West Yorkshire Combined Authority | Tracy Brabin Mayor of West Yorkshire

to:	The West Yorkshire Business Board
Date:	29 November 2023
Subject:	**Economic Update**
Director:	Sarah Eaton, Director of Strategy, Communications and Intelligence
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1. Purpose of this Report

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

2. Information

Macro-Economic Context

2.1 Inflation

- **The Consumer Price Index rose by 4.7% in the month to October** compared to a 6.7% increase in the 12 months to September – the headline rate fell by 2% in the month following a period where the headline measure was stuck at 6.7% through August and September.

- **This trend is echoed in the wder CPIH measure** which includes housing costs which rose by 4.7% in the 12 months to September – down 1.6pp in the month.

- **Within the headline numbers there is good news that food inflation continues to ease – food inflation was 10.1% in the 12 months to October** and follows the downward trend seen in previous months. Whilst the rate of food inflation is easing it should be noted that it is still significantly elevated although the current rate suggests that the headline measure is falling more quickly than the BoE had assumed in its last inflation report.

- **The largest contribution to the reduction came from falling housing costs** – with housing costs falling by 1.55pp in the month between September and October – this accounted for the sharp overall fall on both CPI and CPIH measures. The actual monthly rate of contraction in food inflation was more modest - at 0.25pp –

with the annual fall in inflation in part a reflection of the compative price point in 2022 as well.

- 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 5.7% in the 12 months to October** – **a rate of increase below its recent high of 7.1% seen in May this year**.

- **The current headline CPI rate is comparable to headline rates in countries such as France but still somewhat higher than comparable rates in the US and Germany** – rates across the EU and most OECD countries have been falling consistently since the peaks recorded on October 2022 as well.

2.2. Interest Rates

- Following its meeting of the 02/11/23 the MPC voted 6 to 3 to keep current interest rates on hold at 5.25% – 3 members of the MPC were in favour of increasing rates to 5.5%.

- The Bank is focused on a number of key metrics – **growth in earnings, the labour market and the pattern of core inflation**. The published summary of the Banks decision at its November meeting makes it clear that the bank is **reasonably confident that the labour market is starting to loosen and as such will start to ease the pressure on wage growth**. In its central inflation projection the bank is forecasting that CPI inflation will fall to 4.75% by the start of 2024, falling further to 3.75% by mid June next year. This view is based on a series of assumptions which a have a cenral theme – that core inflation and its components have peaked and in some cases – such as food inflation – are falling more quickly than the bank assumed. The caveat of course is the length and duration of so called "2nd round" effects – especially with the unwinding of wage growth effects. There are also contuniung upside risks to the core inflation scenario – not least continuing volatility in energy prices 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 recent publication of the 1st estimate of Q3 GDP showed stagnant growth in the 3 months from July to September**.

- The sectoral components of growth in the Q3 estimate show that the **services sector contracted by 0.1%**, **construction grew slightly at 0.1%** whilst **production sector output remained unchanged** from quarter 2.

- **The decline in services sector putput was mainly influenced by a fall in output in the real estate and transporation services sectors** – with the decline in the latter especially prounounced at -1.2% in the 3 months to September.

- Construction output rose by 0.1% in Quarter 3 2023, following growth of 0.3% in Quarter 2 (Apr to June) 2023. T**he growth in Quarter 3 2023 was driven by repair and maintenance work, which grew by 0.7%**. This growth was partially offset by a fall of 0.3% in new work.

- **The production and manufacting 1st estimate of GDP is typically the most volatile and the Q3 numbers do contain some mixed messages** – **what is clear is that manufacturing growth slowed into quarter 3 from quarter 2**, but the sector is still just growing, with growth in the manufacture of transport equipment being the key sectoral contribution. The performance of the sector in Q3 contrasts markedly with quarter 2 some 0.1% compared with 1.9% growth.

- The more timely but less accurate monthly estimates of GDP show **that GDP is estimated to have grown by 0.2% in September 2023**, following growth of 0.1% in August 2023 and a 0.6% contraction in GDP in July 2023.

- **In expenditure terms**, an increase in the volume of net trade was offset by falls in business investment, household spending and government consumption.

