West Yorkshire Combined Authority | Tracy Brabin Mayor of West Yorkshire

Report to:	Business, Economy and Innovation Committee
Date:	9 November 2023
Subject:	**Economic Update**
Director:	Sarah Eaton, Director Strategy, Communications and Intelligence
Author:	Patrick Bowes, Head of Research and Intelligence

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

1. Purpose of this Report

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

2. Information

Macro-economic context

2.1 Inflation

- The Consumer Price Index rose by 6.7% in the month to August compared to a 6.8 % increase in the 12 months to July – with the headline rate little changed in the month. The rcent publication of Sepember's inflation figures revealed that headline CPI inflation rose by 6.7% in the preceding 12 months, the headline rate remains unchanged from August.
- This trend is echoed in the wider CPIH measure which includes housing costs which fell 6.3% in 12 months to August – down just 0.1pp in the month.
- Within the headline numbers there is good news that food inflation continues to ease – down from a rate of increase of 12.2% in the year to September from 13.6% in 12 months to August. The Whilst the rate of food inflation is easing it should be noted

that it is still significantly elevated – the BoE in its last inflation report expects food inflation to remain above 10% into 2024. August's inflation numbers support this view as seasonal factors may well keep imported food costs higher as we move into Q4 2023.

- The gains made on food inflation rising less quickly were offset by increased costs for owner occupiers, rising fuel prices – which contributed significantly to the upward pressure on CPI and an uptick in clothing costs.
- Core CPI inflation (this excludes energy, food, tobacco and alcohol which are typically more volatile costs) – a measure tracked very closely by the Bank – rose by 6.1% in the 12 months to September – a rate of increase below its recent high of 7.1% seen in May this year. Whilst this is good news, the concern within this is that goods inflation is still increasing whilst services inflation is falling – this trend will particularly preoccupy the Monetary Policy Committee (MPC).

2.2. Interest rates

- Following its meeting of the 20/09/23 the MPC voted 5 to 4 to keep current rates on hold at 5.25% – although it should be noted that this was a close decision – 4 members of the MPC were in favour of increasing rates to 5.5% – certainly based on the latest inflation data there is enough data to support this view.
- The Bank is focused on a number of key metrics – growth in earnings, the labour market and the pattern of core inflation. Core inflation is still preoccupying policymakers, wage growth continues to trend above the BoE's projections and there are clear signs that the labour market is weakening. Taken together these explain why rates were held and were almost raised again – the deciding factor could have been the Banks concern over the labour market – although of course we will not know this until the detailed minutes are published as well.

2.3. Economic Growth

- The UK economy grew by 0.2% in Q2 2023 – April to June – this follows growth of 0.1% in the previous quarter. The 2nd estimate of GDP in the 2nd quarter was unrevised but did indicate that the national economy grew more strongly in Q1 2023 than previously assumed – growth of 0.3% compared to previous estimate of – 0.1%. The level of quarterly GDP in Quarter 2 2023 is now 0.2% below its pre-coronavirus (COVID-19) level in Quarter 4 (Oct to Dec) 2019. Compared with the same quarter a year ago, GDP is estimated to have increased by 0.4%.
- In output terms, the services sector grew by 0.1% on the quarter, driven by increases in information and communication sectors, accommodation and food service activities, human health, and social work activities.
- The production sector posted the strongest growth in Q2 growing by 0.7%, the core of this growth was a very welcome 1.6% growth in the manufacturing sector. Growth in the production sector has been fairly broad based since the start of 2023 with most

manufacturing sectors posting quite strong growth – most of this growth has been driven by falling input prices for manufacturers.

- Construction output rose by 0.3% in Quarter 2 2023, following growth of 0.4% in Quarter 1 (Jan to Mar) 2023. The growth in Quarter 2 2023 was driven by repair and maintenance which grew by 0.9%. This growth was partially offset by a fall of 0.1% in new build construction and infrastructure work.
- The more timely but less accurate monthly estimates of GDP show that GDP is estimated to have grown by 0.5% in June 2023, following a fall of 0.1% in May 2023 and growth of 0.2% in April 2023 – it should be noted though that the coronation of King Charles III in May will have contributed to the contraction in output due the additional bank holiday and it is more likely that GDP grew at a similar rate to that in April – ONS will not be adjusting for this in the GDP data.
- In terms of the expenditure components of GDP - there was strong growth in household consumption and government consumption, which was partially offset by a fall in international trade flows in the second quarter.

Methodological changes to UK GDP calculation.

2.4 The UK is changing the way it calculates GDP to implement a new international accounting approach – other countries have adopted this revised approach – the US and France have already published updating GDP numbers using this new approach. It is important to note that the data presented above does not yet incorporate these changes in ONS quarterly GDP estimates – these changes will be implemented next year.

2.5 In broad terms the main economic headline from the application of this new approach is that UK growth in 2020 and 2021 was considerably stronger than previously assumed using the current Blue Book methodology – the upshot of which is that it is now believed that UK GDP recovered its pre-health crisis level of output in Q3 2021 rather than the current assumption using the existing methodology that UK was still below its 2019 peak.

