	13.8%	19.3%
Meeting technical, industry or service standards	6.4%	9.9%	9.9%
Issues arising from the coronavirus pandemic	33.8%	33.9%	33.4%
Recent increases in energy prices	30.3%	31.3%	29.7%

Spotlight on Academic Spinouts

In the fourth addition of the Spotlight on Spinouts report, Beauhurst examine the demographics of the spinout population, their sources of funding, as well as the disputed issue of equity stakes held by founders and universities. **Nationally, the 1,317 active, academic spinout companies account for 2.5% of the UK's high-growth company population but continue to outperform their size. Spinout companies raised £1.66bn in equity funding in 2023, 9.5% of equity funding raised by UK companies across the year.**

Top Academic Institutions

Out of 42 academic institutes, the University of **Warwick ranks 12th highest in terms of total number of spinouts tracked since 2011 with 47. The University of Nottingham was ranked 16th with 39 and the University of Birmingham ranked 20th with 34.** Loughborough University was joint 31st (with University of Dundee) with 17. Aston University was joint 38th (with University of Sussex) with 11 and Cranfield reached 42nd place with 9.

Spotlight - University of Warwick

The University of Warwick has created 47 spinout companies. Of the spinouts, 34 (72.3%) have successfully secured equity funding, which has collectively raised £246m across 120 funding rounds since 2014. Additionally, three spinouts from the University of Warwick were acquired.

Top Exits

Intelligent Energy, a Loughborough University spinout ranked 6th in terms of the top IPO's by market capitalisation between 2014-2023 at £639m, the highest in the Midlands. Oncimmune, a University of Nottingham spinout ranked 18th at £66m. Haemostatix, a spinout from the University of Leicester, ranked 16th in terms of valuation or considerations paid in spinout acquisitions at £28m.

Dominant Sectors

Overall, the sector with the highest number of spinouts was pharmaceuticals with 331, followed by research tools and reagents (302) and analytics, insights and tools (270). January 2024 saw an increase in cleantech spinouts by 8% to 162.

The emerging sectors (areas of technological innovation and application outside existing sector classifications) with the most spinouts are Artificial Intelligence with 184, followed by Genomics (101) and precision medicine (94). **The Midlands has a combined 20 spinouts in the Artificial Intelligence sector**, behind only London (57) and the South East (34).

Top sectors by number of spinouts (January 2024):

Pharmaceuticals	331
Research tools and reagents	302
Analytics, insight, tools	270
Clinical diagnostics	173
Cleantech	162
Software-as-a-service (SaaS)	144
Medical devices	139
Materials technology	114
Mobile apps	78
Internet platform	76
Nanotechnology	70
Medical instrumentation	66
Security services (physical and virtual)	60
Educational services	52
Healthcare products	51
Desktop software	48
Chemicals	47
Electrical components	41
Waste management services	36
Semiconductors	35

Top regions by number of Artificial Intelligence spinouts (February 2024):

London	57
South East	34
East of England	18
North West	13
South West	13
Scotland	13
West Midlands	11
East Midlands	9
Wales	6
Yorkshire and The Humber	4
North East	3
Northern Ireland	3

Spotlight on Academic Spinouts

Funding Sources

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. Between 2014-2023 there were 3,627 equity deals totalling £14.5bn. **Of the five highest investees in 2023, three were in the life sciences sector, however the largest was in the Artificial Intelligence sector.** Looking at the last 10 years, the average size of investments in new spinouts has increased, with growth of 111% from 2014 to 2023, bringing the average investment to £4.00m.

Between 2014 and 2023, the value of **Innovate UK grant funding awarded to spinouts saw more than a fourfold increase**, from £34.3m to £142m, while the number of **grants nearly doubled** from 179 to 343. University-led initiatives are making strides, such as the Midlands Mindforge, a £250m investment vehicle established by Midlands universities launched in 2023.

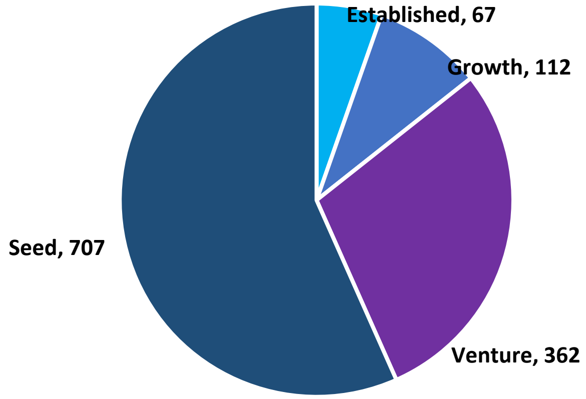
Equity investment secured by spinouts:

Date	Number of Deals	Amount Secured
2014	259	£520m
2015	296	£880m
2016	296	£990m
2017	371	£1.22bn
2018	360	£1.53bn
2019	689	£1.1bn
2020	418	£1.53bn
2021	422	£2.72bn
2022	421	£2.36bn
2023	395	£1.66bn

Survival and Growth

Out of the 1,880 university spinouts in the UK, 355 (18.9%) have ceased operations. Of the active spinouts, 70 (5.31%) are classified as zombie companies. The average age of UK spinouts at death between 2014-2023 was 7.69 years. Analysis of the 1,118 spinouts that have raised equity investment shows that well-capitalised spinouts generally have higher survival rates. MoniRail, a **University of Birmingham** spinout, was one of the fastest growing spinouts by Compound Annual Growth Rates (CAGRs) in their turnover or headcount as reported in their financial accounts for the past three years. The spinout has a CAGR (headcount) of **71%.** MoniRail develops an inertial measurement unit and data analysis tool for the rail sector and has raised £960k via seven equity deals since its incorporation in 2018.

