
Report to: Economic Scrutiny Committee

Date: 16 November 2022

Subject: **Economic Update**

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1. Purpose of this Report

- 1.1. To provide the Committee with an update on the economic conditions faced by West Yorkshire residents and businesses in this uncertain economic period.

2. Information

Macroeconomy

- 2.1. At the last Monetary Policy Committee (MPC) meeting on 22 September 2022, it was decided by a margin of 5-3-1 to increase the Bank Rate by 0.5 percentage points to 2.25%. 3 members voted for a sharper rise of 0.75 percentage points, whilst one member preferred a 0.25 percentage point rise. This decision was taken in response to the persistent economic pressures within the economy at present, which are forecast to remain in the economy throughout 2023. The outcome of the next MPC meeting will be announced on 3 November, and at the time of writing on 31 October, the markets are anticipating a 0.75 percentage point increase, taking the Bank Rate to 3%.
- 2.2. CPI inflation rose by 10.1% in the 12 months to September, the highest rate for over 40 years. The key price rises came in food and non-alcoholic beverages, which rose by 14.6% in the year to September 2022. Anecdotal evidence suggests that people are substituting out branded food items for supermarket own brand goods, in order to reduce the impact of inflation. However, the average price of the 30 cheapest grocery items has risen by 17% in the past year, and for nine of these 30 items, prices have risen by more than 20%. This means that those who were already buying the cheapest food items are facing higher rates of inflation on food prices than average. The lowest-cost items that saw the biggest price increases over the past year were vegetable oil (65%) and pasta (60%).
- 2.3. Uncertainty within central government in recent weeks has led to the delaying of the Autumn Statement until 17 November, from 31 October. This will follow

Chancellor Jeremy Hunt's reversal of many of the measures announced as part of the Growth Plan. The market responded well to the news that this announcement would be delayed, and it will be accompanied by an economic forecast from the Office of Budget Responsibility. It is expected that many "difficult decisions" will be made around how the government plans to fill a £40 billion hole in public finances.

Regional Data

Households

- 2.4. In order to help with the rising cost of energy, the Government announced the Energy Price Guarantee for households, capping unit costs of electricity and gas at 34.04p per kWh and 10.33p per kWh respectively. This brings average household energy bills to £2,500 per year until at least April 2023. It should be noted that this Energy Price Guarantee still represents a doubling of household energy bills on Winter 2021. Furthermore, households using more than the average amount of energy will still face bills of more than £2,500, and this is likely to disproportionately affect the elderly.
- 2.5. 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**. Households in West Yorkshire pay on average 15p per day more in standing charges than those in London. Reducing standing charges to the levels seen in London would save West Yorkshire households a combined £4.5 million per month.
- 2.6. 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%)**. Secondly, **around 33% of the West Yorkshire population fall within the poorest 20% of neighbourhoods in England**.
- 2.7. Data from the End Fuel Poverty Coalition, a campaign group including trade union and think tank members, estimates that as many as 300,000 West Yorkshire households, or 30%, of homes will be in fuel poverty on 1 October 2022. By 1 April 2023, forecasts suggest that this figure may have risen to 330,000, or 1 in 3, West Yorkshire homes.

Businesses

- 2.8. The Combined Authority 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**. This was most evident in the financial sector, where 52% of businesses have seen an improvement. This is likely to reflect lower levels of volatility, now that Covid-19-related loans have started to be paid

back. This allows the financial sector to be better informed about levels of loan defaults.

- **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. Among the most pessimistic were those in the catering and accommodation industries (48% expecting the business climate to get worse), which are more likely to be hardest hit by food and energy price inflation.
- 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. 42% of transport companies expect to increase employment levels, and there is evidence that this demand is present within the economy now. In the three months to August 2022, there were around 2,000 jobs advertised in the land transport sector, with only the NHS posting more vacancies within the period than the HGV Training Network.
- **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%. Firms in the transport and storage sector were the most likely to be anticipating inflation-beating wage rises, reflecting the relative difficulty in recruitment within the sector.
- **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%. Sentiment most prevalent in the manufacturing and construction sectors, largely driven by rising input prices.

2.9. The Combined Authority has also commissioned research on the cost of doing business from Yonder, which shows that **67% of businesses are concerned about the survival of their business** as a result of the cost-of-living crisis. This concern was most greatly felt among small and micro businesses. Other key findings include:

- Around half (44%) of businesses feel that the current Government support package, the Business Energy Relief Scheme, makes no difference to them in trying to ease the financial challenge of the energy crisis.
- 56% of businesses said that they were not planning on increasing wages over the next 6 to 12 months. With inflation expected to remain high throughout 2023, this poses a significant threat to the quality of life in Yorkshire.

- 2.10. The Government's Business Energy Relief Scheme caps the unit cost of gas and electricity for businesses at the same rates faced by households, and will run until the end of March 2023, though this will be reviewed by the end of 2022. It could then be extended for vulnerable businesses such as the hospitality sector. The support announced for businesses is unclear with significant uncertainty for businesses and other organisations (e.g. councils) beyond the six months support confirmed.
- 2.11. There are 1,751 firms in West Yorkshire that are both energy intensive and operating in internationally competitive markets. Most of these are operating in the manufacturing sector. Due to the requirements around data reporting for businesses, it is not possible to provide accurate employee numbers or turnover, but a conservative estimate for these businesses most at risk are 57,000 employees and £8 billion in turnover.
- 2.12. For those at an enhanced risk of rising energy prices, those who are exposed to internationally competitive markets but do not meet intensity thresholds, there are an additional 6,266 firms in West Yorkshire, again covering much of the manufacturing sector. The same data restrictions apply to employee counts and turnover figures, but conservative estimates place these at 147,000 employees and over £20 billion in turnover.

Labour Market

- 2.13. Employment levels within West Yorkshire have continued to increase, however compared to pre-pandemic levels, the number of people on in-work Universal Credit has climbed significantly.
- 2.14. Job postings in September 2022 are almost 30% higher than September 2021. Nationally, vacancy levels are higher than unemployment levels. The sectoral mix of job postings points to some of the challenges hospitality is dealing with, as vacancies are declining in that sector, whilst increasing sharply in the IT sector.

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 rating of 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 non-essentials, 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.
- 5.2. In August the World Economic Forum reported that the cost-of-living crisis is expected to hit women hardest.

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 Committee notes the report and provides any comment.

11. Background Documents

There are no background documents referenced in this report.

12. Appendices

None.