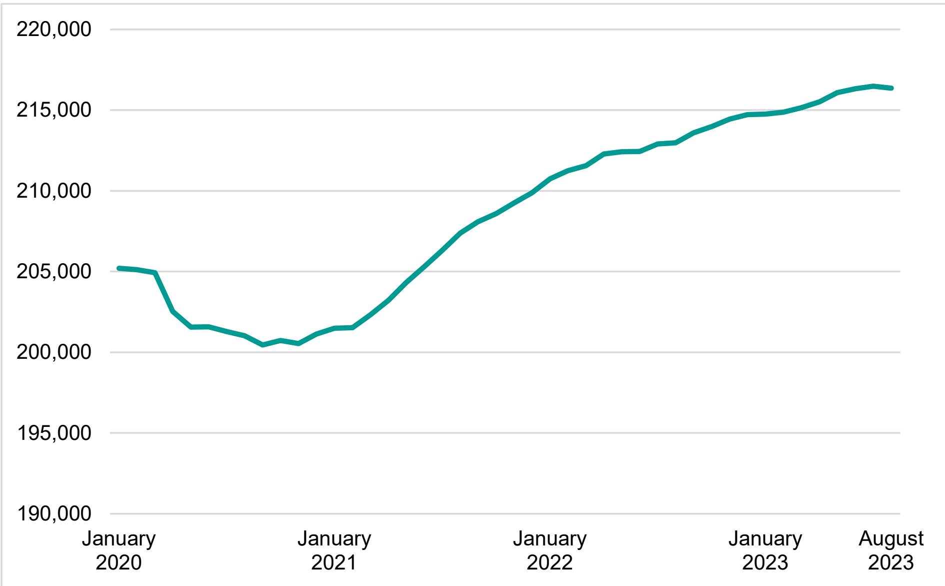
Regional data

2.6 There have been 10,620 business start-ups in West Yorkshire in the year to August 2023 inclusive, a 12% increase on the corresponding period of 2022. The biggest increase at local authority level was for Bradford with growth of 19% compared with the previous year. Leeds and Wakefield grew at a similar rate to the West Yorkshire average, whereas the figures for Calderdale and Kirklees were 6% and 7% respectively.

2.7 Labour market conditions in West Yorkshire are showing signs of softening, reflecting the national position and the impact of interest rate rises and slow growth in the economy. Employment growth has levelled-off in recent months, whilst average pay is starting to decline. The claimant count has been growing since late 2022, albeit at a modest rate.

2.8 Real-time information on the count of payrolled employees in West Yorkshire shows that the level of employment in the region has remained largely unchanged between April and August 2023, following a period of sustained growth from early 2021 onwards.

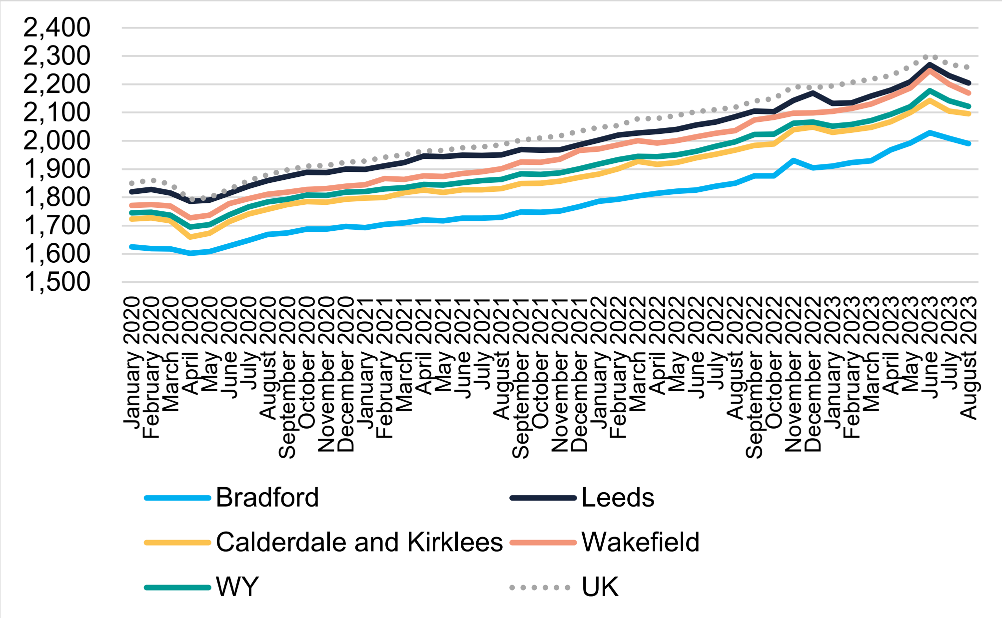
Figure: Count of payroll employees from PAYE Real-time information (seasonally adjusted)



Source: HMRC

2.9 As of August 2023, median monthly pay for employees in West Yorkshire was £2,122, 94% of the UK average of £2,260 based on HMRC real-time data. The equivalent figure for Bradford is only 88%, whereas it rises to 98% in Leeds and 96% in Wakefield. Until recently, pay (unadjusted for inflation) has been growing strongly in West Yorkshire and was 15% higher in August 2023 than in May 2021, the point in time at which the economy re-opened. However, median pay has fallen across the board between June and August of this year – by 3% in West Yorkshire and 2% nationally.

