ECONOMIC AND BREXIT MONITOR: LEEDS CITY REGION, MAY 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

- The global economy had a stronger than anticipated start to 2019, with many key markets recording growth which exceeded expectations.
- **UK GDP increased by 0.5% in Q1 2019**, up from 0.2% in the last quarter of 2018. January and February saw strong growth, though GDP is estimated to have contracted by 0.1% in March.
- **GDP in the Eurozone increased by 0.4% in Q1 2019, double the rate of growth seen at the end of 2018.** Unemployment in the single market area also fell to its lowest level since 2008.
- **The US recorded GDP growth of 0.8% in Q1, up from 0.5% in Q4 2018.** Business investment in inventories and a decrease in imports were key contributors to growth.
- **Many leading forecasters expect global growth to slow in 2019** – partly as a result of a cyclical slowdown, but also as a consequence of a less certain global trading environment. The IMF expect global growth to slow from 3.6% in 2018 to 3.3% this year, before recovering in 2020.
- **The IMF have also revised their forecasts for the UK economy,** with a more pessimistic outlook now anticipating growth of 1.2% this year, and 1.4% next year.
- **The UK employment rate is at a record high of 76.1%,** and stable inflation combined with solid wage growth is helping incomes to grow in real terms.

Key City Region and local developments

- **The number of Leeds City Region residents in work increased by 3,200 (0.2%)** between Q3 and Q4 2018. The City Region employment rate increased from 73.1% in Q3 to 73.3% in Q4, but remains slightly below the record high of 73.7% recorded earlier in 2018.
- **The proportion of 16-24 year olds out of work in Leeds City Region has fallen to 9.7%** at the end of 2018, making Leeds City Region the only core city LEP area where the rate is below 10%. The comparable UK rate is 11.6%.
- **Manufacturers in Leeds City Region saw an increase in sales both domestically and internationally** in Q1 2019, according to the latest Chambers of Commerce Quarterly Economic Survey (QES).
- **Conversely, service sector companies saw both domestic sales and exports slow last quarter**, though both maintained growth.
- **Goods exports from the region increased by 7.8% to £18.1bn in 2018.** This increase is three times the 2.6% increase seen nationally with only the East Midlands seeing a similar growth rate over the year. The EU accounted for 60% of goods exports from the region in 2018, compared to 50% nationally.
- **3.7% more businesses started up in Leeds City Region during the first three months of this year** compared with the corresponding period of last year. This growth rate ranks Leeds City Region LEP at 14 out of the 39 LEPs.

Brexit implications and conclusions

- **Some Brexit-related issues appear to have given a short-term boost to national and local economies** of late, with stockpiling helping to drive business activity, particularly in the manufacturing sector.
- There are signs that the **stockpiling-driven momentum may be tailing off** now that the UK's departure from the EU is less imminent than had appeared in late Q1.
- HMRC data suggests **that our region remains more reliant than the country as a whole on the EU as an export market**, and whilst the value of exports has increased the number of businesses exporting has not increased significantly
- Whilst the recent trend towards **growth in full-time permanent employment is undoubtedly positive, it is also clear that there has been a persistent lull in capital investment**. Given the critical role that investment plays in productivity growth, this could have longer term implications for economic competitiveness.

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

West Yorkshire Combined Authority

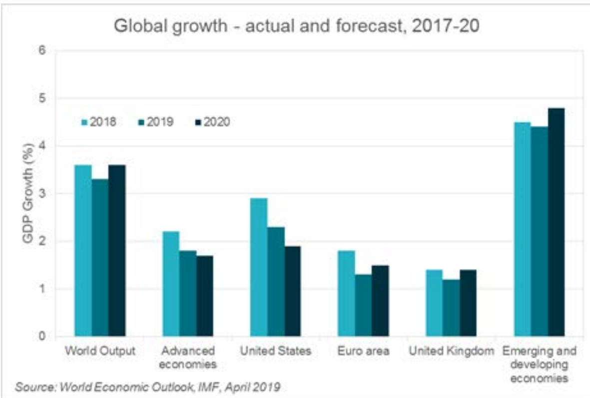
Leeds City Region Enterprise Partnership

ECONOMIC AND BREXIT MONITOR: LEEDS CITY REGION, MAY 2019

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 for Q1 2019. 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 Q1 2019. Labour market data from ONS for Q4 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 Q1 2019 are also available.

