

ECONOMIC AND BREXIT MONITOR: LEEDS CITY REGION, FEBRUARY 2019

Key points at glance

This report presents the latest assessment of the Leeds City Region economy. It sets out recent national and international developments along with trends and forecasts for global growth. It considers in more detail the latest developments in Leeds City Region and the implications for the economy as the UK approaches its exit from the European Union.

National and international headlines

- Recent concerns about trade tensions have escalated of late. Combined with signs of a cyclical slowdown in some major nations, the global economy has lost some momentum in late 2018 and early 2019.
- UK GDP growth slowed to 0.2% in Q4 2018, a marked slowdown from growth of 0.6% in Q3. The UK economy as a whole saw output decline by 0.4% in the month of December.
- The Eurozone economy grew by just 0.2% in Q4 2018, continuing the slow pace of growth seen in Q3.
- The US has yet to report official GDP for Q4 but recent economic data has been mixed.
- The IMF has further revised down its global growth forecasts for 2019 and 2020, down from 3.7% in both years to 3.5% in 2019 and 3.6% in 2020. This is against a backdrop of slowing momentum, growing uncertainty in financial markets and the threat of trade wars inhibiting demand.
- For the UK, the IMF expect growth of 1.5% in 2019 and 1.6% in 2020, a slight upturn from their previous forecasts. This is predicated on an orderly Brexit, however.
- The UK labour market remains strong – the employment rate returned to a joint record high of 75.8% in December.

Key City Region and local developments

- Manufacturers in Leeds City Region reported a sharp slowdown in domestic and export sales growth at the end of 2018, according to the Chambers of Commerce Quarterly Economic Survey (QES) for Q4 2018.
- Activity in the service sector was more buoyant, but profitability expectations declined in both sectors in Q4 with manufacturers seeing a sharper fall in confidence.
- 61% of respondents to the QES said they have devoted management time to considering potential impacts from Brexit
- 54% of City Region businesses told the QES that they were either confident or very confident that they could withstand potential disruption from a “no deal” scenario, with 16% not very or not at all confident.
- Total goods exports from the region are 11.8% higher than Q3 2017, compared to 4.3% growth nationally.
- The number of people in work fell by almost 10,000 (0.7%) over the quarter. Unemployment also fell, down 1,600 (2.5%) to 63,600.
- The employment rate for Leeds City Region dropped from 73.7% in Q2 to 73.1% in Q3.
- The number of employers looking to recruit slowed in the City Region in Q4 2018, according to the QES.

Brexit implications and conclusions

- The ongoing uncertainty associated with Brexit appears to be increasingly weighing on business confidence and is now clearly affecting decision making.
- Whilst stockpiling and forward planning is helping to offset this in some areas of manufacturing, the broader picture is of slowing momentum affected by both Brexit and more challenging global conditions.
- Nevertheless, the labour market remains strong which is driving increased earnings, which may in turn help to explain stronger than expected consumer activity.
- Whilst it is encouraging that a majority of businesses surveyed have actively considered the implications of Brexit and are confident of withstanding a no deal scenario, there remains a substantial number who have either not taken action or are not confident their response is sufficient.
- Whilst Brexit is prominent in the thinking of many, it is not the only issue affecting businesses at present. The threat of trade wars and a range of country specific issues are contributing to a global slowdown.
- Businesses also continue to report challenges recruiting staff, particularly manufacturers looking for specific or technical skills. This is despite data from ONS suggesting a small fall in employment in the City Region in recent quarters.

These issues are explored in greater detail in the remainder of this document.

