

Report to: Business, Economy and Innovation Committee

Date: 26 July 2023

Subject: **Economic Update**

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Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	
Are there implications for equality and diversity?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

1. Purpose of this Report

- 1.1. To inform members of the BEIC of the most up-to-date and relevant economic information.

2. Information

Macroeconomy

- 2.1 The Monetary Policy Committee increased interest rates from 4.5% to 5% in June, after the Committee voted 7-2 in favour of the rate rise. The expectation is for future rate rises, potentially leaving rates between 6% and 6.5%. This is having an impact on household budgets. For instance, the mean rent in West Yorkshire in March 2022 was £697. This had increased to £771 by March 2023. Business investment will also likely decline as rates increase, either due to increased capital costs or increased savings.
- 2.2 In May, the Bank of England released a Monetary Policy Report, which provides updated forecasts and commentary covering their view of the economy. The highlights are as follows:
- Food and service-sector inflation is forecast to remain stubbornly high;
 - By the end of 2023, inflation will still be at 5.1%;

- The UK economy is set to grow by 0.25% in 2023, then 0.75% in 2024 and 2025;
- Real post-tax household income growth of 1% in 2024 and 2025 (leaving us worse off than pre-inflation still); and
- Unemployment to increase to 4% in 2024 and 4.5% in 2025.

2.3 The energy price cap (£2,074) is now below the Energy Price Guarantee (£2,500) after the EPG was extended by three months at the March Budget. Cornwall Insight has predicted a price cap of £1,976 for Q4. Whilst this is a welcome reprieve, it is worth noting that in 2021, the cap was around £1,200.

2.4 Inflation remained at 8.7% in the 12 months to May 2023, but core inflation (CPI excluding energy, food, alcohol and tobacco) increased from 6.8% to 7.1%. Prices are rising at their fastest rate in the recreational and cultural goods and services sector (6.8% year-on-year), with ticket prices for events, and computer games experiencing particularly high inflation. Growth in food prices did slow down from 19.1% to 18.4% but goods such as white sugar and olive oil are experiencing inflation rates of 51% and 47% respectively.

2.5 Interest rate increases are feeding into the cost of capital for businesses using debt finance. This is hurting SMEs particularly, who are experiencing higher rates and lower supply. As of May 2023, SMEs were paying 6.15% for new loans, compared with 5.81% across businesses of all sizes. The annual growth rate of borrowing by large businesses rose from 3.0% in April to 3.6% in May, while for SMEs the rate decreased slightly from -4.2% to -4.3%.

Regional Data

2.6 Employee numbers across West Yorkshire increased between April and May 2023 to 1,019,369 (+649). Since January, there has been a 3,572 increase in employees. However, not every district has experienced growth from April to May. Kirklees and Wakefield experienced small drops, and since January, Calderdale has not experienced overall employee number growth.

2.7 The out-of-work claimant count as a percentage of working-age residents hit 4.8% in West Yorkshire for May 2023, compared with 3.8% across England. In January 2023, the rate was 4.5% for West Yorkshire. Between January and May, each local authority area has experienced an increase in out-of-work claimants (see table below). A particular concern is that 16-24 year olds are experiencing an increase in unemployment, which could have longer-term impacts on their economic outcomes due to economic scarring.

Local authority district	January 2023	May 2023
Bradford	6.4%	6.6%
Calderdale	4.0%	4.2%
Kirklees	4.2%	4.3%
Leeds	4.1%	4.4%
Wakefield	3.5%	3.6%

- 2.8 The monthly count of online job postings across West Yorkshire has fallen for three consecutive months, although vacancies still remain relatively high. There were 30,200 new job postings in April 2023, 12% lower than March 2023, but 7% higher than April 2022. This fall in job postings was experienced across all five West Yorkshire districts. The biggest reductions were for jobs relating to Information Technology, Business Management and Operations, and Healthcare. Job postings related to Manufacturing and Production experienced a small increase month-on-month.
- 2.9 May saw 2,221 business registrations in West Yorkshire, a 17% increase on April. Registrations were particularly strong in Bradford and Kirklees, with both districts seeing their strongest business registration figures of 2023 so far. The wholesale and retail sector, and the accommodation and food services sector were over-represented in the latest business registration data compared with their share of the total business base.
- 2.10 West Yorkshire had 2,024 business liquidations in May, up considerably on both the previous month and the same month of the previous year. Leeds was significantly over-represented in the business liquidation data, accounting for almost half of West Yorkshire’s liquidations in May. The wholesale and retail sector, and the accommodation and food services sector are also over-represented in the liquidations data, showing that these sectors are particularly volatile given the current economic climate.
- 2.11 Sub-regional productivity figures for 2021 were recently released by the ONS. Between 2016 and 2021, GVA per hour worked in the UK increased from £33.50 to £38.30 (+14.3%), compared with an increase from £28.90 to £33 in West Yorkshire (+14.2%). Within West Yorkshire, there were stark differences in productivity growth (see below).

Bradford	12.9%
Calderdale	21.9%
Kirklees	21.9%
Leeds	8%
Wakefield	23.4%

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 from September 2022 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. The increase in out-of-work claimants counts varies by district, meaning that the softening labour market may exacerbate existing inequalities within West Yorkshire. Furthermore, with the growth of unemployment in 16-24 year olds, there is a risk of a longer-term negative impact on life chances within this cohort.

5. Equality and Diversity Implications

- 5.1. The 10% poorest households will be experiencing the sharpest impact of inflation. 44% of the people living in the 10% most deprived neighbourhoods across West Yorkshire identify as an ethnic minority. Bradford and Kirklees have a higher proportion of ethnic minorities than West Yorkshire as a whole, meaning that people in these districts are likely to be harder hit.
- 5.2. People experiencing or recovering from illness are also expected to try and eat more to aid the recovery. With food inflation running at close to 20%, and West Yorkshire having a higher share of people that are long-term sick, this will present a severe challenge. Furthermore, with vegetables experiencing some of the largest increases in pricing, it makes healthier eating more challenging, potentially exacerbating health problems.

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 latest economic intelligence to help inform policy making and discussions.

11. Background Documents

There are no background documents referenced in this report.

12. Appendices

None.