<u>Methodological Changes to UK GDP Calculation.</u>

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.

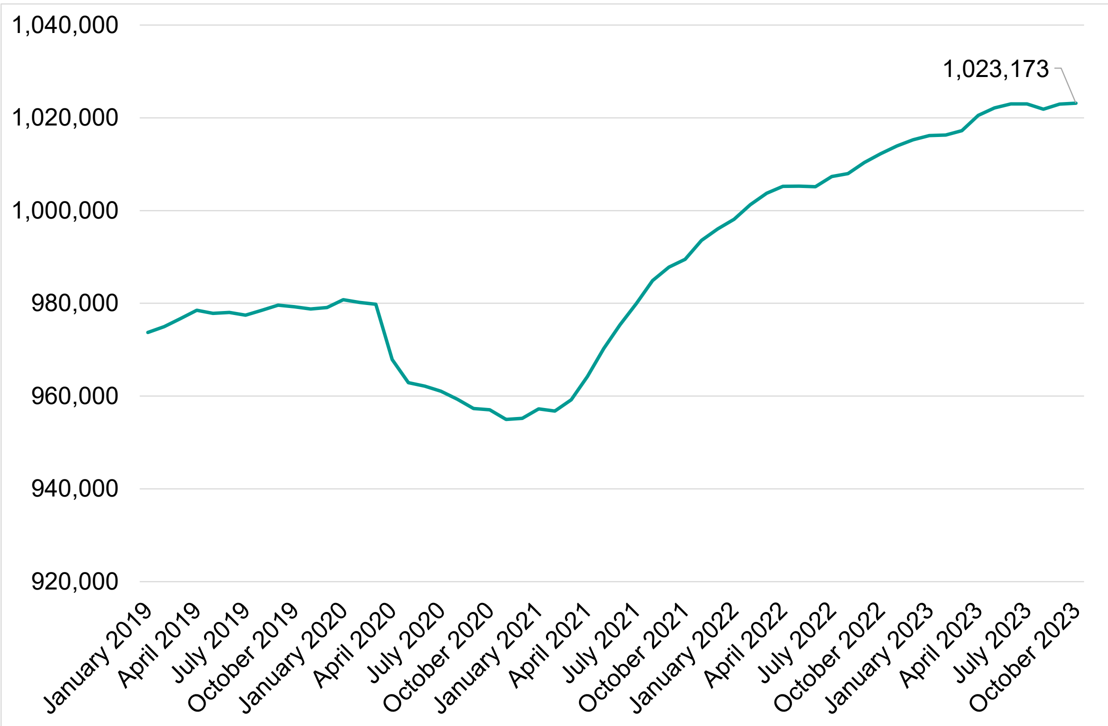
2.5 In broad terms the main economic headline from the application of this new approach is that UK growth in 2020 and 2021 was considerably stronger than previously assumed using the current Blue Book methodology – the upshot of which is that it is now believed that UK GDP recovered its pre-health crisis 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 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 growth in average pay has also come to a halt. The claimant count has been growing since late 2022, albeit at a modest rate.

2.7 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 June and October 2023, following a period of sustained growth from early 2021 onwards.