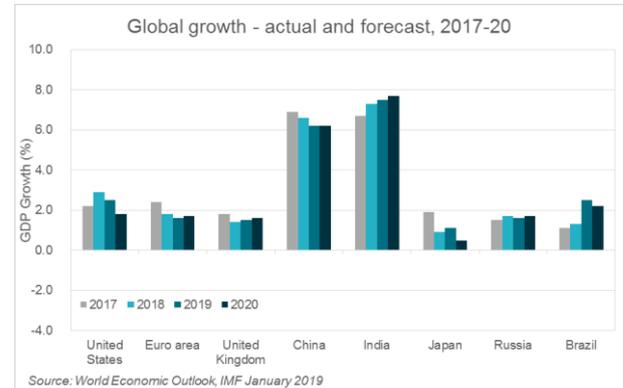
ECONOMIC AND BREXIT MONITOR: LEEDS CITY REGION, NOVEMBER 2018

Introduction

- This report presents the latest assessment of the Leeds City Region economy. It sets out recent global and national developments before considering in more detail the latest data for Leeds City Region and the implications for the economy as the UK approaches its exit from the European Union.
- New data available includes updated global economic forecasts from the IMF, whilst new official UK data is available on monthly GDP and the labour market up to the end of 2018. There is also new official data on trade, inflation and retail activity and survey data on business sentiment.
- For Leeds City Region, the Quarterly Economic Survey with the Chambers of Commerce provides insight on business sentiment for Q4 2018. Labour market data from ONS for Q3 2018 and regional goods exports data from HMRC for the same period are also presented. Banksearch data on the number of new business bank accounts for Q4 2018 are also available.

Global economic and political developments

- Recent concerns about trade tensions have escalated of late. Combined with signs of a cyclical slowdown in some major nations, the global economy has lost some momentum in late 2018 and early 2019.
- The Eurozone economy grew by just 0.2% in Q4 2018, continuing the slow pace of growth seen in Q3. Within the Eurozone, Italy fell into recession for the third time in a decade whilst early data suggests Germany has narrowly avoided a recession with flat or very low growth.
- The US has yet to report official GDP for Q4 but recent economic data has been mixed. Whilst the jobs market remains robust, recent data has pointed to falling activity in both manufacturing and retail, likely influenced by the recent government shutdown.
- The Chinese economy grew by 6.6% across 2018, the country's lowest output growth for 28 years. Growth is expected to slow further in 2019 as the country grapples with tighter domestic controls and the continued threat of an escalating trade war with the US.
- The IMF has further revised down its global growth forecasts for 2019 and 2020, down from 3.7% in both years to 3.5% in 2019 and 3.6% in 2020. This is against a backdrop of slowing momentum, growing uncertainty in financial markets and the threat of trade wars inhibiting demand.
- For the UK, the IMF expect growth of 1.5% in 2019 and 1.6% in 2020, a slight upturn from their previous forecasts. They expect the "prolonged uncertainty" caused by Brexit to be offset by the benefits of fiscal stimulus announced in the Budget. However, these forecast are predicated on an orderly transition from EU membership.
- As the deadline for the UK to leave the EU approaches with the details of any agreement still unclear, a number of nationally significant businesses announced decisions to move some or part of their operations.
- The automotive industry has seen significant movements with Honda announcing the closure of its Swindon plant, and Nissan shifting the manufacture of some models away from Sunderland. Honda have emphasised that Brexit is not the driver of its decision, blaming "global issues", though Nissan said "the continued uncertainty around the UK's future relationship with the EU is not helping companies like ours to plan for the future."
- A survey by the CBI highlights the challenges facing the UK automotive sector, which was one of eight industries to see output decline in the organisation's latest Industrial Trends survey. Overall the survey found slowing activity, though more companies are increasing output than cutting it.
- A survey by the Institute of Directors found that 29% of UK companies were planning to move at least part of their operations overseas in the event of no deal materialising, or had already acted to do so.



Global economy summary: There is a broad based slowdown in economic activity, partly driven by global, cyclical factors but also a range of country-specific issues. This trajectory is expected to continue in the coming months, leaving British businesses facing a combination of uncertain conditions at home and slowing demand from abroad.

