
Report to: Business, Innovation and Growth Panel

Date: 10 September 2019

Subject: **Economic reporting**

Director: Alan Reiss, Director of Policy, Strategy and Communications

Author(s): James Hopton, Patrick Bowes

1 Purpose of this report

1.1 To provide the latest economic and business intelligence to the Panel.

2 Information

2.1 This report presents recent global, national and local economic developments.

Appendix 1 presents the quarterly Leeds City Region Economic & Brexit Monitor for August 2019, which provides a summary of the latest national and international economic developments, before presenting a detailed look at the latest economic data for Leeds City Region with sections focused on business performance and trade, the labour market and housing, property and investment. Appendix 2 summarises the Monitor into a single page dashboard.

The report from the 2019 Leeds City Region Business Survey has also now been published and is available online at www.the-lep.com/media/2876/leeds-city-region-business-survey-2019.pdf. The now annual survey is a key source of information on business views and activity in the region. It provides insight on a range of topical issues such as Brexit, plugs evidence gaps on issues such as barriers to growth, skills and innovation and provides a deeper understanding of the climate in which businesses are operating.

The survey findings have been used to inform the development of projects and policies for the Growth Service and other areas of the organisation. The key findings are reported at section 2.4 below, and will be presented to the panel.

Main national and international headlines

2.2 The main national and international headlines this quarter include:

- Global growth has been subdued in recent months as range of geopolitical tensions show signs of taking effect on investment, trade and demand, increasing fears of recession.

- UK GDP decreased by 0.2% in Q2 2019, the first quarterly contraction since 2012. Brexit-related stockpiling was a factor – this contributed to stronger than predicted growth in Q1 which tailed off thereafter. The UK employment rate picture remains strong however.
- Given these issues many forecasters have revised down their outlook with markets concerned about the risk of recession in some countries.

2.3 Leeds City Region economic headlines

For Leeds City Region, the latest headlines include:

- The City Region employment rate increased to 73.8% in Q1 2019 – the highest on record. There are 6,100 (0.4%) more people in work than the previous quarter – a faster increase than many other comparator LEPs.
- Businesses reported a slowdown in domestic and export activity in the Q2 Quarterly Economic Survey (QES) with the Chambers of Commerce, with many businesses holding stock following the Brexit preparations in Q1.
- The service sector exports net balance turned negative for the first time in a decade, signalling declining activity according to the QES.
- Yorkshire & Humber businesses exported goods worth £4.46bn in Q1 2019, a fall of 4.8% from the record high of Q4 2018 though exports remain higher than a year ago.
- The value of goods imported into the region increased by 5.5% between Q4 2018 and Q1 2019, significantly exceeding the 0.4% national increase.

2.4 Leeds City Region Business Survey, 2019

BMG Research were commissioned to carry out the survey of a representative sample of 2,000 businesses across Leeds City Region in early 2019. The key findings from the latest survey include:

- Business performance has held up compared to the last survey in 2017. Businesses are less confident about the coming year, however. This mirrors other business surveys showing less certainty for the year ahead.
- Generally speaking businesses report lower levels of investment than previous years, again confirming other survey findings. Despite this, investment in ICT infrastructure is increasing, emphasising the importance of Digital to our economy.
- Brexit has become the most frequently mentioned barrier to growth – mentioned by 17% of businesses in 2019, compared to 5% in 2017.

- 15% of businesses identified opportunities offered by Brexit, such as increased demand, less regulation and more domestic investment. 60% mention a risk, most commonly higher costs, general uncertainty/lack of confidence and losing customers/business.
- On balance, a third of businesses think Brexit will be detrimental to their business, up from 28% in 2017. The proportion seeing it as beneficial is largely unchanged at 11%.
- Whilst a quarter of businesses will consider moving premises in the next five years, the vast majority will look to stay within their local area or the wider region. Very few are considering moving overseas.
- Overall, satisfaction with the region as a place to do business is very high – 88% of businesses are either satisfied or very satisfied with their current location as a place to operate.

2.5 **Brexit commentary and assessment**

The slowdown seen in Q2 is an added layer of uncertainty for those businesses who have forward provisioned for the initial Brexit deadline and who may face cash flow challenges, particularly when potentially faced with a similar set of circumstances in October. Implementing similar plans for a second time may pose practical and financial challenges for many businesses.

The devaluation of sterling coupled with increased demand for (and cost of) warehousing space, would suggest that the challenges posed by a second round of no deal planning could potentially prove more complex than the last.

Additionally, the Combined Authority has been undertaking work to assess the potential impact of Brexit in the region. This is not intended to duplicate work that has taken place elsewhere, but to complement this by utilising sources such as the Leeds City Region Business Survey.

As noted elsewhere in this report, and in previous iterations, Brexit and the related wider uncertainty is already having an impact on the economy, but in attempting to look forward it is accepted by most commentators that the impact will be significantly different depending on whether there is a negotiated deal and transition period or a non-negotiated exit.

Therefore, whilst acknowledging that the outlook remains highly uncertain, this assessment work has looked as far as possible to consider both scenarios, drawing out a number of conclusions:

- We are already experiencing the effects of Brexit on the economy, even while the final conclusion remains uncertain.
- We have a comprehensive intelligence picture of Brexit preparations across businesses and the economy more widely. There are some specific

gaps in our knowledge and interactions in relation to large indigenous businesses and more widely on the impact on households.

- Although there are significant opportunities and challenges for businesses in the Leeds City Region, there are no major implications that are not also true for businesses across the UK.
- In the current economic climate (and depending on the outcome of Brexit) it is more challenging to achieve the further investment across the city region that is required to drive productivity growth.
- While short term sterling depreciation has supported exporters, (depending on the outcome of Brexit) there are implications for the future of trade for city region businesses that will be particularly felt in supply chains.
- While the labour market has proven to be resilient to date, there are challenges in particular sectors to the supply of skilled workers.
- The LEP has already begun to put in place support that can assist businesses looking to succeed in the current environment, and is ready to implement further programmes as necessary in a no deal scenario

These conclusions are being used to form a series of recommendations to guide further work and develop an action plan ahead of the UK's exit.

3 Financial Implications

- 3.1 There are no financial implications directly arising from this report.

4 Legal Implications

- 4.1 There are no legal implications directly arising from this report.

5 External Consultees

- 5.1 No external consultations have been undertaken.

6 Recommendations

- 6.1 The Panel is asked to note the analysis presented in the economic update and the Business Survey, and consider how this relates to its work.

7 Background Documents

None.

8 Appendices

Appendix 1 – Leeds City Region Economic Update Report
Appendix 2 – Leeds City Region Economic Dashboard