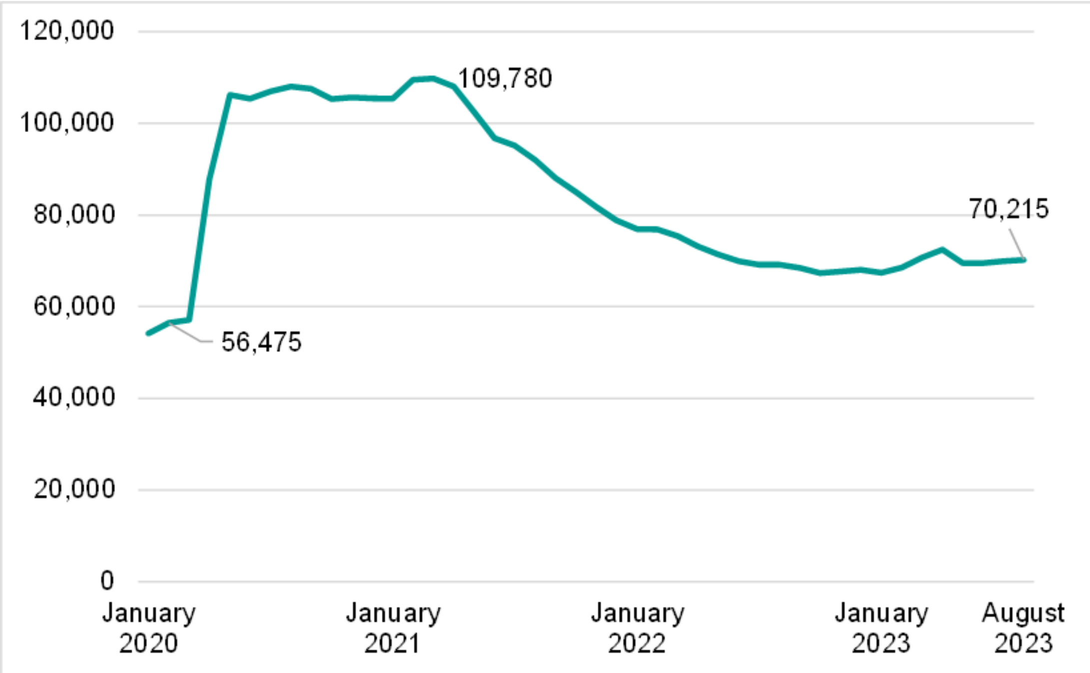
Figure: Trend in median monthly pay for employee jobs (£)



Source: HMRC

2.10 The claimant count – the official count of people who are claiming benefits primarily because they are unemployed - has been on an upward trend in West Yorkshire and nationally since October 2022. This growth has been modest: West Yorkshire's count has grown by 4% or around 2,900 during the period from October 2022 to August 2023. This follows a long period of steady decline starting in early 2021 coinciding with the lifting of lockdown restrictions. The level of claimant unemployment in West Yorkshire is now (as of August 2023) 70,215, 24% higher than pre-pandemic level (February 2020). The claimant rate (claimant count as a percentage of the working age population) is higher in West Yorkshire than nationally, at 4.7% versus 3.8%. At local authority level the rate ranges from 3.5% in Wakefield to 6.5% in Bradford.