Stage of evolution of active spinouts (January 2024):

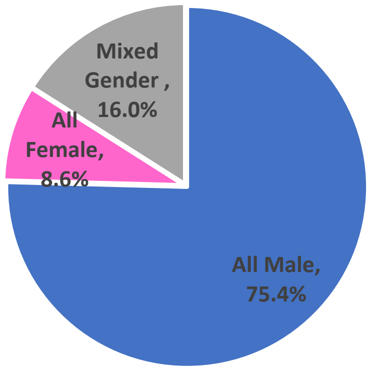


Leadership

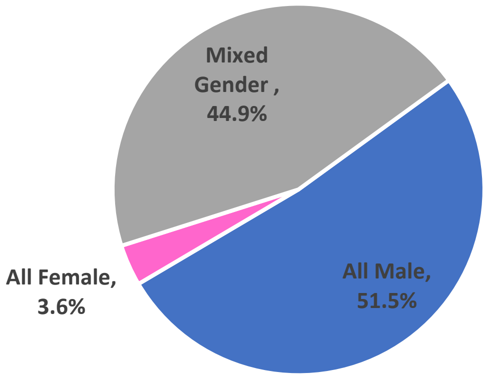
Most active spinouts have founder or director teams comprised entirely of men - this is also true of the broader population of high-growth companies. **High-growth companies are more likely to have all female founding teams compared to spinouts (13.0% compared to 8.57% respectively)**. Spinouts are more likely to have mixed-gender founding teams (16.0%) compared to the general high-growth population (12.1%). The median age of active spinout founders is 48.0. In UK spinouts, foreign directors are most frequently from the United States (307) representing 15.1% of all spinout directors with a non-UK nationality.

Active spinout leadership by gender (January 2024):

Founders



Directors



Equity Stakes

The mean stake taken by a university during spinout formation increased from 19.1% in 2022 to 22.2% in 2023. The 2022 annual mean remains the lowest for the decade. Despite the slight increase in mean stake in 2023, the annual mean stake has decreased by 17.5% over the last decade from 26.9% to 22.2%.

Manufacturing Matters

[The Institute for Public Policy Research](IPPR) released a report on the importance of strengthening the manufacturing sector and the opportunities for the sector from the net zero transition.

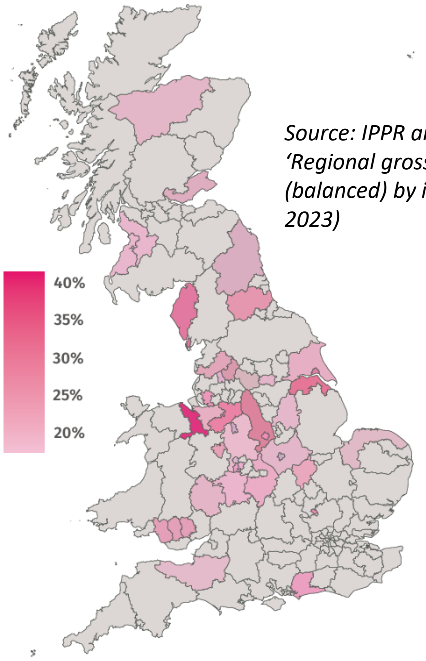
The Need to Build New Strengths in Manufacturing

The more diverse an economy's capabilities, the easier it will be to branch out into new products and develop new strengths. Advanced economies are competitive at making the most complex and valuable things because they have been successful at leveraging their diverse capabilities in new and innovative ways. The UK has seen a dramatic and exceptional decline in the diversity of its manufacturing strengths. **Britain's basket of competitive goods exports has shrunk by one-third since the mid-1990s while the average G7 country has added 6 per cent more goods to theirs.**

Manufacturing Decline and Regional Growth

Manufacturing is more present in the north and **the midlands** compared to tradeable services which are highly concentrated in and around London. **Regions with the most manufacturing presence three decades ago continue to be the most manufacturing-intensive regions today in terms of economic activity** and still have a much higher share of manufacturing jobs than the national average. **The difference today is that there are fewer manufacturing jobs overall, increasing these regions' reliance on lower-wage, low-productivity service industries such as hospitality.** This has hollowed out the middle of the income distribution in many areas and reduced economic opportunity for people with meaningful skills but without a university education.

Area in the top quartile for manufacturing and tradeable services share of GVA:



Source: IPPR analysis of ONS, 'Regional gross value added (balanced) by industry' (ONS 2023)

Manufacturing and Net Zero

The net zero transition brings a generational opportunity for the UK to rebuild the diversity of its manufacturing strengths while paving the way to a more sustainable era of prosperity. Nurturing and growing our manufacturing sector can bring these benefits to manufacturing-focussed places while improving our trade balance and the overall competitiveness of the UK economy. Green products become much more cost-competitive relative to fossil-fuel-based technology as key production processes for things like car batteries and large wind turbines get more efficient, as industries grow and take advantage of economies of scale.