Global economic and political developments



- The global economy had a stronger than anticipated start to 2019, with many key markets recording growth which exceeded expectations.
- GDP in the Eurozone increased by 0.4% in Q1 2019, double the rate of growth seen at the end of 2018. Unemployment in the single market area also fell to its lowest level since the onset of the downturn in 2008.
- The US recorded GDP growth of 0.8% in Q1, up from 0.5% in Q4 2018. Business investment in inventories and a decrease in imports were key contributors to growth.
- China also exceeded expectations, with GDP 6.5% higher in Q1 2019 than a year earlier. The stimulus package introduced to combat the effects of US trade tariffs and falling investment appear to have helped sustain growth.
- Many leading forecasters expect global growth to slow in 2019 – partly as a result of a cyclical slowdown, but also as a consequence of a less certain global trading environment. The IMF expect global growth to slow from 3.6% in 2018 to 3.3% this year, before recovering in 2020.
- Trade tensions have escalated again between the US and China. Whilst relatively positive economic data suggests the consequences have not been too severely felt so far, a stimulus package designed to offset some of the impacts has helped in China’s case and there are concerns that the challenge could become more acute if key issues remain unresolved.
- A combination of increased tensions between the US and Iran, other geopolitcal issues in the middle east, and economic challenges in other oil producing nations has seen the price of oil increase by over 40% so far this year. It is anticipated that prices could rise further, particularly if the above mentioned issues escalate.
- The IMF have also revised their forecasts for the UK economy, with a more pessimistic outlook now anticipating growth of 1.2% this year, and 1.4% next year. This is 0.1 percentage points below Eurozone forecasts in both years, with Brexit uncertainty continuing to weigh on the outlook.
- With the deadline for leaving the EU extended until October, there has been less focus on the immediate implications of Brexit of late. However, the Bank of England’s Deputy Governor has warned that the delays meant further uncertainty for businesses, with implications for already low levels of investment.
- The recent collapse of cross-party talks combined with the potential impacts of the EU elections has led to some focus returning to the implications of a no deal / hard Brexit scenario. This emphasises the need for businesses to continue to plan in resilience against a range of potential Brexit outcomes.

Global economy summary: The loss of momentum seen in the global economy in late 2018 appears to have abated somewhat at the start of 2019. Despite this, growth is expected to dip from 2018 levels this year, and the ongoing Brexit uncertainty means that the UK outlook is a little less optimistic than in other major nations.

