Report to:	Leeds City Region Enterprise Partnership Board (LEP Board)
Date:	21 September 2022
Subject:	**Economic Update**
Led by:	Mark Roberts, Interim Chair
Lead Officer:	Alan Reiss, Director of Strategy, Communications and Policing

1. Purpose of this report

1.1. To provide an update on the latest economic and business intelligence for the Board.

1.2 To generate discussion among members regarding potential solutions to problems, and potential asks of the new UK Government.

2. Information

Macroeconomy

2.1. All of the data used in this section are correct at the time of review on Friday 26 August. An overview of the most up-to-date information will be provided verbally. For reference, the latest CPI inflation data will be published by the ONS on Wednesday 14 September, and the Bank of England's Monetary Policy Committee (MPC) will meet on Thursday 15 September to set the Bank Rate.

2.2. **CPI inflation rose by 10.1% in the 12 months to July 2022,** up from 9.4% in June, and is now at a 40-year high. The key driver of inflation over the period was food prices, which have risen by 12.7% in the last year. Whilst all food and beverage types increased in price, the largest risers were bread and cereal, reflecting the pressure on wheat and grain prices caused by the Russia-Ukraine War. More than a quarter of the world's wheat exports come from Russia and Ukraine.

- Producer input prices rose by 22.6% in the year to July 2022, down from a record high of 24.1% in the year to June. Without an energy price cap for businesses, it is likely that producer input prices will remain above CPI inflation for some time, as energy prices rise.

- However, producer output prices rose by 17.1%, up from 16.4%. This means that there is still headroom for producer output prices to rise further in the coming months, allowing businesses to fully pass on the impact of inflation to customers.

2.3. On 4 August 2022, **the Bank of England's MPC voted by a majority of 8-1 to increase the Bank Rate by 0.5 base points, from 1.25% to 1.75%**. This measure has been taken in an attempt to reduce inflationary pressures in the UK. As well as announcing an increase in interest rates, the Bank of England released updated forecasts:

- **CPI 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; this means the UK will likely enter recession in 2023 and remain in recession until 2024 (in this respect the UK is unique amongst the G20).

- **Real wages are expected to decline by 3.5% throughout 2022 and a further 4.25% fall in 2023**. Both of these real pay decreases would represent the fastest fall in real pay since comparable records began in 2001.

2.4. HM Treasury also publish a summary of forecasts for a range of key economic indicators made by a range of 18 City[1] and 16 non-City[2] forecasting organisations. Median estimates from those forecasts made within the last three months show that:

- Quarterly GDP growth is forecast to be 0.2% in Q3 2022 and 0.0% in Q4 2022, indicating that these forecasters are slightly more optimistic than those within the Bank of England.
- CPI inflation is forecast to reach 10.2% for the past 12 months in Q4 2022, lower than that forecast by the Bank of England. One explanation for the high variance between these forecasts is fast-changing commodity prices, affecting both supply and demand.
- Average earnings are forecast to rise by 5.7%, well below the rate of inflation, meaning that a drop in consumer demand is likely in the next 12 months.

2.5. Other forecasts have provided much worse predictions for the UK economy in the short to medium term. The Resolution Foundation estimate that CPI inflation will reach 15%, whilst Citibank predict that inflation will reach 18.6% in January 2023, with fuel costs being the key driver behind the price rises. Wholesale gas prices are currently more than 14 times their average for the last ten years, leading to the Government introducing the Energy Price Guarantee, capping energy prices for average household consumption at £2,500 per year until October 2024. This guarantee still represents a 26% increase on the previous cap of £1,971, and a near-doubling on energy prices in Winter 2021.

2.6. The Government also announced equivalent support for businesses, which will be in place for six months from October 2021, and will be followed up by further

[1] Organisations such as JP Morgan, HSBC and Bloomberg Economics
[2] Organisations such as the British Chambers of Commerce, the National Institute for Economic and Social Research, and the IMF

support for vulnerable sectors. Whilst detail has not yet been provided by Government on which sectors will be classed as vulnerable, our analysis shows that there are 655 energy intensive businesses in West Yorkshire, employing some 13,965 people.

Businesses

2.7. The Research and Intelligence Team has recently surveyed 1,000 West Yorkshire-based businesses with BMG Research to understand business sentiment in the current economic climate. The key results are:

- 41% of businesses believe that their performance has improved over the past 12 months.

- 43% of businesses expect the business climate to remain as it currently is, whilst 30% expect it to worsen. This outlook is more negative than the sentiment expressed during the pandemic.

- The two main barriers to growth cited by businesses were decline in demand (17%) and availability of skilled labour (16%).

- **30% expect to increase employment levels**, whilst only 5% expect employment levels to decrease. This expectation aligns with job vacancy data, with strong vacancy growth across all local authorities and key occupations within West Yorkshire over the previous months.

- **30% of respondents expect their wage bill to remain the same over the next 12 months**. Of the 66% 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%.

Labour market

2.8. The increase in employment levels (+700 across West Yorkshire between May and June) across the region, and decrease in the out-of-work benefits claimants (-400 across West Yorkshire between May and June) have started to slow. West Yorkshire's claimant count rate of 4.8% is above the national average of 3.6%.

2.9. The median wage across West Yorkshire has increased by 7% over the last 12 months from £1,857 to £1,979. Nationwide, the median wage also increased by 7% over the last 12 months. However, **wages have not kept pace with inflation, and this is expected to continue throughout 2023**.

2.10. Between June and August 2022, there have been 124,944 job postings in West Yorkshire, an increase of 76% on the same period last year. The key roles in demand are administrative occupations, sales related occupations, and programmers and software developers. Together, these three professions account for one in ten vacancies during the period.

3. Tackling the Climate Emergency Implications

3.1. There are no climate emergency implications directly arising from this report.

4. Inclusive Growth Implications

4.1. Analysis from the Bank of England showed that those in the lowest earnings decile in the UK were, in July, spending over 90% of their gross income on essential goods and services such as food and energy. As these items are among the key drivers of inflation, it is likely that the ‘real’ inflation rate for those towards the bottom of the income distribution is higher than the CPI inflation rate, as a greater proportion of their income is spent on goods with above-average rates of inflation.

4.2. This issue becomes even more pronounced when observing data on the Indices of Multiple Deprivation, which shows that 18.0% of West Yorkshire residents fall within the 10% lowest income group. This means that almost one in five West Yorkshire residents are spending over 90% of their gross income on essential goods and services before the October price cap comes into force. On top of this, another 14.6% of West Yorkshire residents fall into the second-lowest decile, and face being squeezed further by rising fuel costs. As West Yorkshire has a greater share of people living in the most income-deprived neighbourhoods, **the cost of living crisis is likely to have a greater impact locally.**

5. Equality and Diversity Implications

5.1. There are no equality and diversity implications directly arising from this report.

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. That the LEP Board note the latest intelligence around the state of the UK and West Yorkshire economy, and how it relates to ongoing or future work plans.

11. Background Documents

There are no background documents referenced in this report.

12. Appendices

PowerPoint slides – Item 6 – Economic Update Annex