Figure: Claimant unemployment trend, West Yorkshire



Source: NOMIS

<u>**West Yorkshire Business Survey**</u>

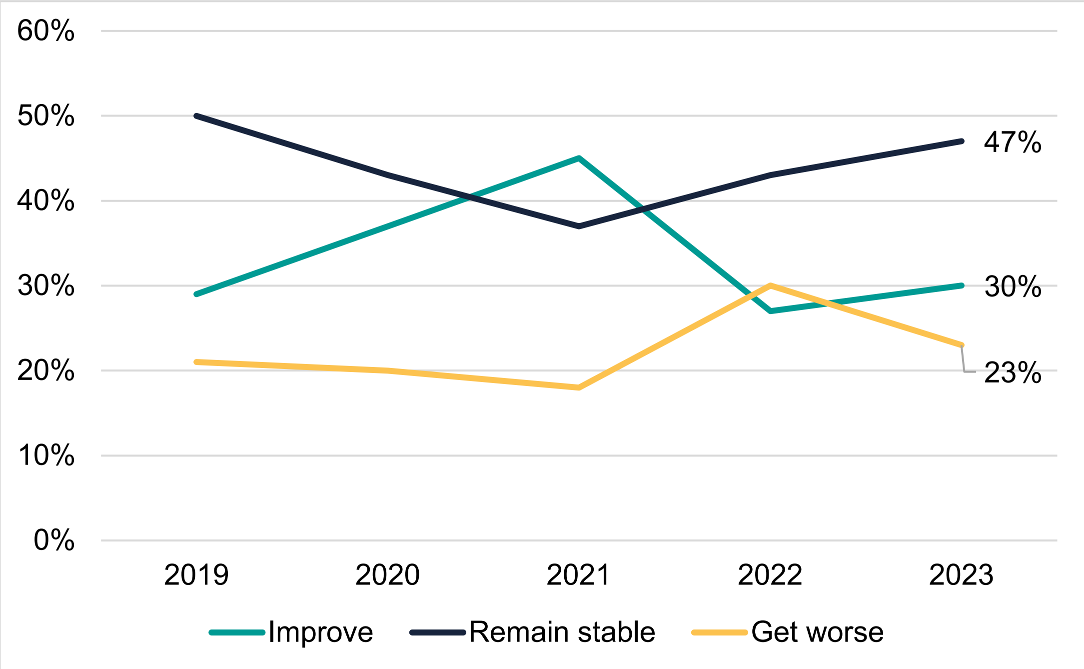
2.11 Results have recently become available from the West Yorkshire Business Survey (the survey was formally known as the LCR Business Survey) 2023 and a selection of headline results is presented below. The survey is commissioned annually by the Combined Authority and is a B2B leading indicator survey which covers all sectors – the survey is designed to provide:

- A snapshot view of business confidence, investment experiences and intentions
- A detailed understanding of the issues currently facing business.
- A picture of progress against key monitoring indicators.

2.12 Just over 1,000 interviews were conducted, primarily by telephone, among organisations with at least one employee, across the private, public and voluntary/community sectors. Interviews were conducted during summer 2023.

2.13 The survey results point to greater stability in the outlook for the local economy, although the changes are modest. An increased proportion of respondents to the Business Survey said they expect to see an improvement in the climate in which they operate over the next 12 months, compared with 2022 (increase from 27% to 30%). The proportion expecting a stable environment also increased (43% to 47%) whilst there was a fall in the share who expect worsening conditions (30% to 23%).

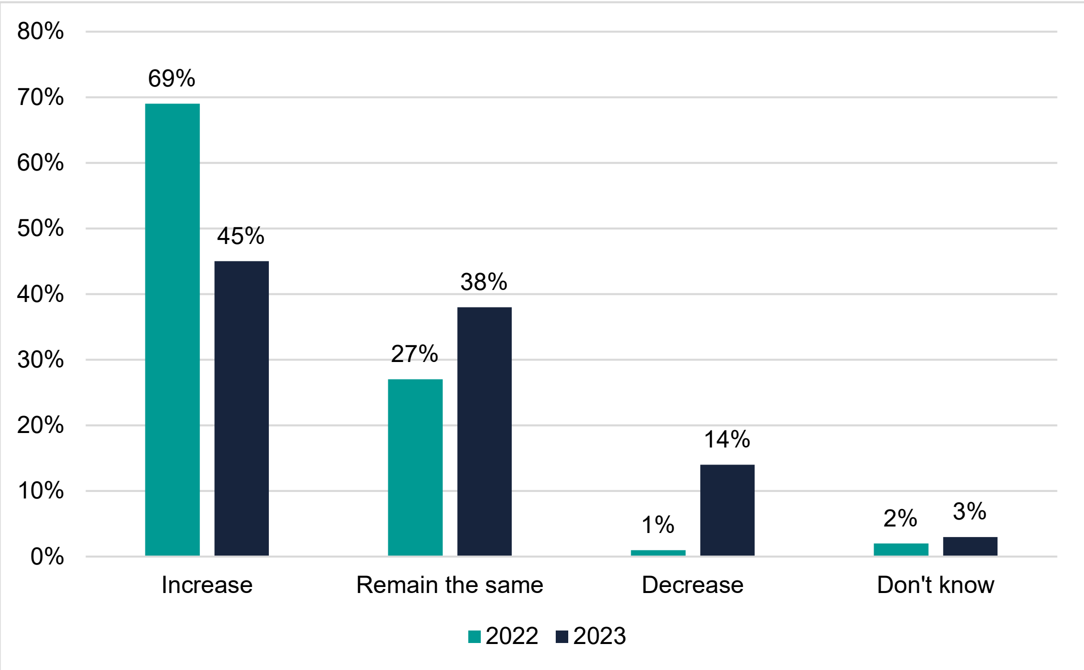
Figure: Over the next 12 months do you expect the climate in which your business/organisation operates to generally improve, remain stable, or get worse?



Source: West Yorkshire Business Survey

2.14 Despite falls in recent months, inflation remains at elevated levels, as noted in the macro-economic section. Data from the business survey points to an improving outlook in terms of prices. The proportion of businesses who expect to increase their prices to customers in the coming 12 months has fallen by 24 percentage points since last year, although nearly half still expect to increase them and only 14% believe their prices will fall. Nonetheless, this provides a positive signal around prospects for inflation.