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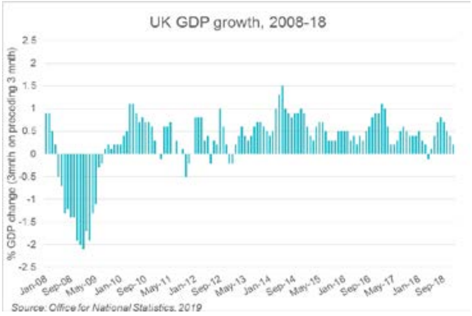
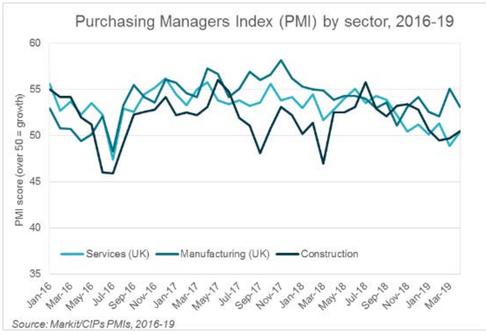
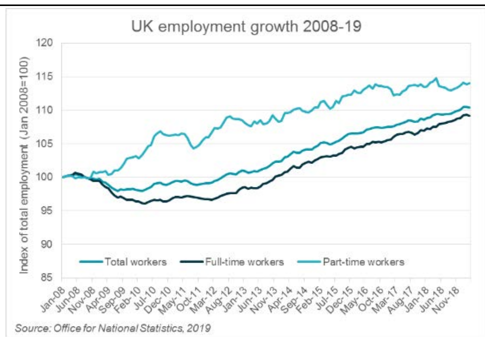
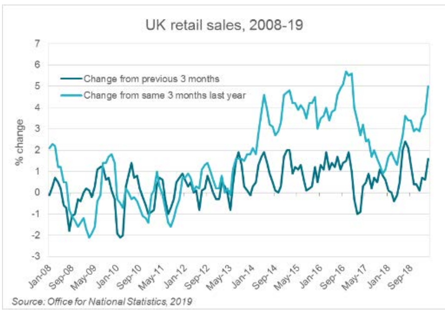
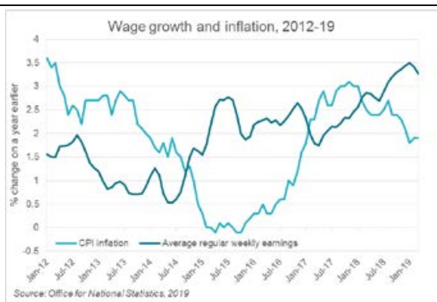
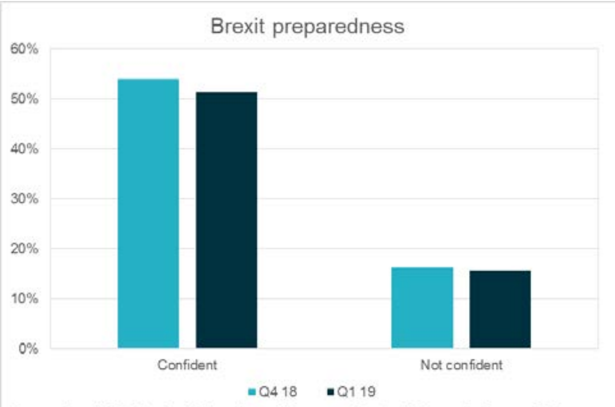
UK economic dashboard

Indicator	Latest position	Chart	Trend
Economic headlines	UK GDP increased by 0.5% in Q1 2019, up from 0.2% in the last quarter of 2018. January and February saw strong growth, though GDP is estimated to have contracted by 0.1% in March. Manufacturing output increased by 2.2% over the quarter, with construction up 1% and services up 0.3%. UK public sector net borrowing has fallen to its lowest level since 2002.		
Confidence and sentiment	The UK manufacturing sector showed signs of a slowdown in April, with the headline IHS Markit/CIPS PMI index falling from 55.1 to 53.1 (a reading of 50 or higher indicates growth). Brexit stockpiling has been a key factor in recent activity, but there are signs this is levelling off. Both the services and construction sectors returned to growth in April following declining activity earlier this year, but with readings around 50.5, activity in these sectors is subdued.		
Labour market	The number of people in work in the UK increased to 32.7 million in the three months to March 2019, up from 32.6 million at the end of 2018, according to ONS. The employment rate is at a joint record high of 76.1%. Full-time employment has accounted for all employment growth over the past year. Unemployment has fallen by 119,000 over the past year, to 1.3 million, an unemployment rate of 3.8% which again is the lowest on record.		
Trade and exports	The volume of retail sales increased by 1.6% in the first three months of 2019 compared to the end of 2018. Volumes were up 5% over the year. The UK's trade deficit widened by £8.9 billion to £18.3 billion in the three months to March 2019. A widening goods deficit was largely responsible for this, with goods exports up £2.5bn and imports up £8.9bn.		
Inflation and wages	Inflation remained at 1.9% in March, unchanged from February. Housing costs, transport and recreation made upwards contributions to costs. Regular pay increased by 3.3% in the year to March 2019. Accounting for the effects of inflation, wages increased by 1.5% over this period.		