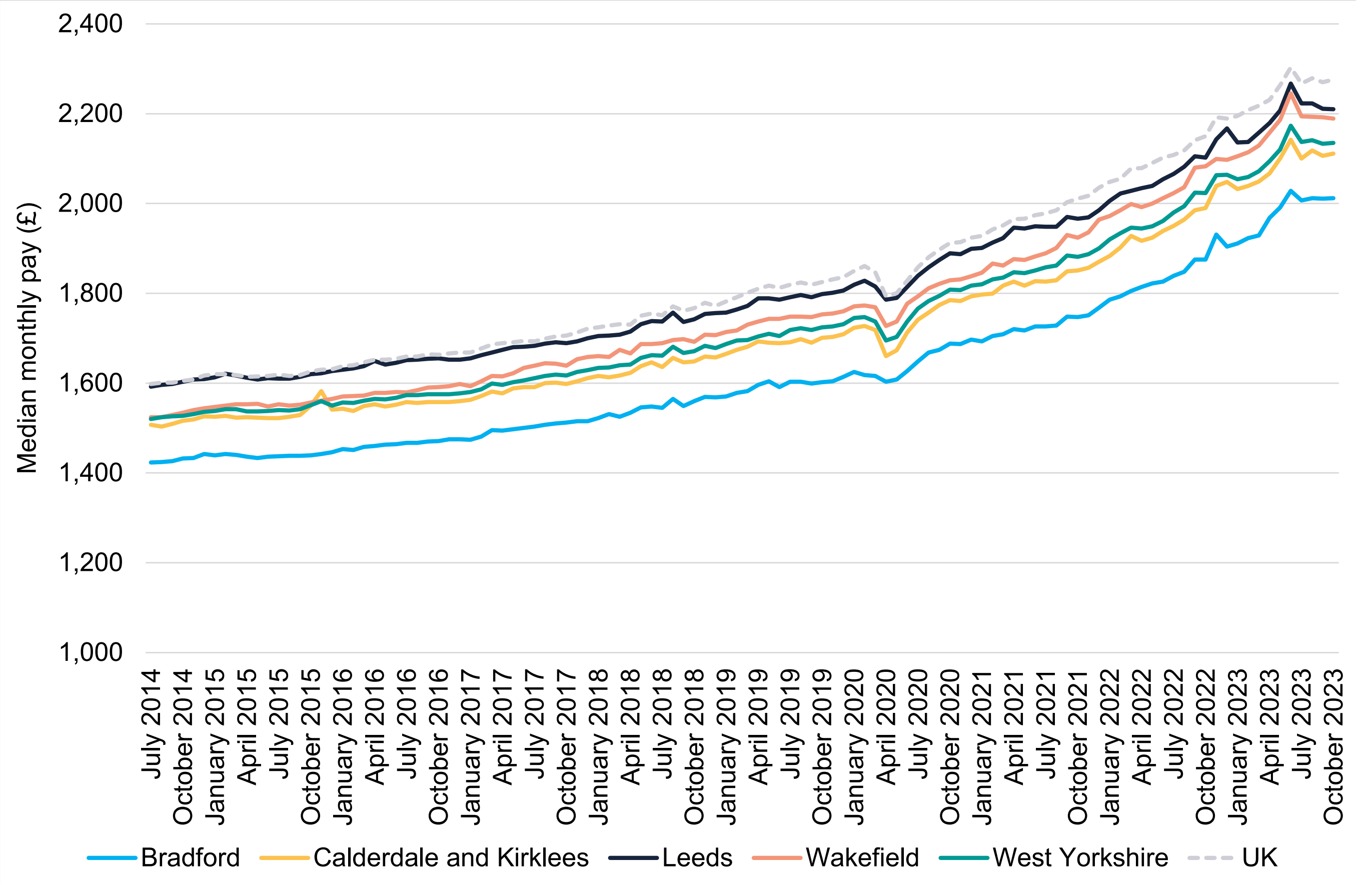
Figure: Count of payroll employees from PAYE Real-time information (seasonally adjusted)



Source: HMRC

2.8 As of August 2023, median monthly pay for employees in West Yorkshire was £2,135, 94% of the UK average of £2,276 based on HMRC real-time data. The equivalent figure for Bradford is only 88%, whereas it rises to 97% in Leeds and 96% in Wakefield. Until recently, pay (unadjusted for inflation) had been growing strongly in West Yorkshire and was 16% higher in October 2023 than in May 2021, the point in time at which the economy re-opened. However, median pay has fallen slightly between its June peak and October of this year – by 2% in West Yorkshire and 1% nationally.