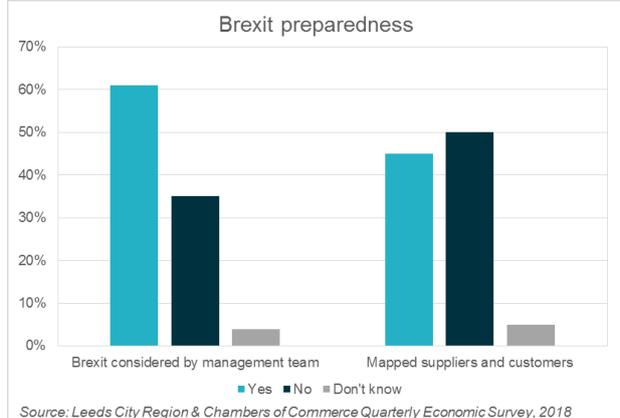
UK economic dashboard

Indicator	Latest position	Chart	Trend
Economic headlines	<p>UK GDP growth slowed to 0.2% in Q4 2018, a marked slowdown from growth of 0.6% in Q3. The service sector expanded by 0.4% but manufacturing (-0.9%) and construction (-0.3%) both contracted.</p> <p>The UK economy as a whole saw output decline by 0.4% in the month of December. Car manufacturing and steel production experienced particularly sharp falls, with Brexit uncertainty cited as a key factor.</p>	<p>UK GDP growth, 2008-18</p> <p>Source: Office for National Statistics, 2019</p>	
Confidence and sentiment	<p>All sectors of the economy have seen a marked slowdown at the start of 2019 according to Markit's PMI surveys. Activity in the service and construction sectors fell close to the 50 point level, which indicates declining output, in January.</p> <p>Whilst manufacturing was a little more positive, it still experienced a slowdown. Stockpiling at the fastest rate in the survey's 27 year history helped sustain activity, but employment also fell in the sector.</p>	<p>Purchasing Managers Index (PMI) by sector, 2016-19</p> <p>Source: Markit/CIPs PMIs, 2016-19</p>	
Labour market	<p>The number of people in work in the UK increased by 167,000 in the last three months of 2018 to 32.6 million, according to ONS. The employment rate returned to a joint record high of 75.8%.</p> <p>Unemployment fell by 14,000 to 1.36 million, and the number economically inactive fell by 94,000. The unemployment rate remained steady at 4%.</p>	<p>UK employment growth 2008-18</p> <p>Source: Office for National Statistics, 2018</p>	
Trade and exports	<p>Following a slowdown in late 2018, retail sales increased by 0.7% in the three months to January, and by 3.5% on the same period a year earlier. Clothing stores enjoyed a strong January, with food stores also seeing growth.</p> <p>The UK's trade deficit widened to £10.4bn in the three months to December, with a £1.8bn increase in imports outpacing £1bn growth in exports.</p>	<p>UK retail sales, 2008-19</p> <p>Source: Office for National Statistics, 2019</p>	
Inflation and wages	<p>Inflation fell to 1.8% in January, below the official target of 2% for the first time since January 2017. Falling energy costs were a key factor.</p> <p>Average earnings increased by 3.4% in the three months to December, maintaining recent strong growth. Combined with falling inflation, real pay has increased by 1.2% in the past three months.</p>	<p>Wage growth and inflation, 2008-19</p> <p>Source: Office for National Statistics, 2019</p>	

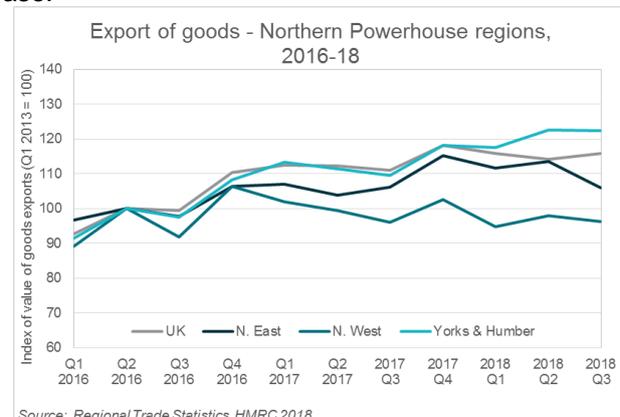
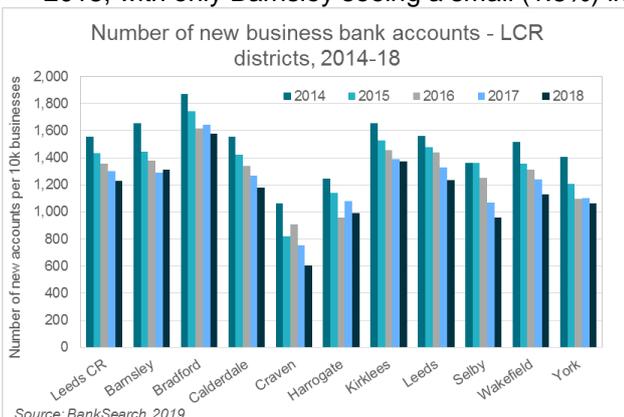
Brexit implications: The ongoing uncertainty associated with Brexit appears to be increasingly weighing on business confidence and is now clearly affecting decision making. Whilst stockpiling and forward planning is helping to offset this in some areas of manufacturing, the broader picture is of slowing momentum affected by both Brexit and more challenging global conditions. Nevertheless, the labour market remains strong which is driving increased earnings, which may in turn help to explain stronger than expected consumer activity.