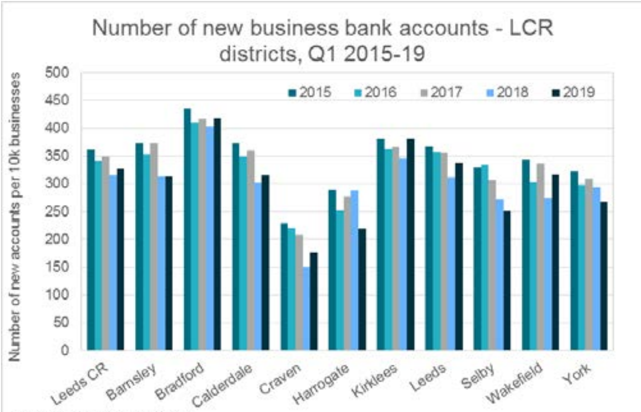
Brexit implications: The labour market remains a historic strong point for the UK economy, with the addition of more full-time, permanent jobs driving this and providing more secure employment. The tightness of the labour market appears to be driving wage growth and this in turn is supporting consumer activity in spite of Brexit uncertainty. Businesses appear to be less optimistic however. The uplift provided by stockpiling ahead of earlier Brexit deadlines appears to have driven a very strong quarter for manufacturers, but there are signs this may be subsiding.

Leeds City Region – Business Performance and Trade

- Manufacturers in Leeds City Region saw an increase in sales activity both domestically and internationally in Q1 2019, according to the latest Chambers of Commerce Quarterly Economic Survey (QES). The manufacturing net balance for domestic sales increased from 17% in Q4 2018 to 27% in Q1 2019.The export net balance moved from 14% to 30% over the same period (any reading over zero indicates growth).
- Conversely, service sector companies saw both domestic sales and exports growth slow last quarter. The domestic sales net balance fell from 37% to 29%, with exports dropping less markedly from 19% to 16%.
- The proportion of businesses saying they were confident in their preparations for a no deal Brexit dropped from 54% in Q4 2018 to 51% in Q1 2019. The Chambers report that some companies are actively pursuing more UK suppliers and customers as they offer a greater degree of certainty in the current environment.
- Two thirds of manufacturers remain concerned about raw material prices, with 58% citing exchange rates as part of the issue.
- Companies continue to report increasing pressures on cash flow, at least partly driven by stockpiling ahead of the anticipated original Brexit deadline at the end of Q1. Profitability expectations also fell in both sectors, down 5 points to 40% in services, and down 3 points to 27% in manufacturing.

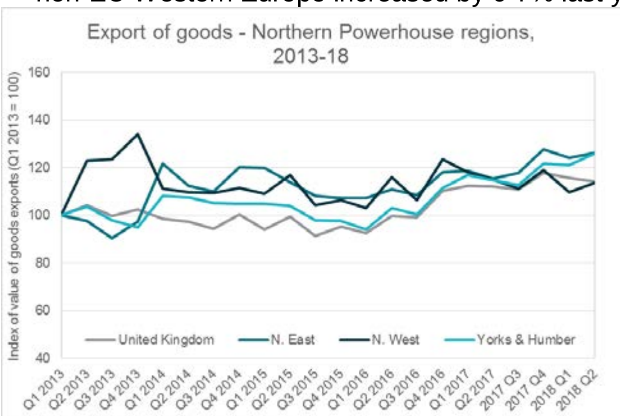


Source: Leeds City Region & Chambers of Commerce Quarterly Economic Survey, 2018



Source: BankSearch, 2019

- Yorkshire & Humber businesses exported goods worth £4.65bn in Q4 2018. Exports increased by 2% from Q3, similar to other northern regions and compared to 2.7% nationally.
- Goods exports from the region increased by 7.8% to £18.1bn in 2018. This increase is three times the 2.6% increase seen nationally, with only the East Midlands seeing a similar growth rate over the year (7.9%).
- Goods exports from Yorkshire & Humber to Europe increased by 12% over the year. The EU accounted for 60% of goods exports from the region in 2018, compared to 50% nationally. Exports to Asia, Oceania and non-EU Western Europe increased by 6-7% last year, though trade with North America declined 3%.