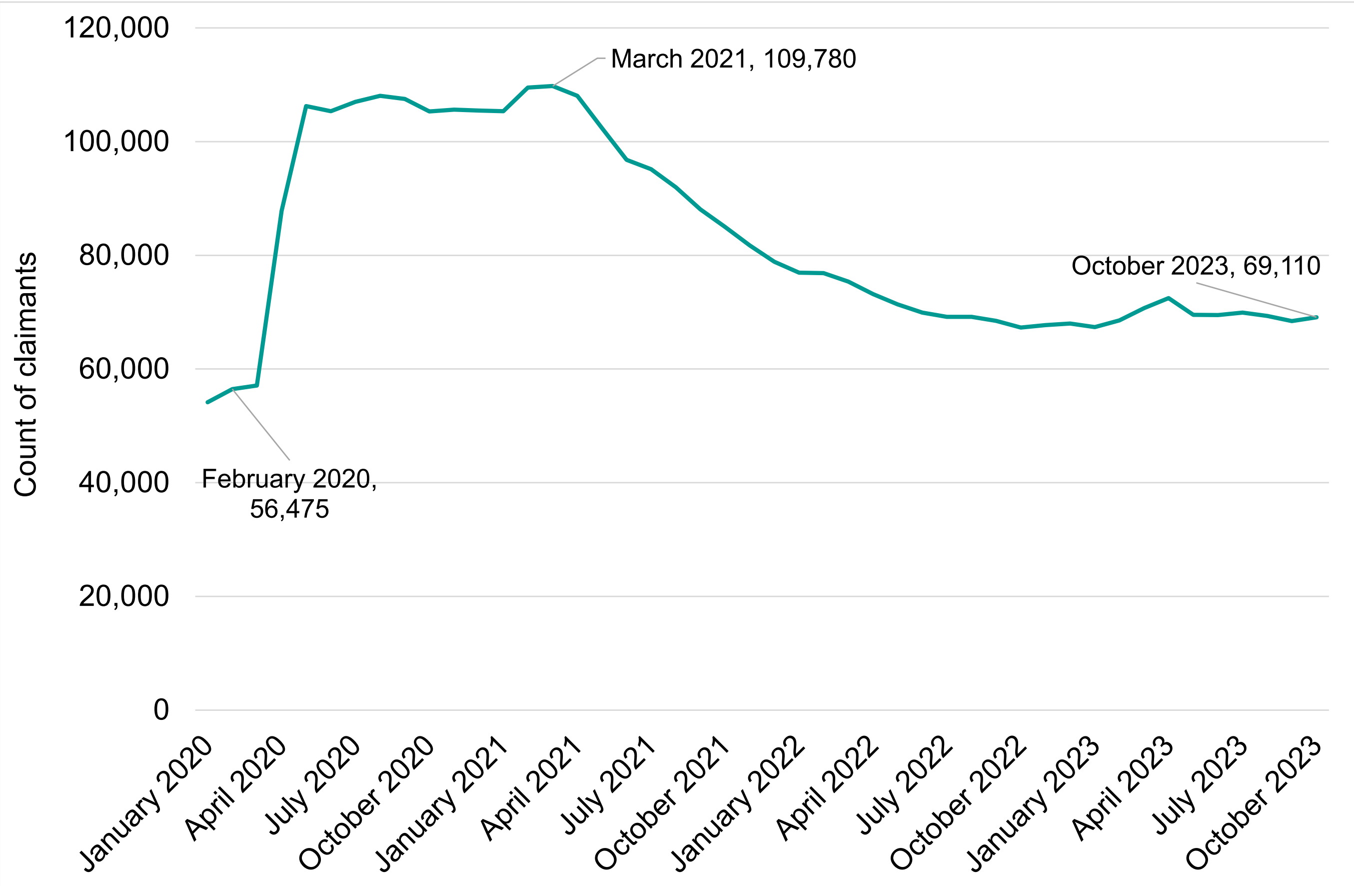
Figure: Trend in median monthly pay for employee jobs (£)



Source: HMRC

2.9 The claimant count – the official count of people who are claiming benefits primarily because they are unemployed - has been on a slight upward trend in West Yorkshire and nationally since October 2022; although it has also been subject to fluctuations during this period. West Yorkshire's count has grown by 3% or around 1,800 in the 12 months to October 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 October 2023) 69,110, 22% 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 3.4% in Wakefield to 6.5% in Bradford.