The Resilience of Green Supply Chain

The Covid-19 pandemic and recent geopolitical issues have highlighted the risks to supply chains from external shocks. In a net zero economy, energy security will depend on our ability to build and replace green technologies – a different proposition to the current situation that depends on our ability to buy or replace fossil fuels. Manufacturing capacity for key renewable energy systems can ensure that the UK is prepared for any global shocks that may occur. Building factories to plug global supply shortages can increase progress towards net zero while seizing export and growth opportunities. Additionally, building manufacturing capacity in emerging technologies such as tidal power and green hydrogen will give the UK first-mover advantage and presents an opportunity to develop world-leading green manufacturing clusters across the country. **Estimates show that net zero jobs paid £10,000 more per year than the national average salary.** Productivity in the net zero manufacturing sector is also an estimated 1.4 times higher than the national average. Due to a large presence of capital-intensive businesses in the energy and manufacturing sectors, productivity in the net zero economy in Wales, Yorkshire and the Humber, and the **West Midlands** is double the regional average.

Green Strengths

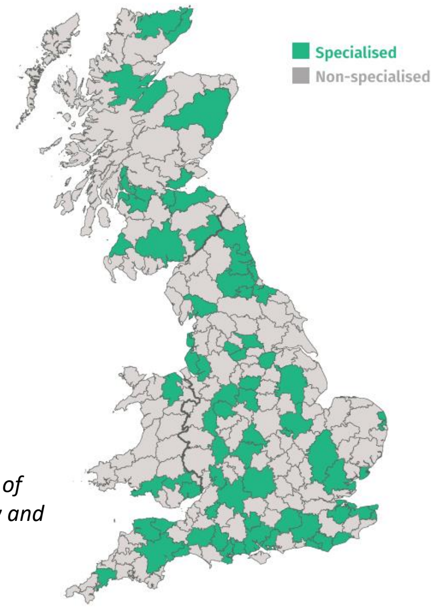
Britain currently has a revealed comparative advantage in 49 of the 143 goods relevant to the net zero transition, including: building insulation materials such as glass fibres, electric rail locomotives and parts for trains and turbines that can be used in geothermal or hydroelectric energy generation. However, comparative advantage in production varies by region. Many coastal regions around Great Britain have regional comparative advantage in green manufacturing. **There are also significant pockets of inland green manufacturing in the Midlands** and East Anglia.

Manufacturing Matters

Green Potential

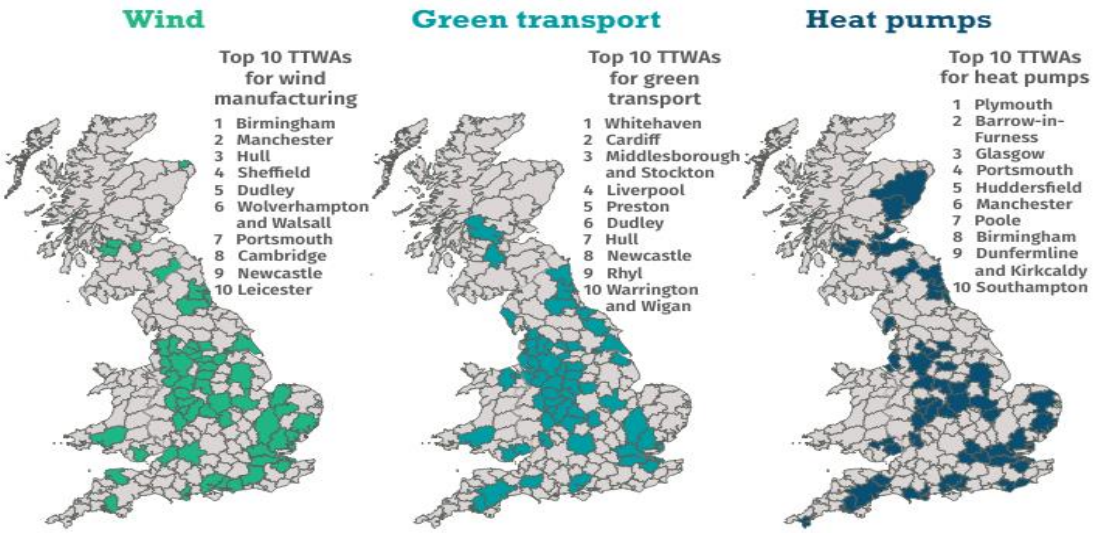
Wind manufacturing is the sector with the highest green potential - the manufacturing of wind turbines is the green manufacturing sector that the UK could most easily branch into given our current skills, know-how and tools. Grid products and carbon capture and storage (CCUS) are about average, while other green industries are not as close. The UK has existing strengths in monitoring equipment, but this sector is not as highly related to other manufacturing sectors in the UK. The North West and **West Midlands have a large presence of ordinary manufacturing that is related to the wind and green transport sectors**, and some places in these regions also have high levels of employment in sectors related to heat pump manufacturing. **This suggests that these regions are well placed to develop green manufacturing capacity.**

Travel to work areas with regional comparative advantage in green manufacturing:



Source: IPPR analysis of ONS Business Registry and Employment Survey

Areas in the top quartile of employment in ordinary manufacturing related to each green sector:



Resilient Foundations

Green manufacturing will need inputs from several domestic and international industries that supply the tools and materials needed to make the technology needed to hit net zero. The UK also won't be able to make every green product and will rely on trade with many countries to hit net zero. Net zero is incredibly reliant on physical capital – this means plentiful, sustainably produced construction materials are a must. **A net zero economy needs green steel, green chemicals manufacturing and others.** If domestic production is substituted with imports from places with lower environmental standards, then the UK will still be contributing to global emissions and its net zero mission will be at risk. As fossil fuels get less important, lithium, graphite, cobalt, copper and many other minerals will be needed in for batteries, electricity systems and renewable energy sources. Supply will have to come from areas with natural reserves, and that will make a net zero economy reliant on imported natural resources.