Leeds City Region – Business Performance and Trade

- Manufacturers in Leeds City Region reported a sharp slowdown in domestic and export sales growth at the end of 2018, according to the Chambers of Commerce Quarterly Economic Survey (QES) for Q4 2018.
- Whilst more manufacturers continue to report growth than declining sales, the net balance has dropped from 33% for both home sales and exports in Q3, to 17% for home sales and 14% for exports in Q4.
- Activity in the service sector was more buoyant, with a net balance of 37% reporting increased domestic sales, up from 33% in Q3 and export activity unchanged.
- Profitability expectations declined in both sectors in Q4 with manufacturers seeing a sharper fall in confidence. Rising input prices appear to be a factor, driven by currency fluctuations but also by a shortage of supply as companies look to build up stock in advance of Brexit.
- In contrast, the Natwest Regional PMI found business confidence in the region was higher than most other UK regions in February, though jobs growth remained modest.
- Businesses in the Q4 QES were asked specifically about their Brexit preparations. 61% said they have devoted management time to considering potential impacts from Brexit, and 45% said they had mapped their supplier and customer base and considered potential impacts.
- Only 10% said they had already made changes to their operating model or business strategies in response to Brexit, though a further 30% said they expected to do so at some stage. 54% of City Region businesses told the QES that they were either confident or very confident that they could withstand potential disruption from a “no deal” scenario, with 16% not very or not at all confident.



- There were 3,700 new business bank accounts opened in Leeds City Region in the last quarter of 2018, a similar number to the 3,800 recorded in both Q3 2018 and Q4 2017. 15,500 new accounts were opened over 2018 as a whole, down 5.9% on 2017 and the lowest annual total since data collection began in 2008. The number of new accounts was down 8.4% nationally over the year.
- Most districts in Leeds City Region saw a fall in the number of new business bank accounts opened in 2018, with only Barnsley seeing a small (1.8%) increase.



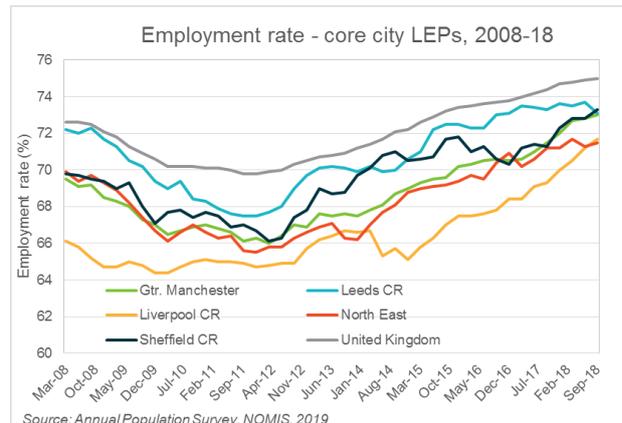
- The value of goods exported from Yorkshire & Humber was largely unchanged between Q2 2018 and Q3 2018 at £4.55bn. There was a 1.6% drop in EU exports, and a 2.2% increase in trade with other markets.
- Total goods exports from the region are 11.8% higher than Q3 2017, compared to 4.3% growth nationally.