Figure: Claimant unemployment trend, West Yorkshire



Source: NOMIS

West Yorkshire Business Survey

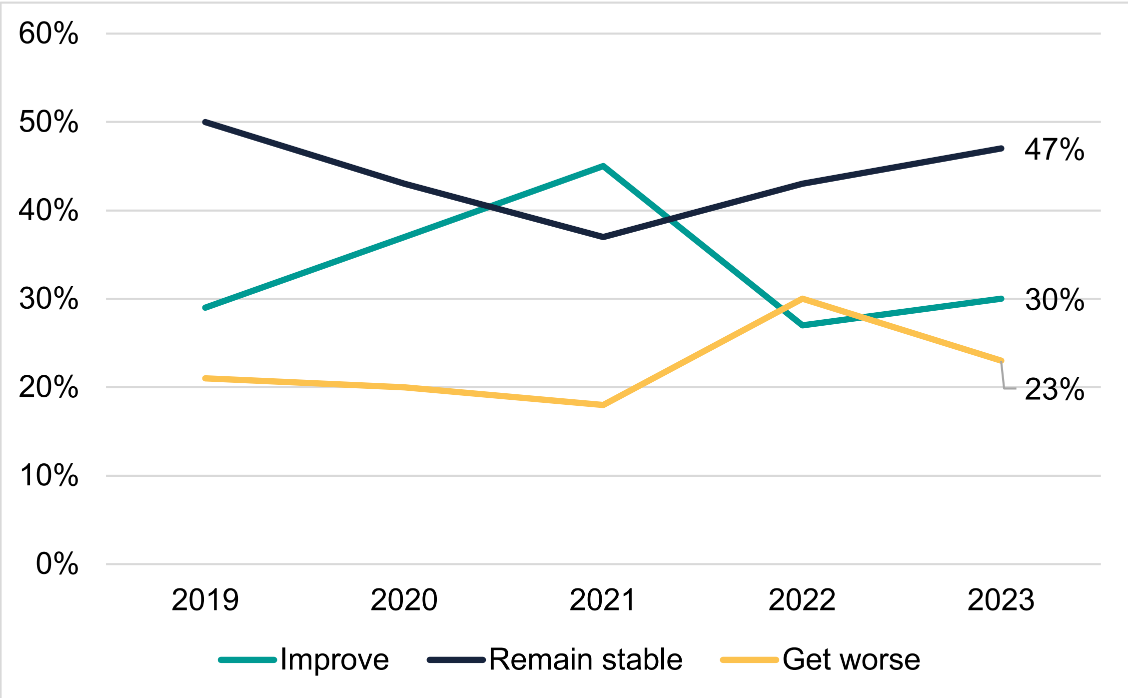
2.10 Results have recently become available from the West Yorkshire Business Survey (the survey was formally known as the LCR Business Survey) 2023 and a selection of headline results is presented below. The survey is commissioned annually by the Combined Authority and is a B2B leading indicator survey 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.

2.11 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.

2.12 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%).

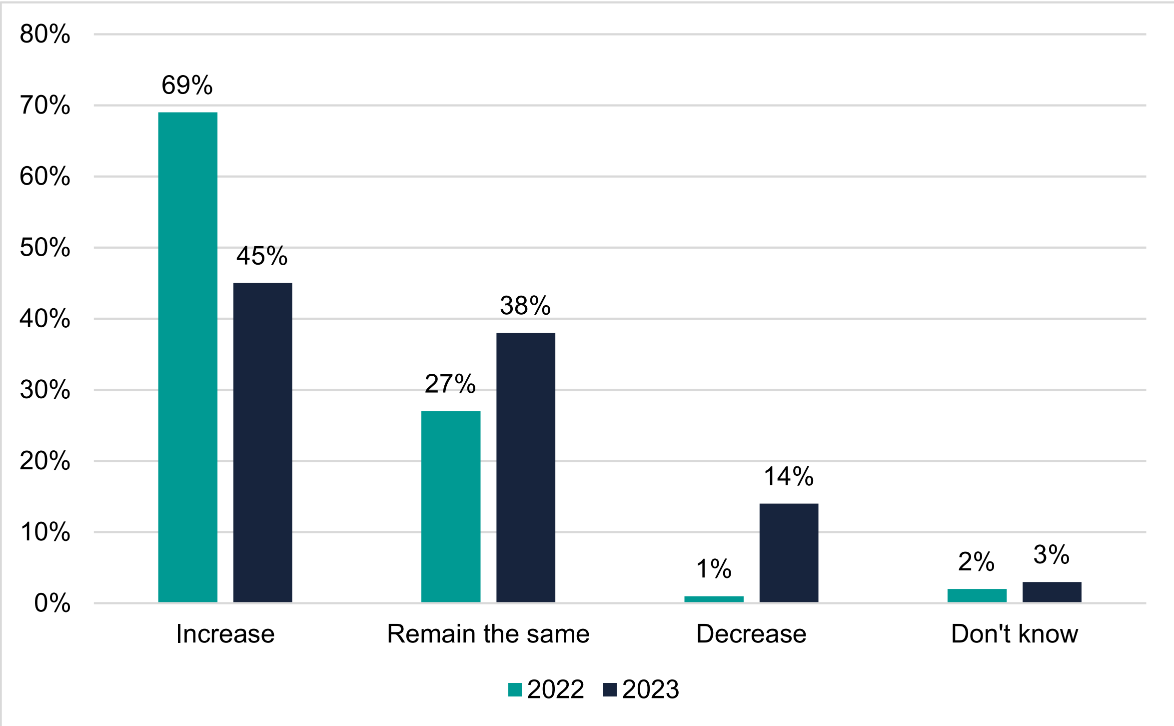
Figure: Over the next 12 months do you expect the climate in which your business/organisation operates to generally improve, remain stable, or get worse?



