

## ECONOMIC AND BREXIT MONITOR: LEEDS CITY REGION, NOVEMBER 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**

- Global trade and geopolitical tensions have increased throughout 2019. This has contributed to increasing uncertainty in the global trading system, which is a large contributor to the weak global growth.
- The global economy is now projected to grow by only 3% in 2019 according to the International Monetary Fund. This would represent the lowest growth since 2008-09.
- UK GDP growth was flat in the three months to October, following growth of 0.3% in Q3 according to the Office for National Statistics. This growth was entirely driven by the service sector, with production output declining.
- The Eurozone maintained its growth rate at 0.3% in Q3, though performance among member countries was mixed with France exceeding expectations and Germany in the midst of a slowdown. The USA also beat expectations, growing at a rate of 0.5% in Q3 2019.
- There were 32.8 million people in work in the three months to October, according to ONS, an increase of 24,000 on three months earlier. The employment rate remains at a joint record high of 76.2%. The unemployment rate also remains at a record low of 3.8%.
- UK PMI surveys point to falling activity across all of the manufacturing, services and construction sectors – the first time all sectors have reported contraction concurrently since July 2016.

#### **Key City Region and local developments**

- There was an increase in business confidence in Q4 according to the QES, despite the uncertainty of a general election. Businesses were more confident about their profitability and cash flow situation, perhaps reflecting the lower immediate risk of a no deal Brexit.
- Domestic activity has rebounded, which has likely helped the recovery in confidence. Export activity remains subdued, however. Whilst Brexit is likely part of the explanation, the broader slowdown in activity internationally is also a factor
- The City Region employment rate decreased from 73.8 % in Q1 2019 to 73.4% in Q2 2019, though remains high by historic standards.
- The unemployment rate fell in six of the ten City Region districts between Q1 2019 and Q2 2019, according to modelled estimates from NOMIS, with only modest increases in the remaining four.
- Goods worth £4.15bn were exported from Yorkshire & Humber in Q3 2019, largely unchanged from Q2 but a fall of 8.2% from Q1.
- 3,800 new business bank accounts were opened in Leeds City Region in Q3, a 0.3% increase on Q3 2018. This compares to a 0.4% fall in activity on this measure nationally.
- Employment in Leeds City Region has decreased by 6,000 (0.4%) between Q1 2019 and Q2 2019. Other core city LEPs such as Greater Manchester and Greater Birmingham reported similar falls, though other comparators saw growth.

#### **Brexit implications and conclusions**

- Just over half (51%) of companies surveyed in the QES said they were confident or very confident in their Brexit preparations in Q4. However, there was a sharp fall in those saying they were very confident, from 23% in Q3 to 5% in Q4.
- There was also a slight fall in the proportion of businesses saying they were not confident they were prepared to withstand a no deal scenario, down to 11% in Q4 from 13.5% in Q3 and 16% in Q1.
- A majority of businesses (55%) say they have been able to access sufficient information to enable them to plan for Brexit effectively, though 1 in 6 say they have not and a significant proportion are unsure, likely reflecting the challenge of planning for a range of outcomes in an uncertain environment.
- The latest anecdotal evidence from the Growth Service's interactions with businesses supports the view that many businesses feel they have done all they can to prepare, whether through stockpiling or other contingencies to ensure supply in the event of disruption.

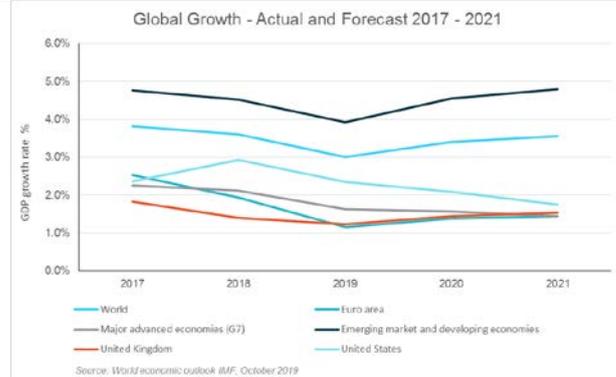
## ECONOMIC AND BREXIT MONITOR: LEEDS CITY REGION, NOVEMBER 2019

### 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 to August and the labour market for Q3 2019. Regional GDP data is also available for the first time whilst there is new national 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 Q3 2019. Labour market data from ONS for Q2 2019 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 Q3 2019 are also available.