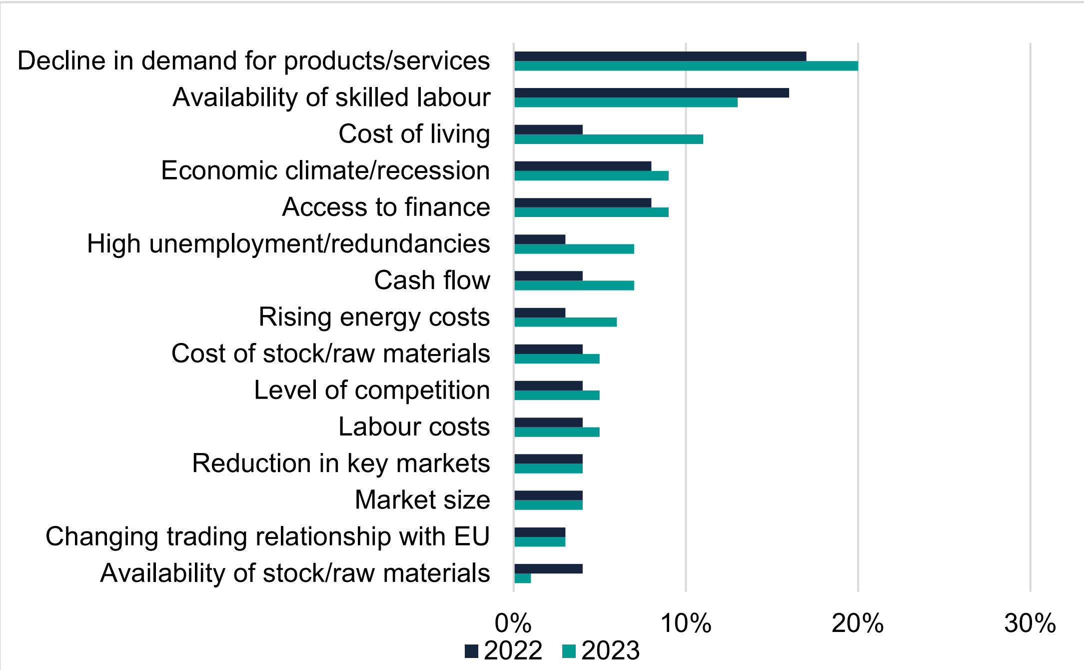
Figure: Over the next 12 months do you expect the price(s) you charge to your customers to increase, decrease or remain the same?



Source: West Yorkshire Business Survey

2.15 The business survey provides an insight into the barriers to growth faced by local organisations. Since last year there has been an increase in the salience of a range of issues including cost of living, energy costs, unemployment and cash flow. The prospect of decline in demand for products and services is also identified by a greater proportion of respondents than in 2022. Availability of skilled labour is the second most widespread barrier, but its prevalence has fallen slightly since 2022, as has the issue of access to stock and raw materials.

Figure: What do you consider to be the main barriers to the growth of your business/organisation in the next three years?



Source: West Yorkshire Business Survey

2.16 It is important to note that there is a great deal of sectoral variation in business views on the key barriers to growth at the moment – a theme echoed across a range of local and national leading indicator surveys at present (such as the BCC Quarterly Economic Survey). Whilst comparison across surveys is not always possible because of way these surveys are designed there are some consistent themes across these different surveys worth highlighting:

- Manufacturing firms are typically more concerned about rising raw material and energy prices – with larger companies more concerned specifically about energy costs.

- Fims in the hotels, catering and hospitality sector consistently flag rising energy costs as a top 3 barrier to their growth.

- Other cost pressures – especially cost of living and cost of acquiring stock – are frequently cited as cost barrier across a wider range of sectors – with small firms more likely to see these cost pressures as a barrier. In broad terms there are still a number of overlapping cost challenges for businesses which are leading to elevated concerns about the impact this will have on wider demand in the economy as well.

A detailed analysis of the full range of indicators contained in the Business Survey will be published in the coming weeks with results available for the thematic areas for which the Committee is responsible, including trade and innovation.