Source: West Yorkshire Business Survey

2.13 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.

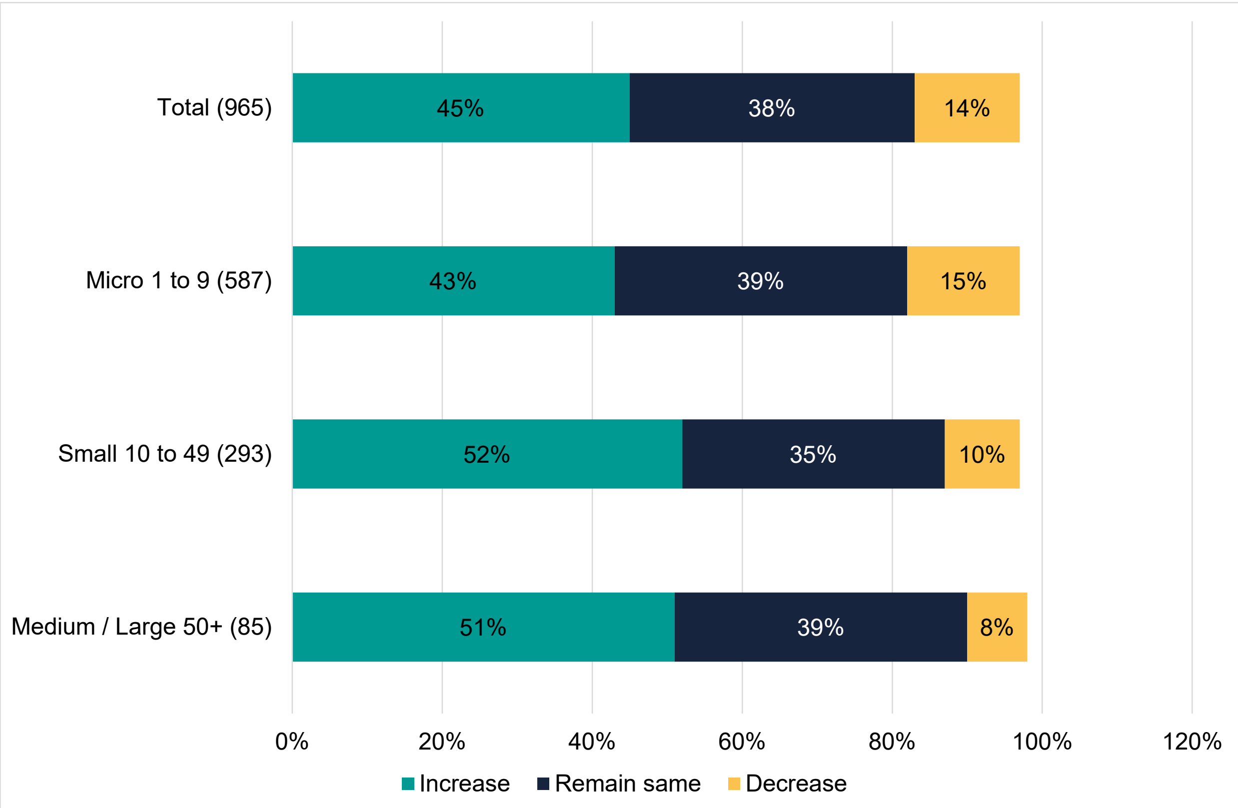
Figure: Over the next 12 months do you expect the price(s) you charge to your customers to increase, decrease or remain the same?