The Path to Green Industrialisation

The report concludes that a pathfinding strategy for green industries should consider the following:

- The potential size of the domestic and global market
- Existing green strengths
- Green potential
- Supply chain resilience

The UK might not have comparative advantage in wind manufacturing right now, but it this is a sector that can draw on our existing manufacturing capabilities. The UK already has some strengths in heat pumps an**d could branch out from existing manufacturing capabilities into this area relatively easily.** Both these industries are currently projected to see global shortages in manufacturing capacity relative to the level needed to reach net zero. This means these sectors are a priority. The UK can leverage its existing industrial strengths to build new green transport industries, particularly electric cars and zero emissions aviation.

Local Business and Policy Intelligence By Sector

SECTOR	KEY INSIGHTS
Construction	• The Construction Industry Training Board's (CITB) 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.** • CITB also report that skills shortages within the sector remain a concern, as for **31% of construction employers,** finding skilled workers remains a challenge **due to the increasing number of older workers retiring and not being replaced**. • **Monthly construction output is estimated to have decreased 0.4% in volume terms in March 2024**; this came from decreases in both new work (-0.7%) and repair and maintenance (-0.1%).
Retail, Hospitality and Tourism	• **Retail sales volumes (quantity bought) fell by 2.3% in April 2024, following a fall of 0.2% in March 2024 (revised from 0.0%).** Sales volumes fell across most sectors, with clothing retailers, sports equipment, games and toys stores, and furniture stores doing badly as **poor weather reduced footfall**. More broadly, **sales volumes rose by 0.7% in the three months to April 2024 when compared with the previous three months, following a poor December 2023**, and fell by 0.8% when compared with the three months to April 2023. • The Society of Independent Breweries' UK brewery tracker found that there has been a UK-wide loss of 47 to 1,7777 active breweries in April this year. **The Midlands lost 11 breweries.**
Manufacturing	• The Executive Survey 2024, from Make UK in association with PwC, finds that the **UK's manufacturers view the country as a more competitive place to operate than they did last year, with an increasing number believing that they are moving ahead of their European rivals**. Though they see risks in access to skills, increasing energy and employment costs - and remain wary of economic conditions both at home and abroad - the majority think opportunities will outweigh risks. • UK manufacturers overwhelmingly support devolution, with the majority wanting to see the process across the whole of England better structured in order to deliver its full potential, according to a recent Make UK survey. **More than 70% of firms view decision-making at the local level as important to their future success, with over 60% wanting to see a better constructed devolution deal, underpinned by new laws which would pull together existing local authority and devolution legislation into one powerful act.** • **Skills remain a key priority for manufacturers**, with a new report by In-Comm Training revealing 61% are planning on taking on an apprentice over the next 12 months.
Transport Technologies	• **Freeport East and East Midlands Freeport have signed a deal on a new partnership that the two organisations say will support a green freight corridor that will help decarbonise transport** and drive enhanced skills and employment initiatives along the length of one of the UK's most important transport routes. • The government's top infrastructure adviser has warned **axing the northern leg of High Speed 2 will stunt growth in the UK's biggest regional cities unless alternative rail capacity is built,** as it forecast soaring demand on the route over the next two decades.
Environmental Technologies	• A new survey has revealed that **nine in ten UK businesses want increased government support to achieve their decarbonisation goals**, highlighting rising costs as a major obstacle and calling on the next government to **assist with the transition expenses.** • With the right reforms on the right terms for pension savers, **UK pension funds could quadruple their investment in UK climate solutions to up to £1.2trn of their UK asset allocation.** This level of investment has the potential to account for **half of the gross capital investment in climate solutions required by 2035 for the UK to remain on track with net-zero.**
Agri-Tech	• In its response to **John Shropshire's Independent Review into Labour Shortages in the Food Supply Chain**, **the government have announced their commitment to series of new measures to support the industry.** These include: **extending the seasonal worker visa route** for five years until 2029 to give businesses time to plan effectively; **up to £50 million of further funding for new technology** to support fully automated packhouses and more support to follow to bring robotic crop pickers on a par with human pickers in three to five years; **creating a comprehensive strategy to enhance skills provision** and attract domestic workers.

Business Insights and Impact on the UK Economy

ONS have published the final results from Wave 108 of the [Business Insights and Conditions Survey (BICS)](#).

Financial Performance

28.3% of West Midlands businesses and 27.0% of East Midlands businesses reported that turnover in April 2024 when compared to the previous month had increased. While 25.0% of West Midlands businesses and 26.7% of East Midlands businesses reported turnover had decreased.

32.0% of West Midlands businesses and 31.9% of East Midlands businesses expect turnover to increase in June 2024. While 9.4% of West Midlands businesses and 8.0% of East Midlands businesses expect turnover to decrease.