Source: Regional Trade Statistics, HMRC 2019

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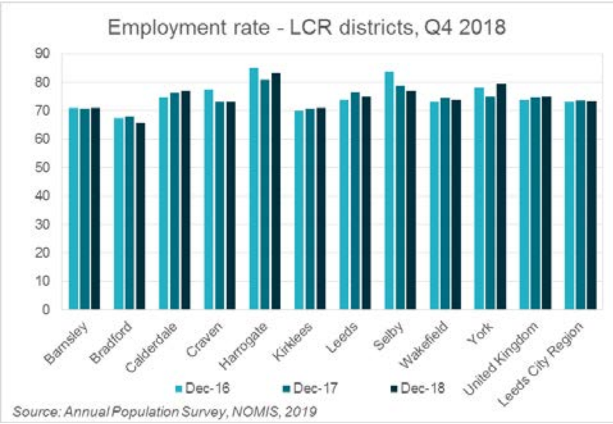
- 3.7% more businesses started up in Leeds City Region during the first three months of this year compared with the corresponding period of last year, according to latest data from BankSearch. 4,100 new business bank accounts were opened in Q1. This growth rate ranks Leeds City Region LEP at 14 out of the 39 LEPs.
- Selby, York and Harrogate have seen falls in the number of new accounts opened so far this year, though all West Yorkshire districts and Craven have seen increases.

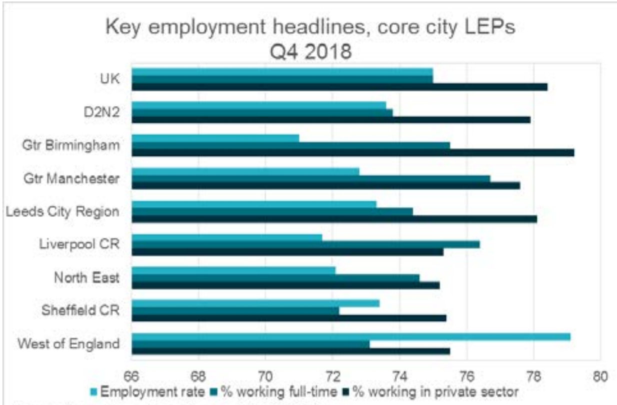
Brexit implications: The strong Q1 reported by manufacturers nationally appears to have been replicated locally. This is largely driven by Brexit-related issues, with stockpiling but also an increased focus on more domestic suppliers and customers appearing to be factors. Despite this, the EU's dominance as the region's main trading partner has, if anything increased in 2018.

Leeds City Region – Labour Market

- The number of Leeds City Region residents in work increased by 3,200 (0.2%) between Q3 and Q4 2018. There are 1.41 million people in work across the City Region. There are however 3,000 fewer people in work than a year ago. The opposite picture is true in Greater Birmingham and Greater Manchester LEP areas, which have seen small falls in employment this quarter, but increases over the past year. Other core city LEPs in the North East, West of England and Sheffield City Region have seen employment increase both over the past quarter and the past year.
- The City Region employment rate increased from 73.1% in Q3 to 73.3% in Q4, but remains slightly below the record high of 73.7% recorded earlier in 2018. This is also below the UK rate of 75%, but comparable to D2N2 (73.6%), Sheffield City Region (73.4%) and Greater Manchester (72.8%).
- Unemployment in Leeds City Region fell by 4,200 (6.6%) last quarter. There are now 59,300 people unemployed, the first time the number has dropped below 60,000 since 2005. The unemployment rate has fallen to 4%, and again hasn't been lower since 2005. Only Liverpool City Region (3.5%) and West of England LEP (3.5%) have lower unemployment rates among core city LEPs.