State of the Region indicators

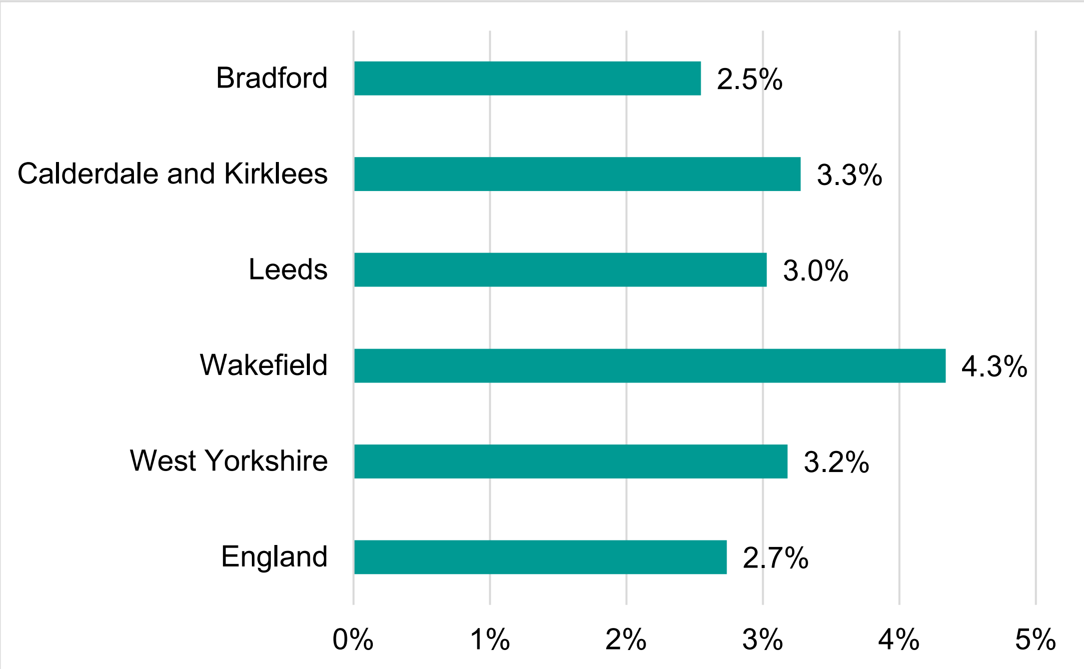
2.17 State of the Region is an annual stock-take of West Yorkshire's progress against key economic, social, transport and environmental indicators produced by the Combined Authority. The indicators reflect the outcomes and impact we want to achieve to improve the lives of people in West Yorkshire. State of the Region will be published later in 2023.

2.18 In 2023, the State of the Region indicators have been structured around the content of the five Missions set out in the West Yorkshire Plan. State of the Region will provide the mechanism by which progress against the West Yorkshire Plan Missions will be reviewed. Additional indicators put forward in the West Yorkshire Plan have been incorporated into State of the Region 2023. Performance against indicators that are of specific relevance to the Committee is briefly examined below, where availability of data permits. As fresh data becomes available in future this analysis will be updated to include additional indicators.

Overview of key State of the Region indicators within the Committee's policy remit

2.19 Gross value added (GVA) is the most commonly used measure of economic output at the local level. GVA is a measure of the increase in value of the economy through the production of goods and services in a given area and time. West Yorkshire's economic output (gross value-added) grew faster than the national average in the five-year period between 2016 and 2021 in current price terms. This partly due to a stronger recovery from the pandemic than was seen nationally. Three out of four West Yorkshire ITL3 regions also outperformed the England average during this period.

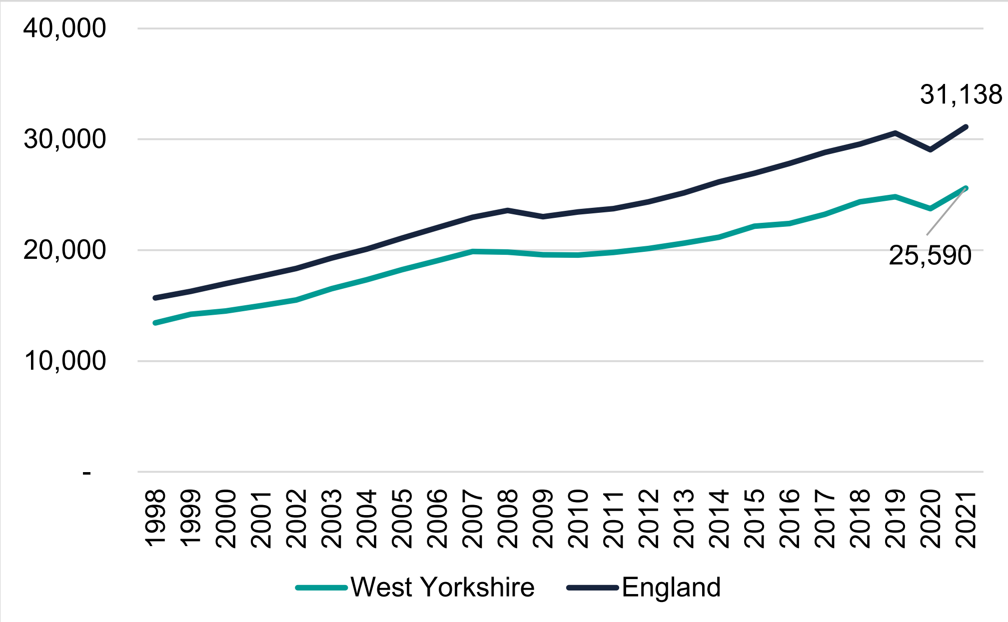
Figure: Gross value added (balanced) at current basic prices – average annual growth rate (%), 2016-21



Source: ONS, Sub-regional GVA data

2.20 **Output (GVA) per head** is a key measure of local prosperity. Output per head fell in West Yorkshire in 2020, reflecting the pandemic-related lockdown in the economy. However, it recovered between 2020 and 2021, as the West Yorkshire economy rebounded stronger than the England average. Nonetheless, West Yorkshire still faces a significant deficit against the national average in terms of its level of output per head.