Demand for Goods and Services

17.2% of West Midlands businesses and 15.1% of East Midlands businesses reported that domestic demand for goods and services in April 2024 when compared to the previous month had increased. 15.8% of West Midlands businesses and 16.6% of East Midlands businesses reported a decrease.

5.6% of West Midlands businesses and 4.5% of East Midlands businesses reported that international demand for goods and services in April 2024 when to the previous month had increased. 4.6% of West Midlands businesses and 5.4% of East Midlands businesses reported a decrease.

Global Supply Chain Disruption

7.3% of West Midlands businesses and 6.4% of East Midlands businesses experienced global supply chain disruption in April 2024. With 54.8% of West Midlands businesses and 63.8% of East Midlands businesses citing the main reason for disruption was the conflict in the Middle East.

Trade

24.7% of West Midlands businesses and 22.9% of East Midlands businesses both exported and imported in April 2024. 3.1% of West Midlands of 2.7% of East Midlands businesses exported only and 13.4% of West Midlands businesses and 11.8% of East Midlands businesses imported only.

Main Concern for Business

22.0% of West Midlands businesses and 20.4% of East Midlands businesses cited **falling demand of goods and services as the main concern for business** for the upcoming month.

Recruitment Difficulties

19.0% of West Midlands businesses and 19.6% of East Midlands businesses reported **experiencing difficulties in recruiting employees** in April 2024.

Number of Employees

18.5% of West Midlands businesses and 18.1% of East Midlands businesses expect the number of employees in June 2024 to increase. 6.8% of West Midlands businesses and 7.2% of East Midlands businesses expect the number of employees to decrease.

Worker Shortage

17.0% of West Midlands businesses and 18.9% of East Midlands businesses are currently experiencing a shortage of workers. While 66.4% of West Midlands businesses and 66.1% of East Midlands were not.

Insolvency

5.5% of West Midlands businesses and 5.8% of East Midlands businesses were at moderate risk of insolvency. 43.8% of West Midlands businesses and 44.4% of East Midlands businesses reported low risk of insolvency. **39.1% of West Midlands businesses and 37.9% of East Midlands businesses had no risk of insolvency.**

Cash Reserves

6.6% of West Midlands businesses and 7.5% of East Midlands businesses had no cash reserves / less than 1 month. 26.4% of West Midlands businesses and 28.5% of East Midlands businesses had between 1 to 6 months. **44.6% of West Midlands businesses and 43.7% of East Midlands businesses had over 6 months of cash reserves.**

Supply Chains

80.7% of West Midlands businesses and also 82.6% of East Midlands businesses were able to get the materials, goods or services it needed from within the UK in April 2024. A further 4.6% of West Midlands businesses and 3.8% of East Midlands businesses were able to get materials, goods or services from within the UK but by changing suppliers or finding alternative solutions. 2.1% of West Midlands businesses and 2.5% of East Midlands businesses were not able to get the materials, goods or services needed from within the UK.

Overall Performance

28.8% of West Midlands businesses and 28.5% of East Midlands businesses reported that their overall performance in April 2024 when compared to the same period in the previous year had increased. 20.5% of West Midlands businesses and 20.3% of East Midlands businesses reported performance had decreased.

42.1% of West Midlands businesses and 39.7% of East Midlands businesses expect overall performance to increase over the next 12 months. While 7.4% of West Midlands businesses and 7.3% of East Midlands businesses expect performance to decrease.

Please note – the survey reference period: 1st to 30th April 2024. Survey live period: 7th to 19th May 2024. The response rates are low and the data is unweighted and should be treated with caution.

3. Inequalities

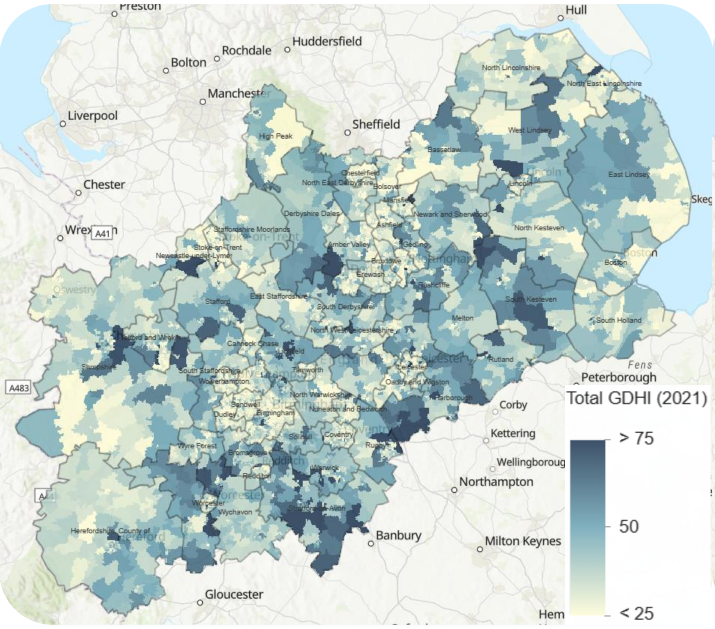
Subnational Gross Disposable Household Income