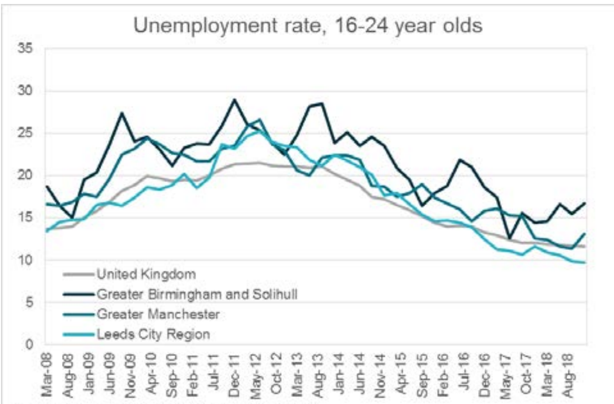


Source: Annual Population Survey, NOMIS, 2019

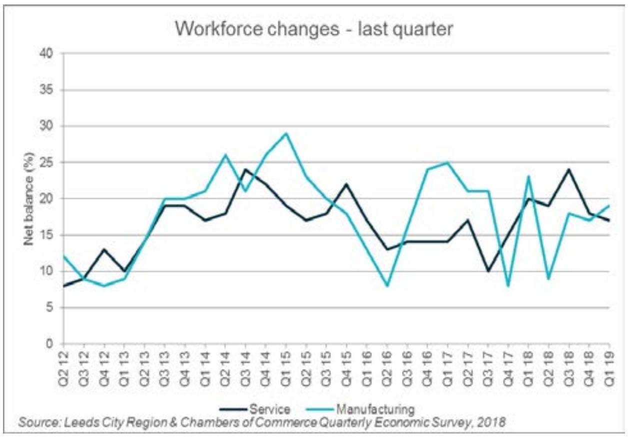


Source: Annual Population Survey, NOMIS, 2019

- Within the City Region Bradford saw employment increase most markedly in absolute terms, with 2,000 (1%) more people in work. Calderdale saw similar increases in percentage terms, with 1,000 more people in work. Kirklees and Leeds both saw employment fall by 1,500, however.
- Despite the increase in employment this quarter, the employment rate in Bradford remains substantially below the City Region average at 65.8%. Harrogate (83.9%), York (79.3%), Calderdale and Selby (both 77%) all have employment rates in excess of the national average.
- The proportion of 16-24 year olds out of work in Leeds City Region has fallen to 9.7% at the end of 2018. This is lower than at any time for which data is available, and makes Leeds City Region the only core city LEP area where the rate is below 10%. The comparable UK rate is 11.6%.



Source: Annual Population Survey, NOMIS, 2019



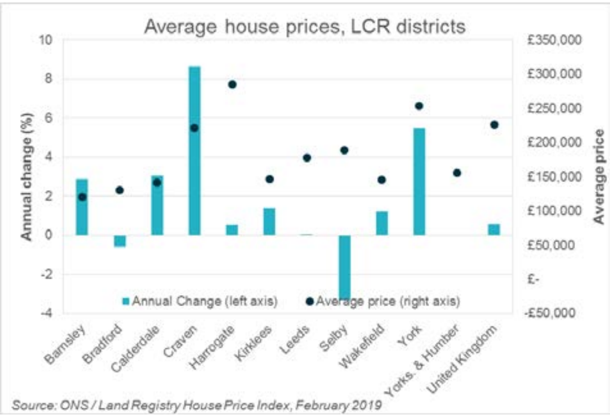
Source: Leeds City Region & Chambers of Commerce Quarterly Economic Survey, 2018

- The proportion of employers looking to expand their workforce remains relatively strong, according to the QES. Net balances of 19% of manufacturers and 17% of service sector firms increased their headcount in Q1 2019, comparable with levels seen in early 2016.