### Global economic and political developments

- Growth of the global economy has further slowed over 2019. The global economy is now projected to grow by only 3% in 2019 according to the IMF. This would represent the lowest growth since 2008-09.



- Global trade and geopolitical tensions have increased throughout 2019, contributing to increased uncertainty in the global trading system. This uncertainty is a large contributor to weakening global growth.
- Increasing trade tensions between China and the US have reduced China's aggregate demand, which has had a knock on effect throughout the globe.
- This reduction in demand from China has had a significant impact on the global automobile industry. This has had particular consequences for Germany with the projected growth for 2019 revised down to 0.5%.
- The French GDP growth rate was expected to slow down in Q3 2019, instead, it has remained steady at a modest growth rate of 0.3%. This has helped the wider Eurozone grow at 0.2% in Q3 of this year, faster than the expected 0.1%. Even with the modest growth of the French economy, the Eurozone growth rate has been revised down to a projected growth rate of 1.2% for 2019.
- The USA has so far not seen as big impact from the trade war as some other nations. The USA's GDP growth rate beat the expected to growth rate of 0.4%, growing at a rate of 0.5% in Q3 2019.
- China's projected growth rate for 2019 has been revised down to 6.1%. This after continued economic pressure from the trade war USA, as well as a slump in activity in both manufacturing and service sectors.
- The projected GDP growth rate for the Middle East and central Asia region has been revised down to 0.9% for 2019. This is due to a combination of continued conflict in the region and a weak global demand in oil.
- Weakening demand in global manufacturing and a modest slowdown in key service sector indicators are contributing to the economic performance of the UK, according to the IMF. Projected growth has been revised down to 1.2% in 2019, though the 2020 growth rate is still projected at 1.4%. This is because much of the uncertainty around Brexit is already factored in, with the expectation that there is an orderly Brexit.

**Global economy summary:** For the most part there has been a continued trend of downward revision of growth trajectories, raising concerns about the threat of recession globally. This is particularly true in the UK as amidst Brexit uncertainty, though these forecasts pre-date the general election. In some respects the UK is outperforming the wider EU however, emphasising that Brexit is not the only factor influencing growth.

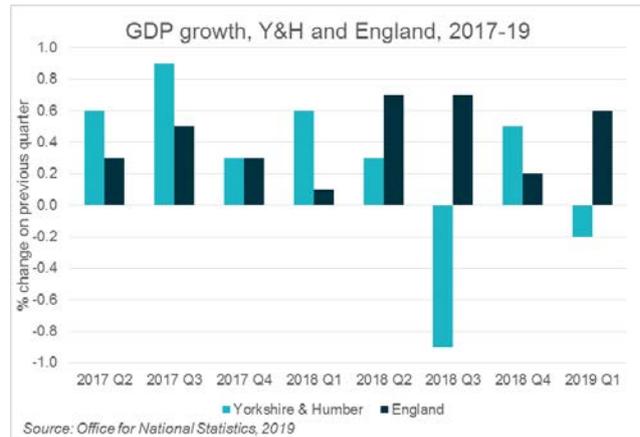
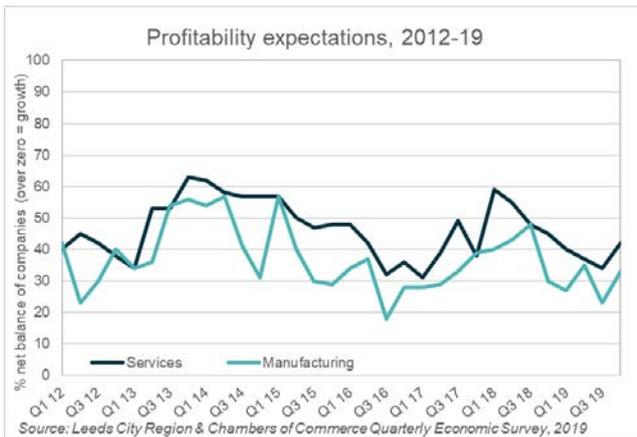
## UK economic dashboard