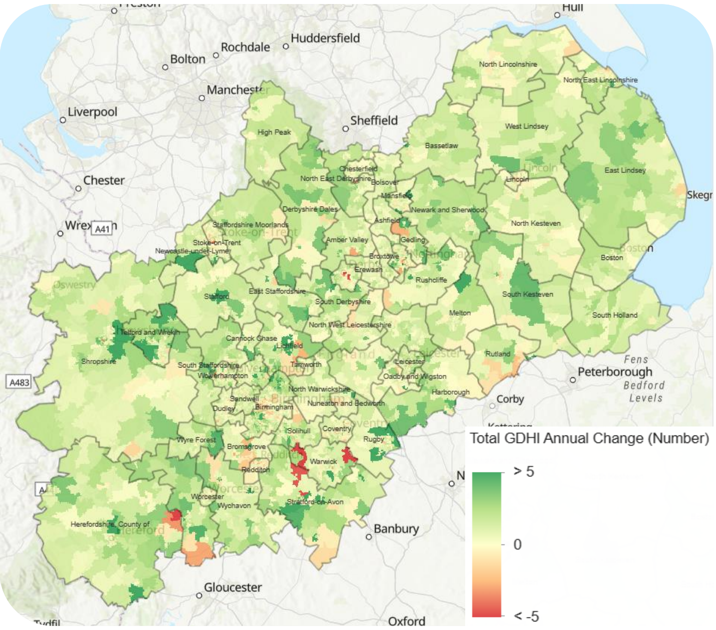
Following on from the annual regional Gross disposable household income at a local authority area in September 2023, for the first time, the ONS have released [Gross Disposable Household Income (GDHI) to lower levels of geography] up to the 2021 period.

Gross Value Added (GVA) gives insight into the business side of the economy. Gross disposable household income (GDHI) is the amount of money that individuals in households have available for spending or saving after they have paid taxes and received benefits**. GDHI is a standard measure of the economic activity taking place in the households sector. Used together, the statistics allow comparison between what is produced in an area and how much of that value remains in the area in the form of income.**

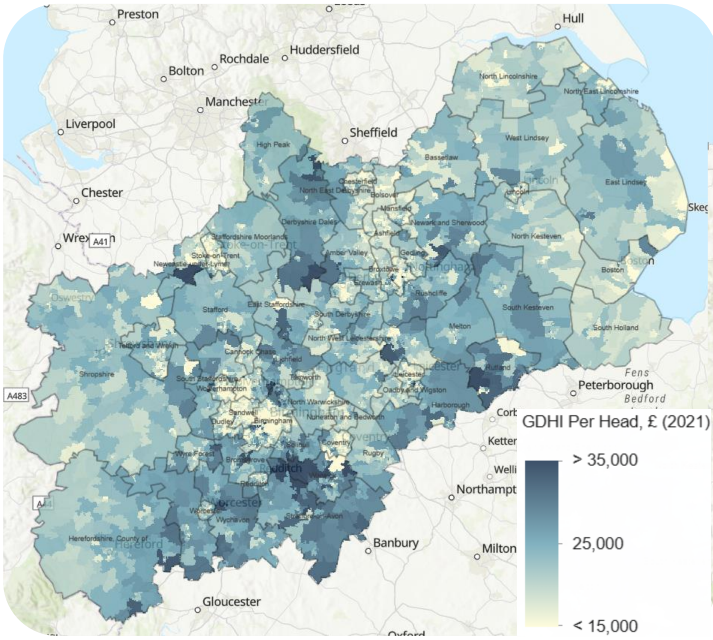
The following maps show the varying levels of total GDHI and per head (left-hand side) across the Midlands Engine area in 2021. The maps on the right-hand side shows many small areas within the area had an annual increase or no real change, but with pockets where there were declines.

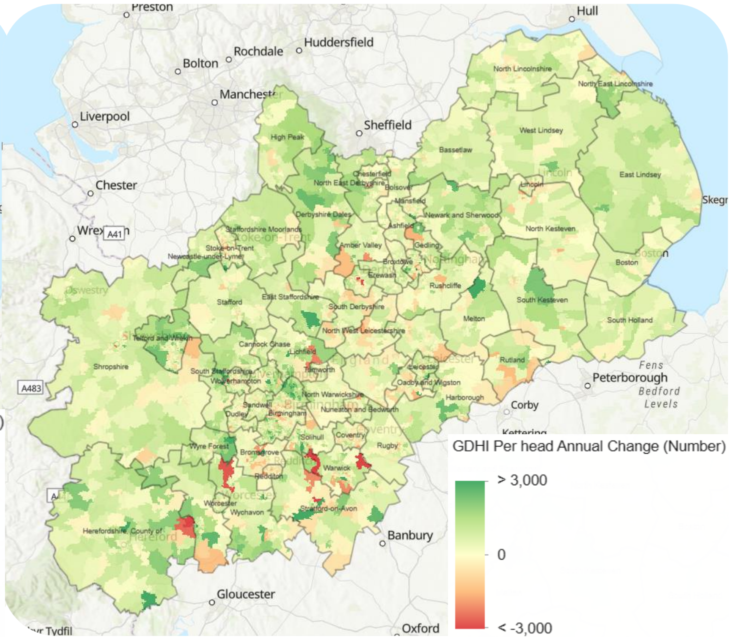
Total GDHI in millions (left) and annual change (right):





GDHI per head (left) and annual change (right):