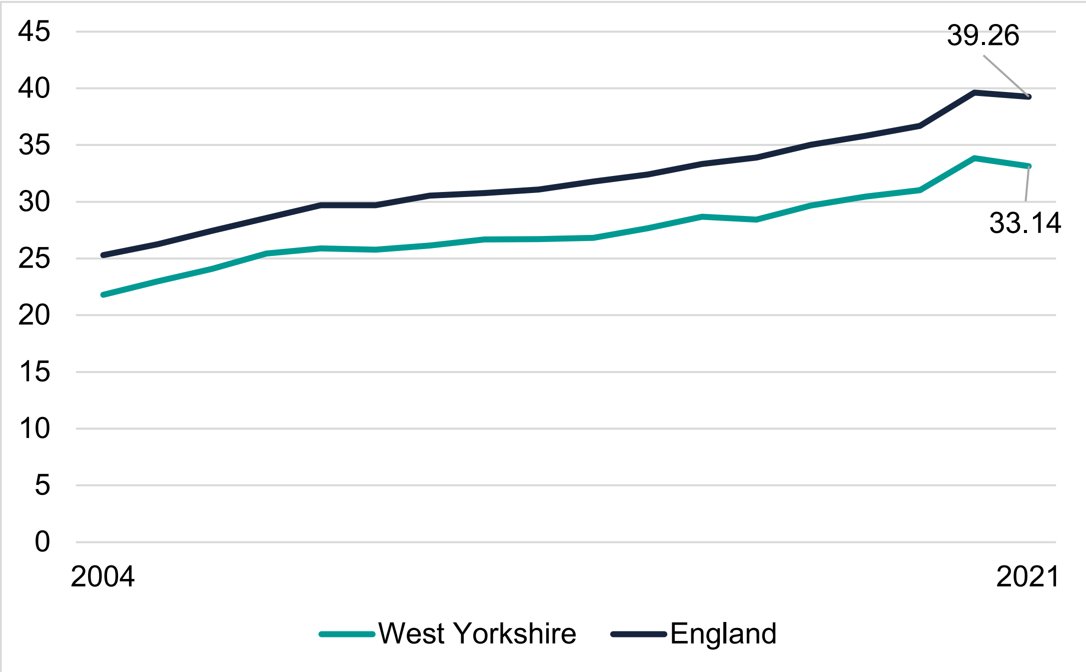
Figure: Gross value added per head (balanced) at current basic prices (£)



Source: ONS, Sub-regional GVA data

2.21 Increased **productivity** is the main engine of local economic growth and improved living standards. During 2020 productivity increased both for West Yorkshire and at national level due to temporary compositional factors as lower productivity sectors were worse affected by the pandemic than high productivity sectors but this effect was reversed as restrictions were lifted in 2021. Nonetheless, the key message is that underlying structural factors mean that West Yorkshire's productivity deficit persists. The Combined Authority and its partners are seeking to address this issue through a range of business support measures, including the Business Productivity Service, but also thematic interventions which focus on drivers of productivity, such as the SME Investment Fund and innovation support service (see Item 12, Development and Delivery Update). Overall, the Combined Authority's target, set out in its Corporate Plan, is to support 3,000 businesses to grow and become more resilient

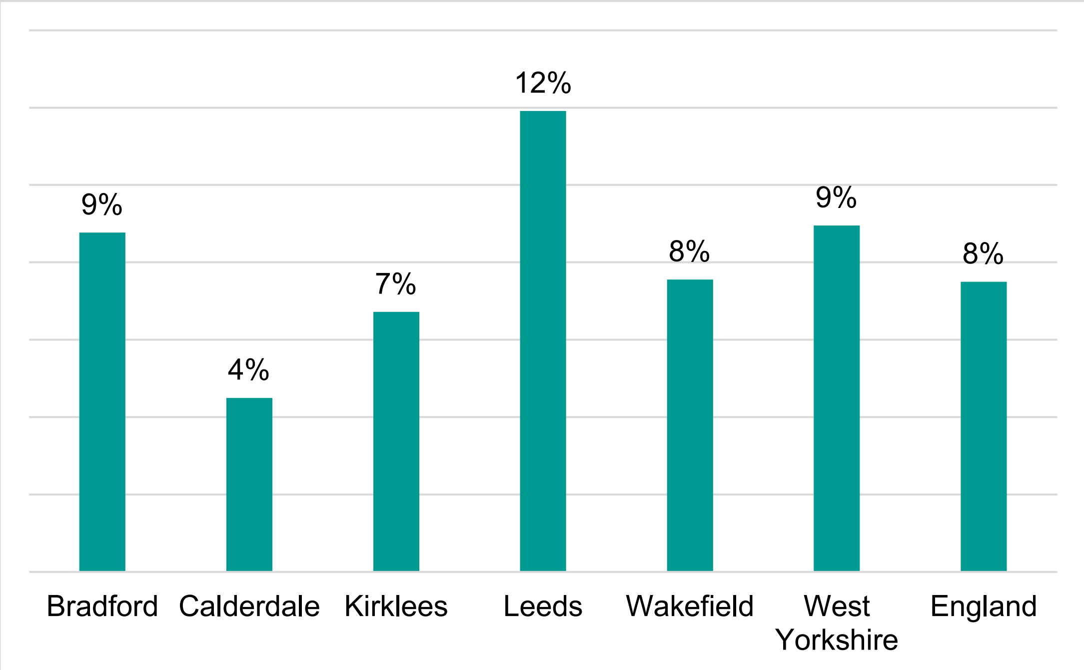
Figure: Productivity: current price unsmoothed GVA per hour worked (£)