Indicator	Latest position	Chart	Trend
<b>Economic headlines</b>	<p>UK GDP growth was flat in the three months to October, following growth of 0.3% in Q3.</p> <p>The service sector was again the only sector to see growth over this period, with output up 0.2%. Output in both the production and construction sectors contracted, by 0.7% and 0.3%, respectively.</p>	<p>UK GDP, 2017-19</p> <p>% change in GDP, rolling three month period</p> <p>Source: Office for National Statistics, 2019</p>	☁️☀️
<b>Confidence and sentiment</b>	<p>The pace of the slowdown in production industries quickened at the end of 2019 according to the IHS Markit/CIPS PMI surveys. Both sectors reported declines in new work continued through December.</p> <p>Service sector companies were slightly more optimistic with the survey index at 50, indicating neither growth nor contraction.</p>	<p>Purchasing Managers Index (PMI) by sector, 2016-19</p> <p>PMI score (over 50 = growth)</p> <p>Source: Markit/CIPS PMIs, 2016-19</p>	☁️
<b>Labour market</b>	<p>There were 32.8 million people in work in the three months to October, according to ONS, an increase of 24,000 on three months earlier. The employment rate remains at a joint record high of 76.2%. The unemployment rate also remains at a record low of 3.8%.</p> <p>Whilst the number of people in full time work increased, there were falls in those in part-time.</p>	<p>UK employment growth 2008-19</p> <p>Index of total employment (Jan 2008=100)</p> <p>Source: Office for National Statistics, 2019</p>	☁️☀️
<b>Trade and exports</b>	<p>The volume of retail sales decreased by 0.4% in the three months to November, the first quarterly fall since April 2018.</p> <p>The UK's trade deficit widened by £2.3bn to £7.2bn in the three months to August. The deficit with both EU and non-EU nations widened. Both imports and exports increased, but growth in imports was faster.</p>	<p>UK trade in goods and services, 2017-19</p> <p>£ billion</p> <p>Source: Office for National Statistics, 2019</p>	☁️☀️
<b>Inflation and wages</b>	<p>Inflation stood at 1.5% in November, unchanged from August.</p> <p>Regular pay increased by 3.5% in the year to October 2019, down from 3.9% in the preceding three months.</p> <p>Accounting for the effects of inflation, wages increased by 1.8% in real terms in the year to October.</p>	<p>Wage growth and inflation, 2012-19</p> <p>% change on a year earlier</p> <p>Source: Office for National Statistics, 2019</p>	☁️☀️

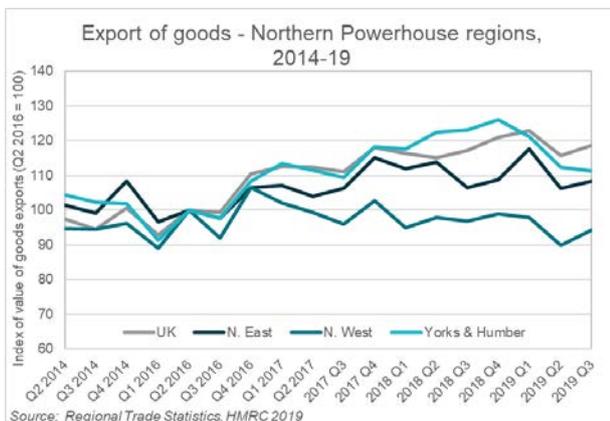
**Brexit implications:** The UK economic picture remains mixed, with GDP growth returning to zero early in Q4 and retail sales falling to suggest activity remains subdued. The labour market remains strong, however. The general election result and subsequent passing of the Withdrawal Agreement Bill in Parliament provides greater clarity on the future path on Brexit and this has been welcomed by markets, with the FTSE350 up around 5% since the election. There remain considerable uncertainties however, with an increasing number of businesses expecting uncertainty to continue into 2021, according to a Bank of England survey.