Source: West Yorkshire Business Survey

2.14 There is also a degree of optimism regarding prospects for turnover and employment growth among West Yorkshire organisations. A net positive balance of organisations expect that their organisation will see an increase in turnover over the next 12 months, with around a half of businesses with 10 or more employees anticipating growth compared with a tenth who forecast a decrease.

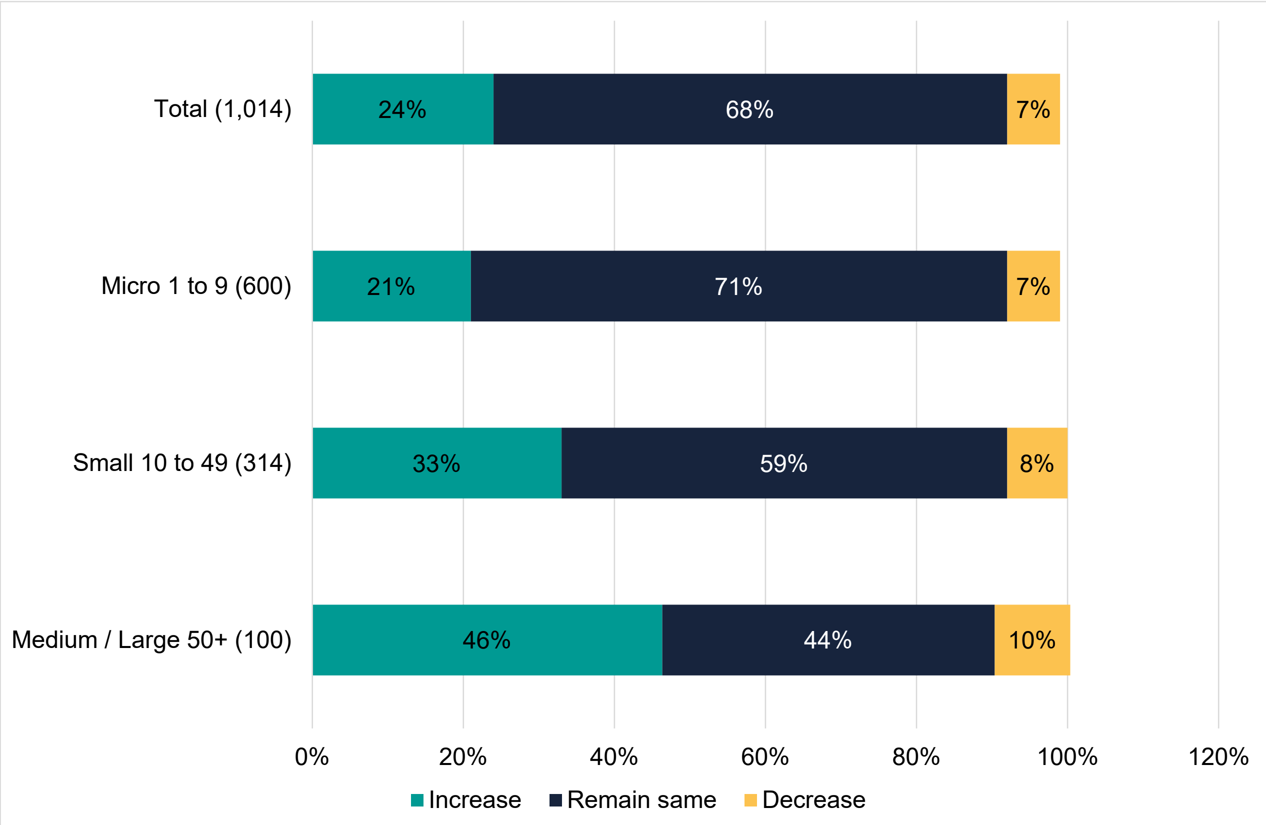
Figure: Over the next 12 months do you expect your turnover to increase, decrease or remain the same? Analysis by size of business/organisation (unweighted base in brackets)



