



Regional Economic Development: Local Economy Briefing 21

Research & Development and Business Demographics

Introduction

The ONS has just released its latest data on research and development (R&D) by UK businesses and on business demographics. The new numbers largely relate to 2016. These are key figures for evaluating the current state and future prospects for Dorset business.

Research & Development

In 2016, UK business R&D amounted to £22.2 billion (bn) – a rise of 3.3% in real terms but amounting to a paltry 1.1% of GDP.

The SW England total was £1.5bn - just 6.7% of the national figure. The region ranked seventh out of 12 UK regions and devolved administrations. Disappointingly, the regional total has been essentially flat for four consecutive years.

SW England employed 18,000 workers (full-time equivalents, FTEs) in R&D, 8.6% of the UK total of about 210,000. Of these, 52% were scientists and engineers, 30% were technical/laboratory/draughts workers, and 18% were administrative etc.

Industrially, manufacturing posted £15.4bn of R&D, services £6.1bn and construction and other production £0.7bn. Four key sectors contributed half the national total: pharmaceuticals 18.5%, motors 15.2%, aerospace 8.6% and computer programming and information 8%. These activities will be vital for future UK economic prosperity.

Funding for R&D came 73% from own funds, 16% from overseas and 8% from government. (None of the data in this section relates to government or University R&D for its own sake.)

Business R&D expenditure is growing but still low as a share of the economy as a whole. This largely reflects a UK industrial structure that is modest in terms of overall productive rather than service capacity, despite key centres of excellence. It is a reflection of the 'productivity-gap', undermining growth potential and living standards over the long term.



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Within a disappointing UK picture, SW England performs modestly. It employs more but spends less than its respective UK GDP shares. SW R&D spending seems to have been stuck at about £1.5bn per annum, with some volatility, for about a decade.

Business Demographics

In 2016, the UK business population was at a record level of over 2.8 million (mn) active enterprises. SW England had approaching 235,000 (8.3% of the national total).

Last year, over 414,000 new business births were recorded compared with approximately 328,000 deaths across the United Kingdom. The equivalent SW regional totals were nearly 32,000 (7.7% of the total) and about 29,000 (7.3%) respectively.

The following table shows active businesses, births and deaths, and 5-year survival rates across Dorset.

Dorset Business Demographics: 2016

	Active	Births	Deaths	5-year Survival
Bournemouth	7325	1065	875	41.4
Poole	6870	855	730	42.9
Dorset County	18800	1930	1845	48.2
of which				
Christchurch	2180	255	230	51.4
East Dorset	4595	455	455	48.7
North Dorset	3135	310	320	47.1
Purbeck	2085	200	195	44.4
West Dorset	4875	475	440	54.1
Weymouth & Portland	1930	235	205	37.8

Source ONS – November 2017

It shows that most places saw an increase in business population in the latest period, with births exceeding deaths. The exceptions, however, were a small drop in North Dorset and no net change in East Dorset. Too much should not be read into this - these totals can be volatile year-by-year. Overall, there has been something of a recovery in net business creation compared with early in the current decade. By comparison, in 2010, just after the economic crisis, Bournemouth births were 670 and deaths 755, Poole 615 and 660, and the rest of Dorset 2295 and 2745. In each case, the business population was shrinking.



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Now, the business churn is more dynamic, suggesting a “better” inward and outward flow of entrepreneurship. “Better” assumes, on average, businesses starting up are more competitive and likely to grow faster than those stopping. This is not always the case – sometimes weak businesses are born as good businesses retire (literally). This is particularly possible during downturns.

Normally, however, the reverse is the case. Economic progress requires new businesses to be more productive than their predecessors. Business survival rates can reveal something about this. The table above shows that 5 years after starting (i.e. 2011 start-ups) almost half of businesses still existed across Dorset in 2016. The UK average was 44%, so the Dorset conurbation was a bit below this and the rest of the county slightly above. This is not unusual – either in terms of the percentages or the differences. Most urban areas tend to have higher business turnover than their more rural neighbours.

Generally, it is good for growth that new businesses start, the unsuccessful ones fall away and the total number of businesses increases over time. New businesses can be important job creators and sources of new products and services boosting future growth potential.

A dynamic business churn is part of a successful economy. Overall, the UK’s business churn has not recovered strongly after the “Great Recession” – another symptom of a low productivity economy and another factor that needs to record better trends in the years ahead. It will be interesting to see whether BREXIT and other uncertainties have had a detrimental effect on business churn when the 2017 figures come out in a year’s time. Thereafter, I will be curious to see what impact departure from the EU will have on business demographics into the 2020s. This will be a key indicator of success or failure in the years ahead.

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