
Report to: Leeds City Region Enterprise Partnership Board (LEP Board)

Date: 13 June 2023

Subject: **Economic Update**

Led By: Mark Roberts, Interim Chair

Lead Officer: Alan Reiss, Chief Operating Officer

1. Purpose of this report

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

2. Information

Macroeconomy

- 2.1. **CPI inflation rose by 8.7% in the 12 months to April 2023**, down from 10.1% in the year to March. Whilst the annual rate has fallen, prices have still risen, albeit at a slower rate. This slow down in inflation is also due to a timing effect, and a large drop in inflation has been long-expected once the older, higher price rises fell out of the calculation. The fall that has materialised however is lower than anticipated. The easing in the CPI annual rate between March and April 2023 came as a result of prices rising by 1.2% on the month compared with a rise of 2.5% a year earlier.
- 2.2. In addition, core inflation has risen by 6.8% in the year to April, up from 6.2% in the year to March. Core inflation strips out the energy, food, alcohol and tobacco sectors, so this rise increases the possibility of future interest rate rises from the Bank of England.
- 2.3. The largest single price pressure on households remains food and non-alcoholic beverages, where prices have risen by 19.0% in the year to April, down from 19.1% in the year to March. Vegetables are the largest contributor to this price rise, largely due to international supply chain issues and a labour shortage in the sector in the UK reducing crop yields.
- 2.4. On 11 May, **the Bank of England's MPC voted by a majority of 7-2 to increase the Bank Rate by 0.25 percentage points to 4.5%**. This is the twelfth consecutive rise in interest rates in the Bank's attempt to tame price rises in the

economy, and bring inflation back to its 2% target. The Bank anticipates a further rise, with interest rates forecasted to peak at 4.75% in Q4 of 2023, and this expectation forms the basis of the forecasts published alongside the most recent rate decision.

- 2.5. Compared with the Office of Budget Responsibility's (OBR) forecast to accompany the Spring Budget, the latest Bank of England forecast has a more optimistic short-term outlook, but a more pessimistic medium-term rate of growth for the UK economy. These forecasts also represent a more positive outlook than the Bank of England's last forecasts in February. The key driver of this uptick in economic performance, albeit slightly, is a lower level of precautionary saving by households, which is linked to the high level of vacancies in the economy – people typically do not perceive that their jobs are at risk despite the poor economic performance over the last 18 months.
- 2.6. Other key headlines from the Monetary Policy Report include:
 - Business surveys suggest that the outlook for growth has improved, but remains low.
 - Consumer confidence has improved, but remains low.
 - Employment growth has remained positive, and surveys of employment intentions point to further growth throughout 2023.
 - Anticipated future interest rate rises are likely to dampen business investment – largely because firms expect a greater return on savings than investment.

Businesses

- 2.7. April saw 1,897 business registrations in West Yorkshire, as well as 1,643 business liquidations, to give 254 net new businesses month-on-month. This is around 500 fewer net new businesses compared with the same month of 2022, largely due to a fall in business registrations in April 2023 against April 2022. This is likely to represent the more hostile business environment that firms are operating in currently. Whilst this has not yet resulted in abnormally high levels of liquidations, it is likely to have deterred new businesses from entering the marketplace.
- 2.8. Business registrations were particularly strong in April in Bradford and Kirklees. These two districts accounted for 25% and 20% of new businesses respectively, despite being home to 22% and 19% of all West Yorkshire businesses.
- 2.9. The sectoral make-up of the registrations and liquidations shows that the sectors most reliant on discretionary spending are seeing the most volatile changes in recent months. The wholesale and retail trade, and the accommodation and food services sectors saw high levels of both registrations and liquidations in April, relative to their market share.
- 2.10. The Research and Intelligence Team have recently appointed BMG Research to conduct the West Yorkshire Business Survey 2023. Fieldwork will begin in July and will run throughout the Summer, with results to be shared Autumn/Winter 2023.

Labour market

- 2.11. The number of payrolled employees in West Yorkshire has fallen slightly between March and April (-0.3%), and now sits at 1,013,000. This level is still 3.5% above pre-pandemic levels. This suggests that the labour market is softening, but remains in a strong position.
- 2.12. Median pay in West Yorkshire is now at £2,091 per month. This represents a 7.2% increase over the past 12 months. However, with an inflation rate of 8.7% over the same period, the average West Yorkshire resident has become poorer in real terms over the last year.

Combined Authority actions

- 2.13. The Combined Authority have operated the Energy Price Emergency Grant since December 2022, as part of the Mayor's package of support for local businesses throughout the energy crisis. As of 17 May 2023, this fund has granted over £467,000 of support to 138 businesses in the region. There is also an additional 45 grant applications pending approval, with a further £152,100 of spending to be carried out if these submissions are approved. £1 million has been set aside for this, so the Combined Authority are now targeting ads to increase update of the funding. Food and hospitality businesses have accounted for the greatest share of applications.
- 2.14. The UK Shared Prosperity Fund (UKSPF) is a central pillar of the Government's Levelling Up agenda, and West Yorkshire has been allocated over £83 million of funding for local investment by March 2025. This has been split into three pillars: Community and Place; Supporting Local Businesses; and People and Skills. The Rural England Prosperity Fund has also allocated West Yorkshire an additional £2.5 million of funding, focusing on supporting small and micro businesses in rural communities.
- 2.15. In alignment with the West Yorkshire Plan, the Combined Authority are developing an Economic Strategy for West Yorkshire. This will focus on our approach to the delivery of a prosperous West Yorkshire, an inclusive economy with well-paid jobs. More information on this strategy can be found in Item 9.

3. Tackling the Climate Emergency Implications

- 3.1. One of the contributing factors to rising food prices is the unusually hot temperatures in Spain and Morocco, which has had an adverse effect on olive yields, increasing olive oil prices by 60% since June 2022. As a key ingredient in many food products, this has an impact on a wide range of food items. A House of Lords report suggests that sustained food price inflation is here to stay as a direct consequence of climate change and biodiversity loss.

4. Inclusive Growth Implications

- 4.1. With food prices driving the current inflationary pressures in the economy, not only are households at the lower end of the income distribution feeling the pressure more harshly, larger households are too. Households with a higher number of people require relatively greater amounts of food, meaning that a greater proportion of their income is spent on these items that are increasing in price at a faster rate.

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 notes the latest economic evidence, and considers it as part of the decision making process.

11. Background Documents

There are no background documents referenced in this report.

12. Appendices

None.