
Report to: Economy Scrutiny

Date: 21 September

Subject: **Economic Update**

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1. Purpose of this Report

- 1.1. This report provides information about the latest economic and business intelligence within West Yorkshire, focussing primarily on the issues relating to the cost-of-living crisis across the economy, and the upcoming increase in energy prices.

2. Information

National Data

- 2.1. **Interest rates have been increased by 50 basis points to 1.75% in August**, pushing the price of mortgages up, as well as the cost of credit. As well as announcing an increase in interest rates, the Bank of England released updated forecasts:
- The **Consumer Price Index is expected to increase to over 13% in Q4 2022**. Inflation is expected to remain above 5% until Q1 2024;
 - The **UK economy is now expected to have five quarters of negative growth across 2023/24**;
 - **Real wages are expected to decline by 3.5% throughout 2022 and a further 4.25% fall in 2023**.

Regional Data

- 2.2 The Combined Authority has access to a Regional Econometric Model (“REM”), which provides forecasts for the area. We have also commissioned updated forecasts to understand how the current cost of living crisis is impacting the wider West Yorkshire economy. The rate of growth in the updated forecasts is considerably lower than the REM, which was produced earlier in the year, for the years 2022 and 2023. The REM predicted growth of 5.7% and 1.7% for 2022 and 2023 respectively across West Yorkshire. **The updated forecasts bring these figures down to 2.5% and 0.5%. The expectation then is that long-run**

growth will be slightly reduced until 2028, compared to pre-cost-of-living crisis, suggesting there will be some economic scarring from the ongoing economic climate.

2.3 The Combined Authority has recently surveyed 1,000 businesses across West Yorkshire to understand business sentiment in the current economic climate.

The key results are:

- 43% of businesses expect the business climate to remain as it currently is, whilst 30% expect it to worsen;
- **30% expect to increase employment levels**, whilst only 5% expect employment levels to decrease;
- The two main barriers to growth cited by businesses were **decline in demand (17%) and availability of skilled labour (16%)**;
- **33% of respondents expect their wage bill to remain the same over the next 12 months**. Of the 63% that expect their wage bill to increase, over half anticipate wage increases of less than 10%;
- **69% expect the prices they charge to customers to increase over the next 12 months**. Over half (51%) expect that price increase to be between 5 and 10%.

Appendix 1 of this report provides an insight into the sentiment of each sector of the West Yorkshire economy, along with the Combined Authority and the LEP's support packages.

2.4 Fuel poverty in West Yorkshire was greater than the national average prior to the pandemic (**17% of West Yorkshire households, compared with 13% nationally**). With standing charges in Yorkshire among the highest in the UK, **simply using less power will not solve the problem for many**. West Yorkshire households are in a worse position to deal with these increased costs for two reasons:

- Firstly, **dwellings with an EPC rating of C or above are lower in West Yorkshire than nationwide (46.9% compared with 53.8%)**. This means that more homes in West Yorkshire require more energy to heat and light than the average home in the UK.
- Secondly, just under one in three people in West Yorkshire (765,000 people) live in neighbourhoods that fall into the most income-deprived 20% in England, and **18% of the West Yorkshire population (421,000 people) live in neighbourhoods in the most income-deprived 10% in England**.

2.5 **People who use pre-payment meters will pay more than the energy price cap (105,000 households in West Yorkshire)**, highlighting the price of poverty. There is no price cap on alternative energy sources, such as oil, coal, and LPG gas. This leaves rural communities more exposed to rising energy costs. The new price cap means that people no longer have the headroom to pay their energy bills. **In West Yorkshire, we already have 18% of people spending over 90% of their gross income on essential items such as food and fuel.**

Once the price cap goes up in October, this figure will increase to over 30%.

- 2.6 Data collected by the University of Sheffield in 2021 shows **four out of the five West Yorkshire districts as having a higher share of food insecurity than the national average**. Nationally, **4% of adults went hungry due to not being able to afford food**. In Leeds this figure was **2%**, it was **6% in Kirklees**, **7% in Wakefield** and **8% in both Bradford and Calderdale**. Since this data was collected, food prices have accelerated significantly, with the cost of wheat-related goods climbing drastically due to the Russia-Ukraine War.
- 2.7 Between Q1 2020 and Q4 2021, unsecured lending to households in West Yorkshire declined by 18%. However, low-income households were at greater risk of unemployment and furlough throughout the pandemic, compared to high-income households, suggesting **that the reduction has been primarily driven by high-income households paying off debt whilst remaining economically active, with likely reduced commuting costs, throughout the pandemic**. It is also likely that the poorest will be the most reliant on credit going forward, which is becoming more expensive with rising interest rates.

3. Tackling the Climate Emergency Implications

- 3.1. Fuel use increases over the Winter due to colder temperatures. West Yorkshire homes are less likely to have an EPC C+, meaning that the region is more likely to need to use energy for heating. Analysis by the Resolution Foundation suggests it costs 58% more to heat a home rated as EPC D or lower, than it does C or above.

4. Inclusive Growth Implications

- 4.1 According to the Resolution Foundation, lower-income households will have to reduce non-essential spending by three times as much as higher-income households to afford essential bills such as energy. West Yorkshire has a higher share of people in lower-income households, suggesting that spending will be cut significantly more across West Yorkshire than other areas.
- 4.2 Wages are already struggling to keep pace with inflation (median wages have increased by 7%, meanwhile inflation is above 10%). As of 17 August, the UK Government has not indicated that benefit payments (in and out of work) will be increased in-line with inflation. Therefore, many families will be facing real term cuts in their household incomes (from wages and benefits). West Yorkshire has a higher percentage of people claiming out-of-work benefits compared to the national average (4.8% compared to 3.7%). West Yorkshire also has a higher percentage of people claiming in-work benefits compared to the national average (8.6% compared to 7.7%).

5. Equality and Diversity Implications

- 5.1. A recent survey conducted by the Office for National Statistics showed that 89% of adults in Great Britain report concerns over the increase in the cost of

living. Within this group, 57% have stated that they are spending less on nonessentials, 51% are trying to reduce their energy consumption at home, and 42% are cutting back on non-essential journeys. 23% are using their savings to cover the increased costs, whilst 13% have stated that they are using more credit than usual. Disabled people are more likely to have reduced their spending on food and essentials, than non-disabled people (42%, compared with 31%). Over 70% of the poorest people have already started to cut spending on food and other essentials. The survey also highlights that older people, particularly those aged between 55 and 74, have already started to reduce their energy consumption. The previous iteration of the survey highlighted that women and Asian people were in a particularly precarious position, relative to the national average.

6. Financial Implications

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

7. Legal Implications

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

8. Staffing Implications

8.1. There are no staffing implications directly arising from this report.

9. External Consultees

9.1. No external consultations have been undertaken.

10. Recommendations

10.1. Members are asked to note the latest intelligence around the West Yorkshire economy.

11. Background Documents

None.

12. Appendices

Appendix 1 – Economic Update Slides