## Leeds City Region – Business Performance and Trade

- There was an increase in business confidence in Q4 according to the Quarterly Economic Survey with the Chambers of Commerce, despite the uncertainty of a general election. Businesses were more confident about their profitability and cash flow situation, perhaps reflecting the lower immediate risk of a no deal Brexit.
- Domestic sales activity has rebounded, which has likely helped the recovery in confidence. Export activity remains subdued, however with activity falling in the service sector and largely flat among manufacturers. Whilst Brexit is likely part of the explanation, the broader slowdown in activity internationally is also a factor.



- Newly published data from ONS provides data on regional GDP for the first time. Although the data series has some time lag and is likely to fluctuate so should be treated with caution, it provides valuable insight into the performance of the regional economy. Data for Q1 2019 shows the Yorkshire & Humber economy contracted by 0.2%, following growth in GDP of 0.5% the preceding quarter. Regional data on this series will be likely to fluctuate more than national data however.



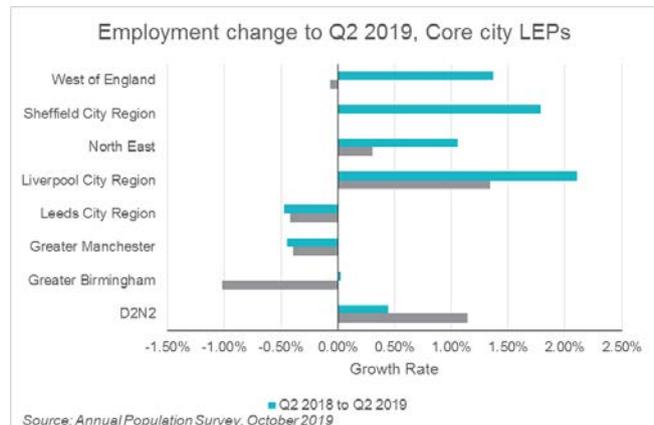
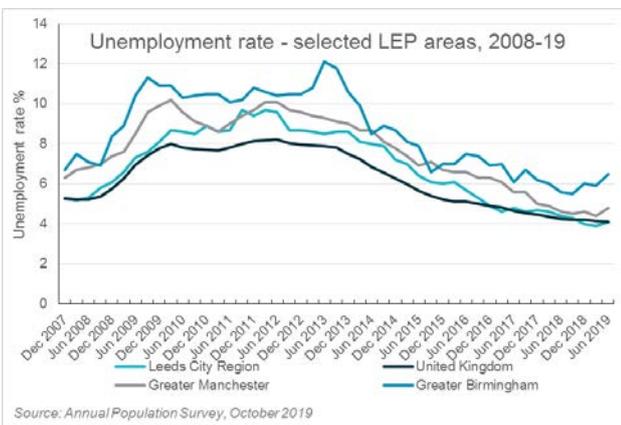
- Goods worth £4.15bn were exported from Yorkshire & Humber in Q3 2019, largely unchanged from Q2 but a fall of 8.2% from Q1. UK exports were 2.5% higher in Q3 than in Q2.
- The region saw growth in exports to Asia & Oceania in H1 2019, up 14% on a year ago. This has been offset by a 6.3% decline in exports to the EU and a smaller decline in exports to North America.
- 3,800 new business bank accounts were opened in Leeds City Region in Q3, a 0.3% increase on Q3 2018. This compares to a 0.4% fall in activity on this measure nationally.

**Brexit implications:** Businesses reported a more optimistic outlook in Q4 after the UK did not leave the EU without a deal in October. Domestic activity was a key source of that optimism, with international trade still affected by Brexit and broader issues.