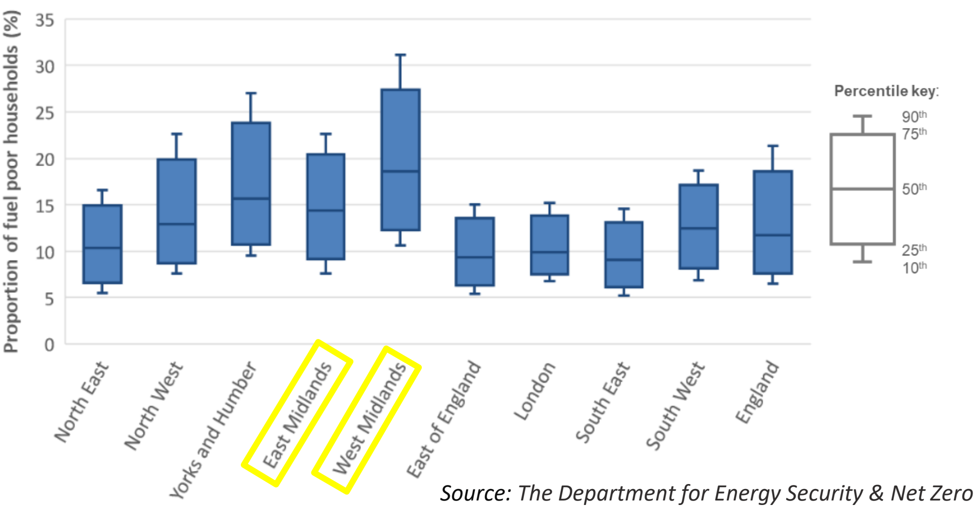
Interactive maps are available to view [here].

Fuel Poverty

The Department for Energy Security & Net Zero have released the annual sub-regional fuel poverty estimates, now covering up to 2022. The **Low Income Low Energy Efficiency (LILEE)** fuel poverty metric was set out in the Fuel Poverty Sustainable Warmth strategy published in February 2021. **The LILEE indicator considers a household to be fuel poor if it is living in a property with an energy efficiency rating of band D, E, F or G as determined by the most up-to-date Fuel Poverty Energy Efficiency Rating (FPEER) Methodology; and its disposable income (income after housing costs (AHC) and energy needs) would be below the poverty line.**

In 2022, the overall level of fuel poverty in England in 2022 was 13.1% (remaining the same proportion as 2021, but looking at fuel poor households, this is a 0.4% increase). Across, England regions, the **West Midlands region continues to have the highest rates of fuel poverty at 19.6%** (and a household increase of 7.6% or 34,951 households since 2021). The West Midlands had the highest rate due to a median (AHC) income under £25,400 and a median fuel poverty energy efficiency rating (FPEER) below the national median of 68. The **East Midlands was third highest with 15.1% of households in fuel poverty**, an annual increase of 12.2% (+34,643 households). There were 28 local authorities with an estimated fuel poverty rate above 18% in 2022 – 15 of these were in the West Midlands and 3 were in the East Midlands.

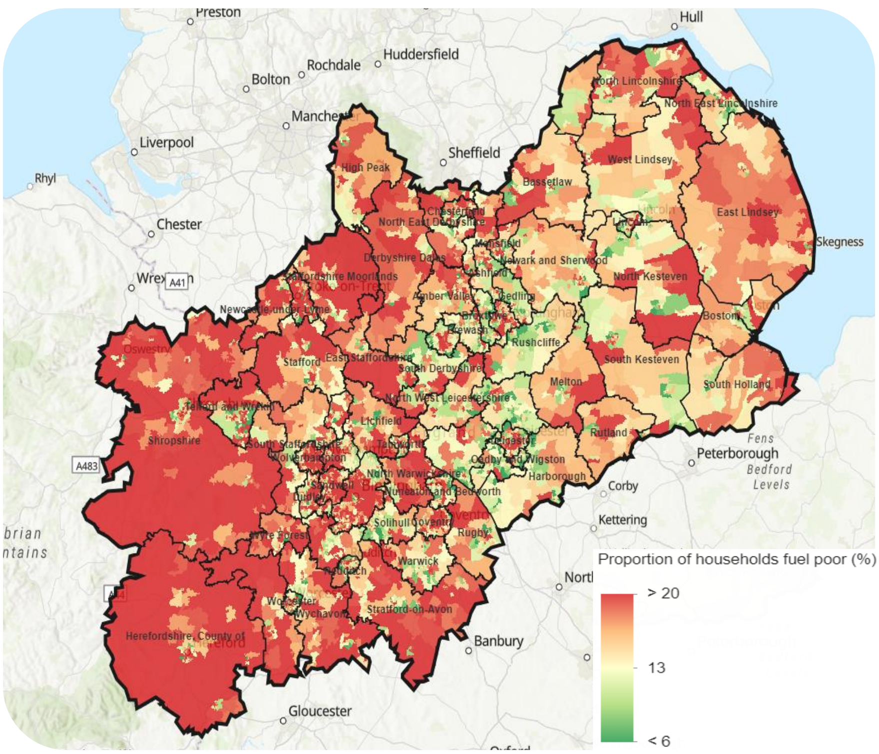
Proportion of households in fuel poverty, LSOAs within region, 2022:



Source: The Department for Energy Security & Net Zero

The level of variation in the rate of fuel poverty within a region differs quite substantially at lower geographic areas. **The largest difference between the top and bottom 10% of Lower Super Output Areas (LSOAs) was in the West Midlands** where the 90th percentile was more than 20 percentage points higher than the 10th percentile.