Brexit implications: City Region businesses reported slowing sales and falling confidence at the end of 2018. Whilst it is encouraging that a majority of businesses surveyed have actively considered the implications of Brexit and are confident of withstanding a no deal scenario, there remains a substantial number who have either not taken action or are not confident their response is sufficient.

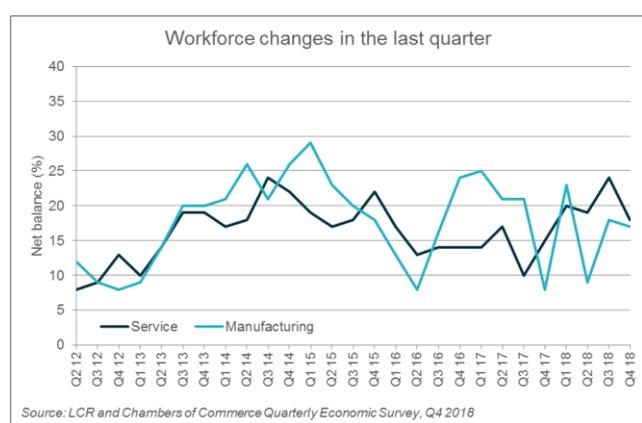
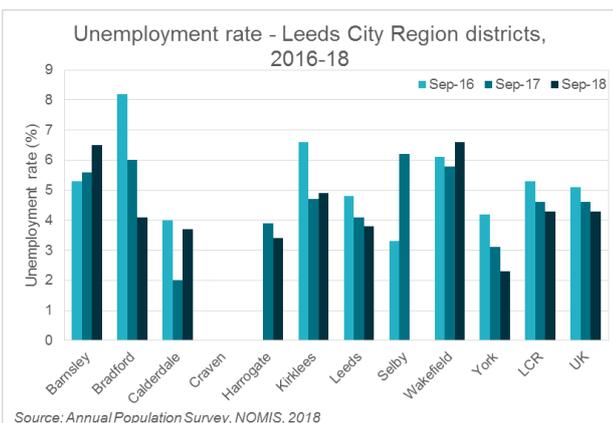


Leeds City Region – Labour Market

- There were 1.41 million Leeds City Region residents in work at the end of Q3 2018, an employment rate of 73.1% according to the ONS Annual Population Survey. The number of people in work fell by almost 10,000 (0.7%) over the quarter. Unemployment also fell, down 1,600 (2.5%) to 63,600.
- All districts in West Yorkshire saw employment fall this quarter, whilst all other districts in the City Region saw increases. Data can fluctuate from quarter to quarter however, and employment in the City Region is broadly in line with the same time period a year earlier. UK employment is up 0.2% from Q2 to Q3, and 1% over the year.
- Most core city LEPs saw total employment increase between Q2 and Q3 2018 with Sheffield City Region (+0.8%) seeing the fastest growth. Over the past year, the 0.1% employment growth seen in Leeds City Region is below that of other core city LEPs. Employment in both Sheffield and Liverpool City Regions increased by 3.2% over the past year.



- The employment rate for Leeds City Region dropped from 73.7% in Q2 to 73.1% in Q3. This employment rate is similar to Sheffield City Region (73.3%) and Greater Manchester (73%) but below West of England and D2N2 among core city LEPs.
- The number of employers looking to recruit slowed in the City Region in Q4 2018, according to the QES. A net balance of 17% of manufacturers and 18% of service sector companies have expanded their headcount. Looking ahead, fewer companies in both sectors are expecting to increase their workforce in early 2018.
- Whilst Brexit uncertainty is likely to be a factor inhibiting recruitment for some, many companies, and particularly manufacturers, point to a shortage of skilled workers as a key constraint on their expansion plans.