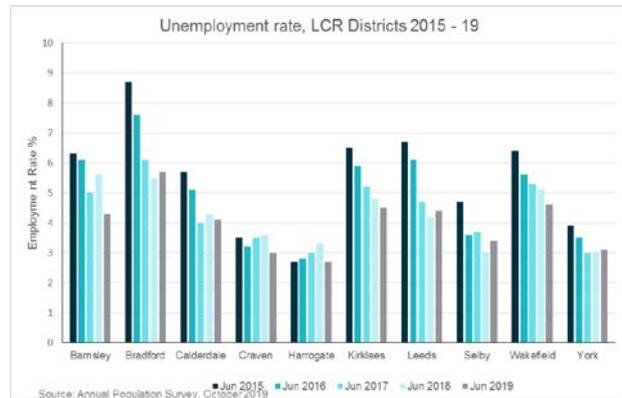
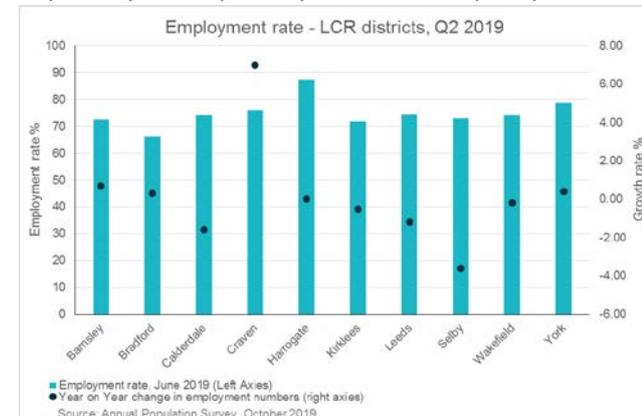


## Leeds City Region – Labour Market

- Employment in Leeds City Region has decreased by 6,000 (0.4%) between Q1 2019 and Q2 2019. Data can fluctuate from quarter to quarter, but even with a fall in employment the City Region still is the largest of the eight core city LEPs with just under 1.41 million people in employment.
- Both Greater Manchester and Greater Birmingham LEP have seen a reduction in employment in Q2 2019 with falls of 0.4% and 1% respectively.
- The City Region employment rate decreased from 73.8 % in Q1 2019 to 73.4% in Q2 2019. Nationally, employment numbers have increased by a modest 0.3%, growing the employment rate to 75.9%.
- Unemployment in the City Region has risen by 2,600 (4.5%) since last quarter. There are now 60,200 unemployed people in the City Region. The unemployment rate of 4.1% is in line with the national figure. Only West of England (3.8%) and Liverpool City Region have lower rates (3.6%)
- 78.5% of Leeds City Region residents in work are employed in the private sector, a joint record high and up from 75% five years ago. Only D2N2 and Greater Birmingham, out of the core city LEPs have more residents employed in the private sector This is comparable to the 78.3% nationally, and second only to Greater Birmingham among core city LEPs (80.5%).



- Whilst it is important to note that data at district level is based on relatively small sample sizes and is therefore prone to fluctuation, employment growth was most notable in Craven and Bradford at district level, with these districts seeing around 2,100 and 3,300 more residents in work, respectively.
- Half of the districts in the Leeds City Region have seen employment fall since Q1 – Calderdale (-1.6%), Kirklees (-0.5%), Leeds (-1.2%), Selby (-3.6%), and Wakefield (-0.2%)
- Three districts in Leeds City Region have employment rates in excess of the UK rate of 75.9% - Harrogate (87.4%), York (78.8%), and Craven (76%)



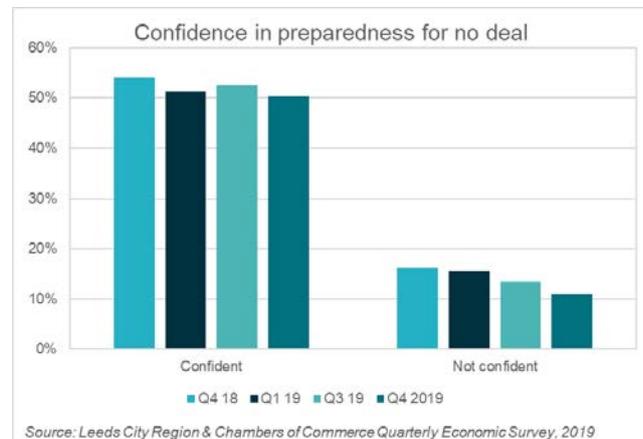
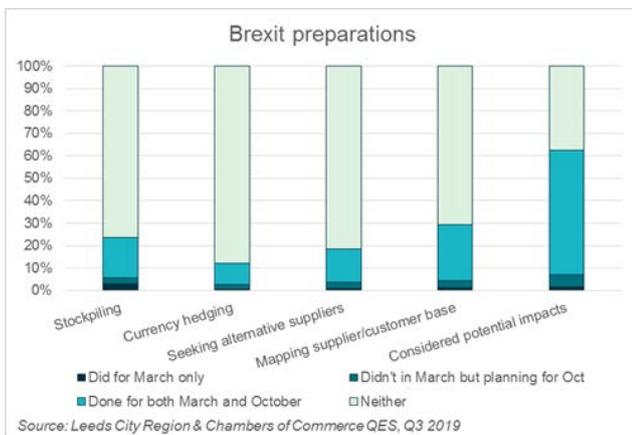
- The unemployment rate fell in six of the ten City Region districts between Q1 2019 and Q2 2019, according to modelled estimates from NOMIS, with only modest increases in the remaining four.
- The largest fall in unemployment was in Barnsley (-1.3%) with the largest increase in unemployment being in Selby rising by 0.4%.

**Brexit implications:** Employment seems to have fallen slightly from a recent peak, though remains by historic standards. A tapering off of the labour market's strength in Q2 reflects broader economic data which showed the economy contracting nationally over this period.



## Brexit Intelligence and Assessment

- The Quarterly Economic Surveys for Q3 and Q4 2019 again sought to understand the actions businesses were taking in preparation for Brexit, and their confidence in their preparations for a “no deal” scenario. Alongside this, intelligence from other sources such as the Growth Service’s interactions with businesses has been co-ordinated to provide an understanding of the challenges, risks and opportunities posed by Brexit.
- As in recent surveys, just over half (51%) of companies surveyed in the QES said they were confident or very confident in their Brexit preparations in Q4. However, there was a sharp fall in those saying they were very confident, from 23% in Q3 to 5% in Q4. There was also a slight fall in the proportion of businesses saying they were not confident they were prepared to withstand a no deal scenario, down to 11% in Q4 from 13.5% in Q3 and 16% in Q1.
- Most businesses who took some action ahead of the original Brexit deadline in March had done the same in preparation for the October deadline but relatively few who did nothing in March planned to do anything for October. More than half of businesses had devoted management time to thinking about Brexit, and around a quarter have mapped their supplier and customer base. 18% say they stockpiled, though this increases to 43% among manufacturers.



- A majority of businesses (55%) say they have been able to access sufficient information to enable them to plan for Brexit effectively, though 1 in 6 say they have not and a significant proportion are unsure, likely reflecting the challenge of planning for a range of outcomes in an uncertain environment. The government’s gov.uk website was the most frequently mentioned source of information, accessed by 61% of businesses, followed by the media (42%) and business networks (39%).
- Whilst relatively limited as the level of activity lessened slightly during the election period, the latest anecdotal evidence from the Growth Service’s interactions with businesses supports the view that many businesses feel they have done all they can to prepare, whether through stockpiling or other contingencies to ensure supply in the event of disruption.
- However, others in recent weeks have reported issues such as a hesitancy for some overseas clients to place orders whilst there are also concerns in some sectors over the recruitment and retention of staff after the UK’s exit.
- Following the general election and subsequent passing of the Withdrawal Agreement Bill in Parliament, there is a greater degree of clarity on the future path on Brexit and the risk of significant disruption has been removed in the near-term. However, the negotiation over the future trading relationship with the EU will have significant implications for many businesses and the nature of those future relationships remains highly uncertain.
- To that extent, and with an increasing number of businesses expecting uncertainty to continue into 2021, according to a Bank of England survey, businesses may find that work to understand their supply chains and other potential impacts will likely prove valuable over the next 12 months.

**Conclusions:** Leeds City Region businesses reported a somewhat more positive outlook in Q4, perhaps buoyed by the fact that a potentially disruptive scenario had been averted at the end of October, and the greater clarity that a general election could bring. Whilst it appears that relatively few businesses feel there is more action they can take now that they didn’t take for previous cliff edges, anecdotal evidence suggests many businesses have taken practical steps to prepare for a range of outcomes and feel as prepared as they could be. The general election outcome should provide some clarity on Brexit timelines, and enable businesses to take more practical steps if and when talks over a trade deal provide greater certainty over future trading relationships.