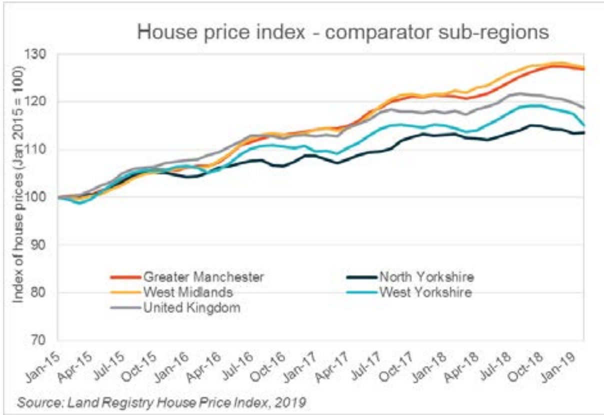
Brexit implications: The overall picture for the Leeds City Region labour market is relatively strong, with employment close to record levels and unemployment at historic lows. This mirrors the national picture in many respects, though local performance on youth unemployment appears particularly positive.

Leeds City Region – Housing, Property and Investment

- House prices in Yorkshire and Humber have been relatively static over the past year, with an average sale price of £155,700 in February 2019. Prices increased by 0.6% nationally over this period. The average sale price in Yorkshire is 31% below the national average.
- There is substantial variation within the Leeds City Region, with prices increasing by 8.7% in Craven, 5.5% in York and 3% in Barnsley and Calderdale. Conversely, process were 3.3% lower over the year in Selby, and were largely flat in Leeds.

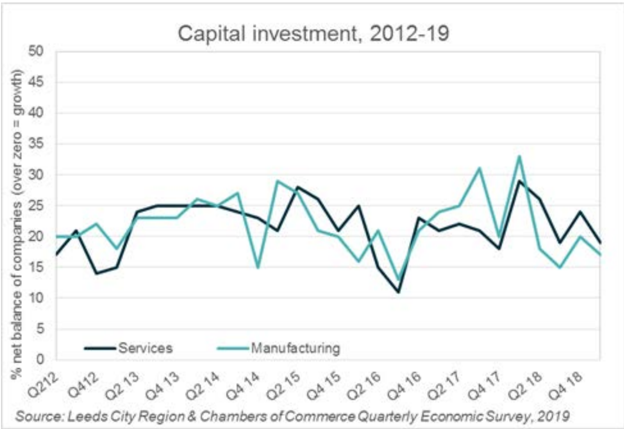


Source: ONS / Land Registry House Price Index, February 2019

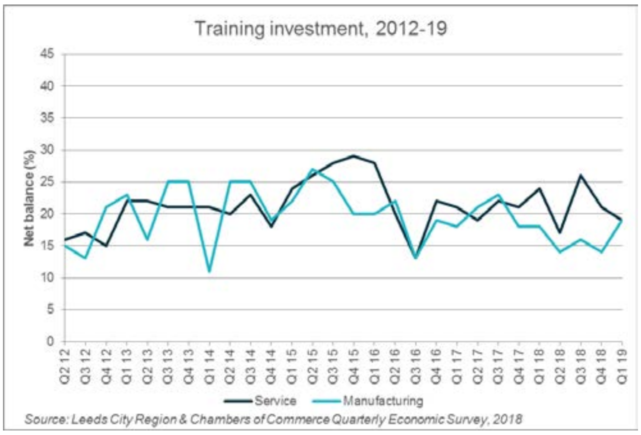


Source: Land Registry House Price Index, 2019

- House price growth has been below the national average in both West and North Yorkshire in recent years. The median price is 13.5% higher in North Yorkshire in February 2019 than it was in January 2015. Prices have increased by 15% in West Yorkshire.
- In both cases, this is below UK growth of 18.7%. Comparator areas such as Greater Manchester and the West Midlands have outpaced national growth since 2015, with prices increasing by around 27%.