Fuel poverty rates in the Midlands Engine area by LSOA compared to England average (13.1%) in 2022:



For the **Midlands Engine area, 17.7% (824,528) households were in fuel poverty**. Since 2021, this was an increase of 8.7% (+66,052 households) in the Midlands Engine area.

Across England, the local authorities with the **highest estimated levels of fuel poverty were located in the Midlands Engine area: Stoke-on-Trent (24.7%), Birmingham (24.0%), and Wolverhampton (23.0%).**

Tracking Financial Vulnerability in the UK

The Financial Vulnerability Index is an innovative tool to measure and track financial resilience, nationally and locally, across the UK. Created by Lowell and Urban, and provided by Opinium, the index brings together publicly available measures and Lowell's proprietary data to give a clear picture of financial vulnerability in the UK.

The national results of the Financial Vulnerability Index up until 2023 Q4:

Overall FVI score	Late arrears	Average credit use	Adults in default	Social benefits	Without emergency savings	Alternative financial products
44.2	16.9%	53%	15.2%	8.5%	59.2%	10.2%

The three important findings of the latest wave of the Financial Vulnerability Index are:

- Savings crunch contributing to people feeling worse off
- Housing type and cost behind rising financial vulnerability
- Poor access to good work a driver of financial vulnerability

Across all regions, the North East remains the most financially vulnerable (50.7 in Q4 2023 from 50.0 in Q2 2023), **the West Midlands was the second highest (49.3 in Q4 2023 remaining the same as Q2 2023), the East Midlands was 6th highest (46.7 in Q4 2023 down from 46.9 in Q2 2023),** down to the South West, the lowest region (37.4 in Q4 2023 from 36.8 in Q2 2023).

The West Midlands region has a high level of benefits usage and a high proportion of adults without minimum levels of emergency savings.

An area demonstrating some of the highest levels of financial vulnerability is the West Midlands metropolitan area, with seven of the ten constituencies with the highest Financial Vulnerability Index score being in Birmingham or Wolverhampton.

While the East Midlands region has a has a high proportion of adults in arrears and high credit usage, it has the lowest levels of alternative financial product usage in the UK.

Nottingham North constituency came in 8th for most vulnerable.

West Midlands Region:

Metric	2023 Q4	Ranking
In default	16.3%	4th highest out of 12
Credit usage	53.1%	8th highest out of 12
In arrears	20.7%	4th highest out of 12
Benefits usage	11.1%	2nd highest out of 12
Without sufficient emergency savings	64.2%	2nd highest out of 12
Alt. fin. products	9.0%	7th highest out of 12
FVI Score	49.3	2nd highest out of 12

East Midlands Region:

Metric	2023 Q4	Ranking
In default	14.6%	8th highest out of 12
Credit usage	53.8%	4th highest out of 12
In arrears	22.4%	3rd highest out of 12
Benefits usage	7.6%	6th highest out of 12
Without sufficient emergency savings	62.2%	5th highest out of 12
Alt. fin. products	7.7%	12th highest out of 12
FVI Score	46.7	6th highest out of 12

Most vulnerable constituencies:

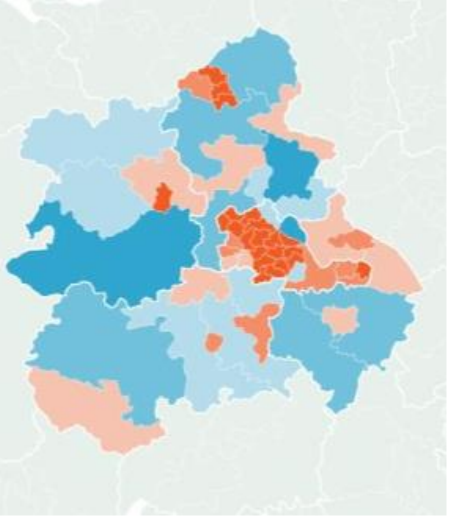
#	Most vulnerable	Score
1	Birmingham, Hodge Hill	70.2
2	Birmingham, Ladywood	67.8
3	Birmingham, Erdington	66.7
4	Middlesbrough	66.0
5	Birmingham, Perry Barr	65.2
6	Liverpool, Walton	64.4
7	Wolverhampton South East	64.3
8	Nottingham North	64.3
9	Wolverhampton North East	63.5
10	Birmingham, Yardley	62.8

Legend

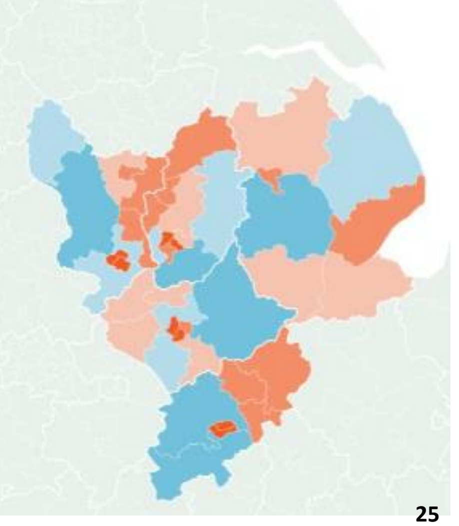
Higher score

Lower score

West Midlands Region:



East Midlands Region:



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MIDLANDS ENGINE OBSERVATORY

In Partnership: