
Report to: Business, Innovation and Growth Panel

Date: 27 February 2020

Subject: **Economic reporting**

Director(s): Alan Reiss, Director of Policy, Strategy and Communications

Author(s): James Hopton, Patrick Bowes

1. Purpose of this report

- 1.1 To provide an update on the latest economic and business intelligence for the Board, and to update the Panel on the latest activity and intelligence around Brexit.

2. Information

- 2.1 This report presents recent developments in the global, national and local economy. The report is produced on a regular, quarterly basis. As such the latest available version will be presented to each Panel meeting. The report presented here is an updated version of the November report, taking into account recent developments.

2.2 Brexit update

- 2.2.1 At the request of the Cities and Local Growth Unit (CLGU), the Growth Service has been leading on the gathering and co-ordination of Brexit-related intelligence on behalf of the Yorkshire & Humber region. This is part of the LEP's role as the Yorkshire and Humber Growth Hub Cluster Lead for business support activity and intelligence related to the the UK's exit from the EU. The activity complements the wider work of the Combined Authority and district partners, including via contributions to the Local Resilience Forum.

- 2.2.2 The LEP's role as Yorkshire and Humber Cluster Lead has brought with it some additional funding from HM Government. This is being used to improve the LEPs' collective knowledge of export activity across the region to inform future international trade support. In addition, it is bolstering our engagement with larger UK-owned businesses to better understand the challenges and opportunities of certain sectors and sub-sectors. Lastly, it will help to identify which of our businesses are signalling investment and which might be more likely to downsize. Again, this will directly inform future approaches to business support, engagement and marketing / communications.

2.2.3 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. The expectation is that the UK will negotiate a trade deal during 2020 ahead of the transition period ending on 31 December. There are signs that markets and businesses have responded positively to this. 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 remain highly uncertain.

2.2.4 The LEP will keep a close watching brief through the negotiations, so that specific opportunities can be identified and supported as issues are clarified, feeding in to these as appropriate. This is also directly relevant to our Trade and Inward Investment activity as a LEP. In the meantime, there is an opportunity to set out what the priorities for the UK's new trading environment are at the city region level and to progress areas of activity that can already be taken forward. This includes exploring and making representations as appropriate in the following areas:

- **Exports:** Understanding the regions export levels, its core export markets aligned with key sectors integrated with the UK's new global trading relationships.
- **Skills and employment:** the impact on the regions current labour force, opportunities towards future skills development and training provision in the context of exporting, automation and productivity.
- **Sectors:** an opportunity to showcase the city regions strengths and shape UK policy towards increasing investment and export potential. e.g. net zero carbon aspirations in energy.
- **SME Support:** refocus SME support on business resilience and forward/scenario planning. An opportunity to use the changing economic context to promote and amplify the priorities in our developing Local Industrial Strategy around productivity, clean growth and investing in innovation and other positive business behaviours.

2.2.5 The Growth Hub continues to prepare to be as ready as possible for the impacts of Brexit on businesses, meeting regularly with business support leads in each local authority, with representatives of leading business membership bodies (via the Business Communications Group) and directly with businesses themselves via the LEP's business-facing teams and marketing activities to ensure alignment with other activity.

2.2.6 The team of SME Growth Managers has now risen to 19 FTEs who are supporting over 1,000 businesses to access the right support to meet their growth and resilience needs across the City Region. In addition, the Combined Authority has commissioned a legal firm to work intensively with a cohort of the City Region's large UK-owned businesses. This will provide valuable insight into the practical challenges and opportunities facing the businesses, and help to inform future policy and activity regionally and nationally. Furthermore, the LEP's £2 million Brexit Business Support scheme has been developed and is ready to be implemented. However, this has been paused until further clarity on the new business-facing campaign from the

Government, and any associated resources for the LEPs/Growth Hubs, has been received.

- 2.2.7 Analysis of the latest Quarterly Economic Survey with the Chambers of Commerce suggests there has been a further 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 2019.
- 2.2.8 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.
- 2.2.9 Whilst relatively limited as the level of activity lessened slightly during the election period, those businesses who have offered a view have reported feeling 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.

2.3 Main national and international headlines

The main national and international headlines include:

- 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 growth rate of the global economy.
- 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's GDP growth rate beat the expected growth rate of 0.4%, 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 and construction sectors, though performance in services stabilised in December.

2.4 Leeds City Region economic headlines

For Leeds City Region, the key headlines include:

- 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
- Companies appear to be maintaining their staffing levels in spite of relatively low growth with headcounts continue to grow, though businesses appear to be continuing to delay major investment decisions until there is greater clarity on Brexit in Q4.
- 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. The number of new business bank accounts opened, a proxy measure of start-up activity, was 1.5% higher over the first three quarters of the year, compared to a 0.2% increase nationally.
- Data from the Office for National Statistics shows employment in Leeds City Region decreased by 6,000 (0.4%) between Q1 2019 and Q2 2019. Other core city LEAs such as Greater Manchester and Greater Birmingham reported similar falls, though other comparators saw growth.
- 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. Clean Growth Implications

3.1 There are no Clean Growth implications directly arising from this report.

4. Financial Implications

4.1 There are no financial implications directly arising from this report.

5. Legal Implications

5.1 There are no legal implications directly arising from this report.

6. Staffing Implications

6.1 There are no staffing implication directly arising from this report.

7. External Consultees

7.1 No external consultations have been undertaken.

8. Recommendations

8.1 The Panel is asked to note the analysis presented in the economic update and the latest intelligence on Brexit and consider how this relates to the work of the Panel.

9. Background Documents

9.1 None

10. Appendices

Appendix 1 – Leeds City Region Economic Update Report

Appendix 2 – Leeds City Region Economic Dashboard