Source: Leeds City Region & Chambers of Commerce Quarterly Economic Survey, 2019



Source: Leeds City Region & Chambers of Commerce Quarterly Economic Survey, 2018

- Business investment levels remain subdued and have been on a downward trajectory since the start of 2018 as businesses continue to delay decisions in the absence of greater clarity on Brexit. The net balance for capital investment fell by 5 points to 19% for the service sector, and by 3 points to 17% for manufacturers.
- There was a slight upturn in investment in training among manufacturers this quarter, though activity in this area remains relatively low, with net balances at 19% for both sectors.
- Some businesses report that stockpiling has led to increased demand and costs for warehousing and logistics, which is increasing pressure on prices.

Brexit implications: Business investment in capital projects remains subdued and is a key factor in Brexit considerations as businesses continue to delay or defer large scale investments until they receive greater clarity. This may be sustaining the strong employment picture, but may have longer term effects for productivity and competitiveness. For similar reasons, the housing market remains subdued nationally and locally.

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Conclusions and outlook

- Some Brexit-related issues appear to have given a short-term boost to national and local economies of late, with stockpiling helping to drive business activity, particularly in the manufacturing sector. Nationally, manufacturing GDP increased by 2.2% in Q1, whilst the Chambers of Commerce QES shows particularly strong increases in domestic and overseas demand for the sector this quarter.
- There are signs that the stockpiling-driven momentum may be tailing off now that the UK's departure from the EU is less imminent than had appeared in late Q1. This is certainly indicated by survey data, and the small fall in monthly GDP in March would also support this, if confirmed.
- Manufacturers continue to report cost pressures arising from raw material prices and exchange rates. Increasing oil prices will not help in this regard, with further rises anticipated. The prolonging extension of Brexit uncertainty will also likely result in a prolonging of the period of elevated materials prices and greater currency fluctuation, with some predicting sterling could lose some of its recent gains.
- HMRC data suggests that our region remains more reliant than the country as a whole on the EU as an export market, and whilst the value of exports has increased the number of businesses exporting has not increased significantly. Recent strong performance may therefore again be linked to overseas customers bring forward future business to insure against disruption.
- More broadly, businesses appear to be increasingly looking to focus on domestic markets to improve their Brexit resilience, with some evidence that many are seeking more UK-based customers and suppliers. This may be prudent in the short-term and offers potential reshoring opportunities, but this should be balanced against a need to build on the region's recent strong export performance, and the potential for businesses to explore opportunities in new markets.
- There also remains debate as to whether the strong labour market evident both locally and nationally is a consequence of, or in spite of, Brexit. Some consider the health picture of rising employment as evidence of a robust economy, though others express concern that labour is being utilised as a cheaper and more flexible alternative to capital investment.
- Whilst the recent trend towards growth in full-time permanent employment is undoubtedly positive, it is also clear that there has been a persistent lull in capital investment. Given the critical role that investment plays in productivity growth, this could have longer term implications for economic competitiveness.
- This issue was highlighted by Bank of England Deputy Governor Ben Broadbent recently, who said a lack of clarity over the timing and nature of the UK's exit from the EU was leading businesses to delay investment decisions. He warned of the risks of this continuing until the revised deadline of October 31st, but also emphasised the potential for a significant upturn in investment should a deal be struck which releases pent up investment.
- Businesses in the City Region have expressed similar views, particularly those with overseas ownership. Many are unwilling to invest significantly in their UK operations until they have greater confidence in the future trading arrangements.
- The delayed departure date for Brexit appears to have removed some of the urgency from Brexit planning of late, but the fact that only half of business in Leeds City Region still felt prepared for a no deal scenario late in Q1 suggests that the current lull should be seen as an opportunity to continue preparations, rather than shift focus elsewhere. This is particularly true as European elections are likely to see the issue return to the centre of debate in the near term.

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