Source: ONS, Sub-regional productivity data

2.22 West Yorkshire has a relatively low business density relative to its population but its **number of private sector businesses** is growing faster than the national average rate. Over the last 5 years Leeds has seen the biggest net growth in business stock among the West Yorkshire local authorities. The Combined Authority and its partners are pursuing a number of interventions to promote enterprise and entrepreneurship and grow West Yorkshire's business base, including the £6m Enterprise West Yorkshire programme. A target to support 500 start-up / early stage enterprises is set out in the Combined Authority's Corporate Plan for 2023/24.

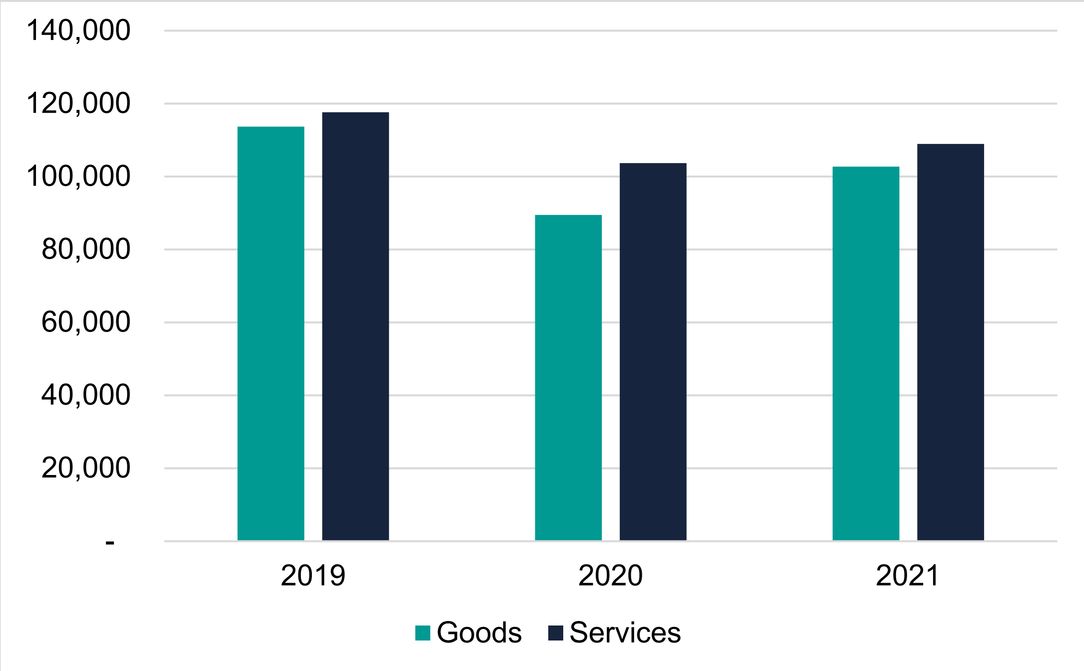
Figure: % net change in count of private sector businesses, 2016-22



Source: ONS, Business activity, size and location, 2022

2.23 **Exporting** is key to the local economy: internationally trading businesses often experience higher growth and are often more productive than their domestically-focused counterparts. Exports of goods and services both recovered in 2021 following declines in 2020; however, both remain below their pre-pandemic (2019) level. The value of West Yorkshire's service exports continues to exceed that of goods. However, the ratio of export values to the overall value of the economy is lower in West Yorkshire than nationally for both goods and services.

Figure: Goods and services exports per £m of gross value added, West Yorkshire



Source: ONS, International exports of services from subnational areas of the UK

2.24 The Combined Authority and its partners offer a range of trade and export support services to enable West Yorkshire businesses to expand into overseas markets. This support is linked into several targets contained in the Combined Authority's Corporate Plan:

- To achieve 1,000 hits per month through the International trade portal
- To assist 350 businesses with overseas trade initiatives.

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. Recent increases in claimant unemployment, although modest have been concentrated in the most acutely deprived neighbourhoods, exacerbating existing inequalities. Continued high levels of inflation have the most severe effect on the poorest households.

5. Equality and Diversity Implications

5.1. People from ethnic minority groups are disproportionately represented in the most deprived communities in West Yorkshire that are most adversely affected by inflation and rising unemployment.

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 content of this report.

11. Background Documents

There are no background documents referenced in this report.

12. Appendices

None.