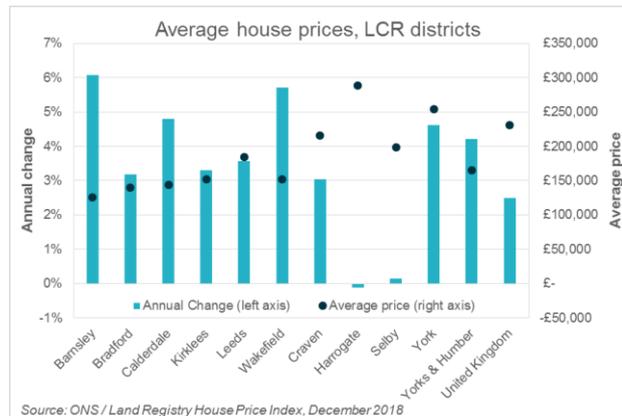
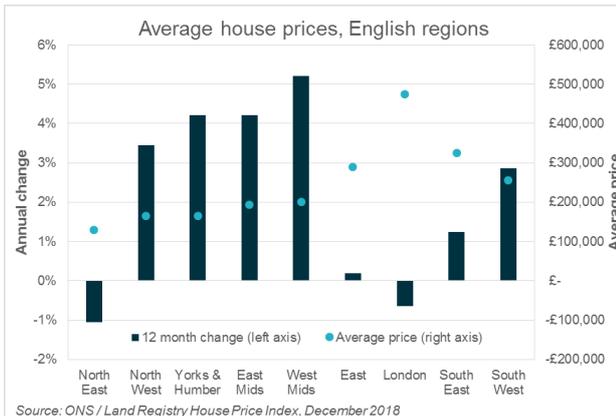
- Looking at unemployment, there was again a split between West Yorkshire and other parts of the City Region, with most non-West Yorkshire districts seeing unemployment fall, offsetting a 1,100 increase across West Yorkshire as a whole. Bradford was the only West Yorkshire district where the number out of work fell, down 1,600 (15%) to 9,100.

Brexit implications: The employment picture is less positive locally than it is nationally this quarter. Though local data is less reliable and can fluctuate, survey data supports the view that businesses are less inclined to recruit. A lack of available skills, as much as Brexit uncertainty, seems to be a driver of this.

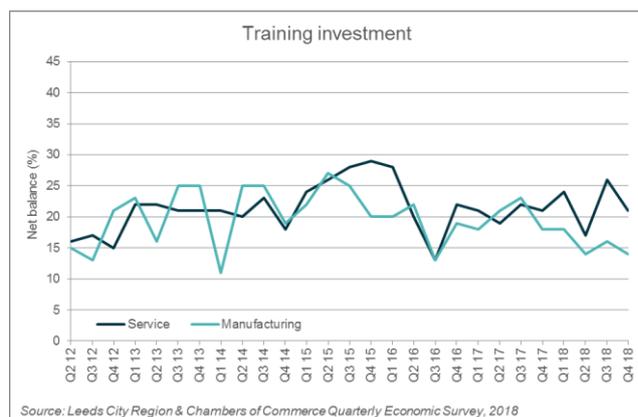
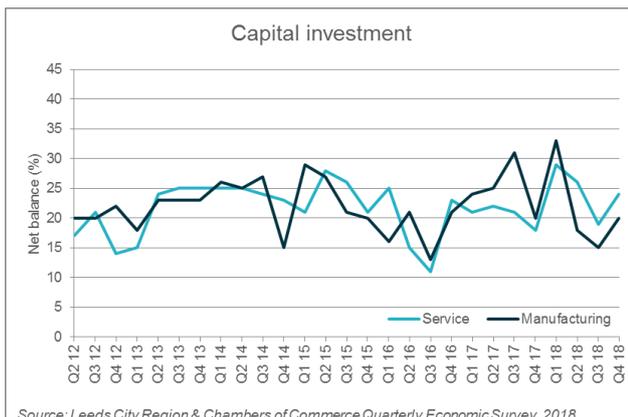


Leeds City Region – Housing, Property and Investment

- House prices in Yorkshire & Humber increased by 4.2% in the year to December 2018 to an average of £165,100. Prices increased by 2% between November and December.
- The region's annual growth rate is the same as the East Midlands, and only West Midlands (+5.2%) saw faster growth last year. The North East (-1%) and London (-0.6%) saw prices fall.
- However, sales volumes were down across all regions in the year to October 2018. There were 10.7% fewer sales in this period in Yorkshire & Humber compared to a 12.3% fall nationally and a 16.8% fall in the South East.



- Within the City Region, Barnsley has seen the strongest growth with prices increasing by 6.1% over the past year, followed by Wakefield (5.7%).
- Most districts saw prices increase faster than the 2.5% growth seen nationally, though prices were largely flat in Harrogate and Selby.
- Capital investment by businesses in the City Region increased in Q4 2018 according to the QES. Both manufacturers and service sector firms saw the net balance increase by 5 points from Q3. Anecdotally, the Chambers report that many companies are only investing to meet current order books and that longer term investment is on hold pending the outcome of EU negotiations.
- Investment in training slowed over the same period however, with both manufacturers and service sector firms reporting a slowdown here.



- Local property agents report in the QES a doubling in the value of land for industrial use over the last 12 months along with a 25% increase in rental values for warehousing. This at least in part is being driven by demand from manufacturers and retailers looking for space for stock holding in preparation for any disorderly exit from the EU.

Brexit implications: Although house prices are holding up, the fall in sales volumes indicates that few households are willing to make significant investment decisions at a time of uncertainty. The same appears to be true of businesses, though increased take up of warehouse space is symptomatic of businesses taking steps to secure supplies ahead of the EU exit.



Conclusions and outlook

- The impacts of the ongoing uncertainty from Brexit appear more evident in the data this quarter than in recent times. Whilst the overall picture remains one of growth, both local and national surveys point to an increasing number of businesses concerned about what the post-March trading environment will look like. Harder GDP data now appears to be reflecting this, with output declining in December.
- Whilst Brexit is prominent in the thinking of many, it is not the only issue affecting businesses at present. The threat of trade wars and a government shutdown in the US, protests in France and falling business confidence in Germany are all contributing to a global slowdown. In spite of the additional issue of Brexit, growth in the Eurozone is not outpacing that of the UK at present.
- Clearly this is affecting conditions in key markets for Leeds City Region exporters. Combined with Brexit, this equates to a challenging trading environment and helps to explain falling business confidence this quarter.
- As reported above, surveys suggest a majority of businesses in Leeds City Region have actively considered both the challenges and opportunities from Brexit at board room level. Close to half have looked to understand the implications for their supply chains and customer base. This, combined with the evidence suggesting increased demand for inputs and storage space, shows many businesses are taking steps to mitigate the risks of a disorderly exit in March.
- However, the finding in the QES that a third of businesses have not considered Brexit at management level, and one in six are not confident of withstanding a disorderly exit, emphasises the scale of the risk that such an uncertain scenario poses.
- Anecdotal evidence emphasises that whilst many businesses in the City Region share concerns about what happens post-March, some of the challenges and responses are highly specific to certain industries or businesses. Chemical manufacturers have for example are considering how changes to the REACH regulations governing their import and export could have a significant impact on both lead times and administration costs.
- Businesses also continue to report challenges recruiting staff, particularly manufacturers looking for specific or technical skills. This is despite data from ONS suggesting a small fall in employment in the City Region in recent quarters.
- Whilst access to appropriately skilled workers is not a new development, the combination of high employment reducing the talent pool available, and the risk of reduced access to overseas labour appears to bringing the issue to the forefront of businesses' minds.
- The issue of stockpiling is clearly not unique to UK businesses, with evidence suggesting some overseas clients have brought forward post-March orders. This perhaps explains recent strong export performance for manufacturers in our region, but at a practical level creates resourcing and capacity issues for some companies.
- Given that access to labour is scarce and a range of factors mean that demand from customers is less predictable than usual, businesses face a real challenge in allocating their resources effectively. The increase in wages seen in recent months evidences the need for businesses to attract and retain workers in a competitive market place, whilst the slight upturn in capital investment seen in the QES last quarter suggests that, despite a reluctance to make large-scale investments, businesses are having to look at alternative ways to meet demand rather than hiring more workers.
- At a broader level, despite signs of a slowdown it may be the case that Brexit preparations are actually resulting in an uplift in economic activity at present as spending originally planned for post-March is brought forward. In this scenario, a post-March slowdown might be expected whatever the outcome of Brexit negotiations, as inventories are unwound.

This briefing has been produced by the West Yorkshire Combined Authority Research & Intelligence team. Any comments or queries can be addressed to research@westyorks-ca.gov.uk.