Source: West Yorkshire Business Survey

2.15 The proportion of organisations who expect their staffing to increase over the next 12 months (see figure below) is smaller, at 24%, but still represents a net positive balance, as compared with the 7% who expect a decline in the number of people they employ. Medium and larger sized businesses (50+ employees) are twice as likely as the overall average to anticipate employment growth.

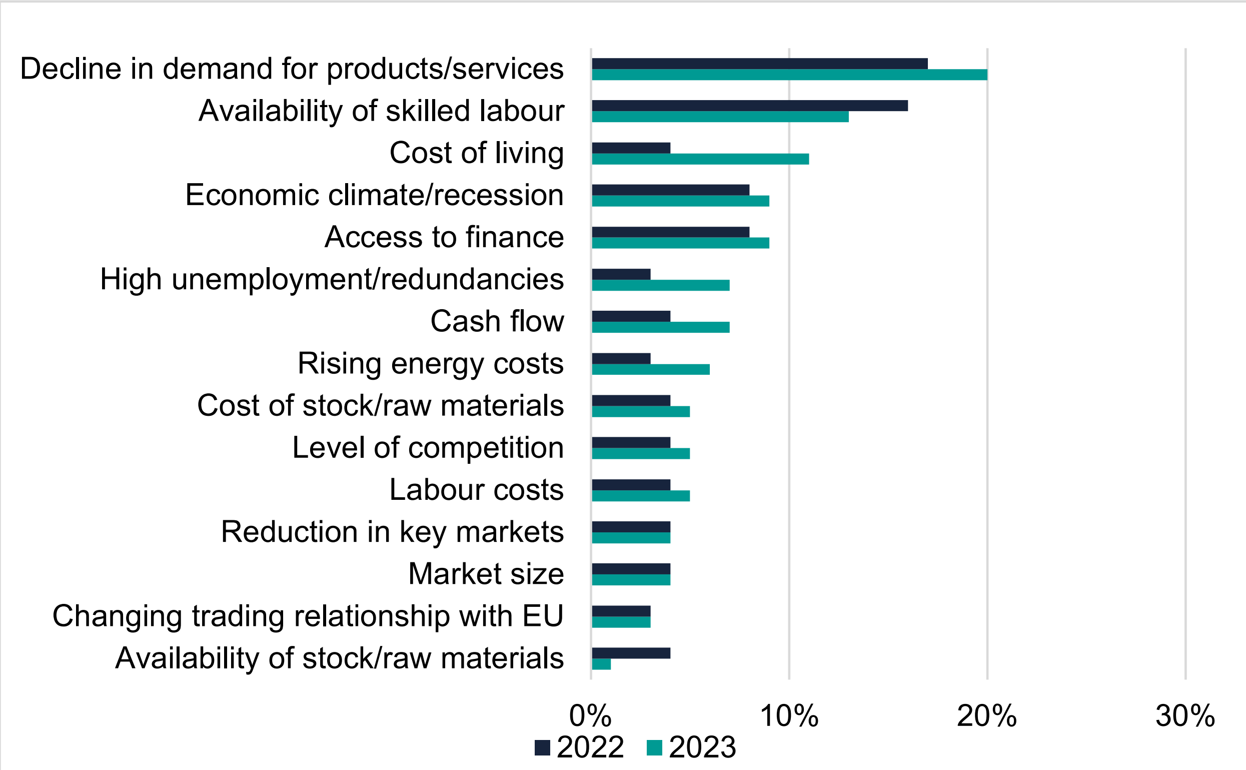
Figure: Over the next 12 months do you expect the number of people you employ to increase, decrease or remain the same? Analysis by size of business/organisation (unweighted base in brackets)



Source: West Yorkshire Business Survey

2.16 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

2.17 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 a range of thematic areas, including trade and innovation.

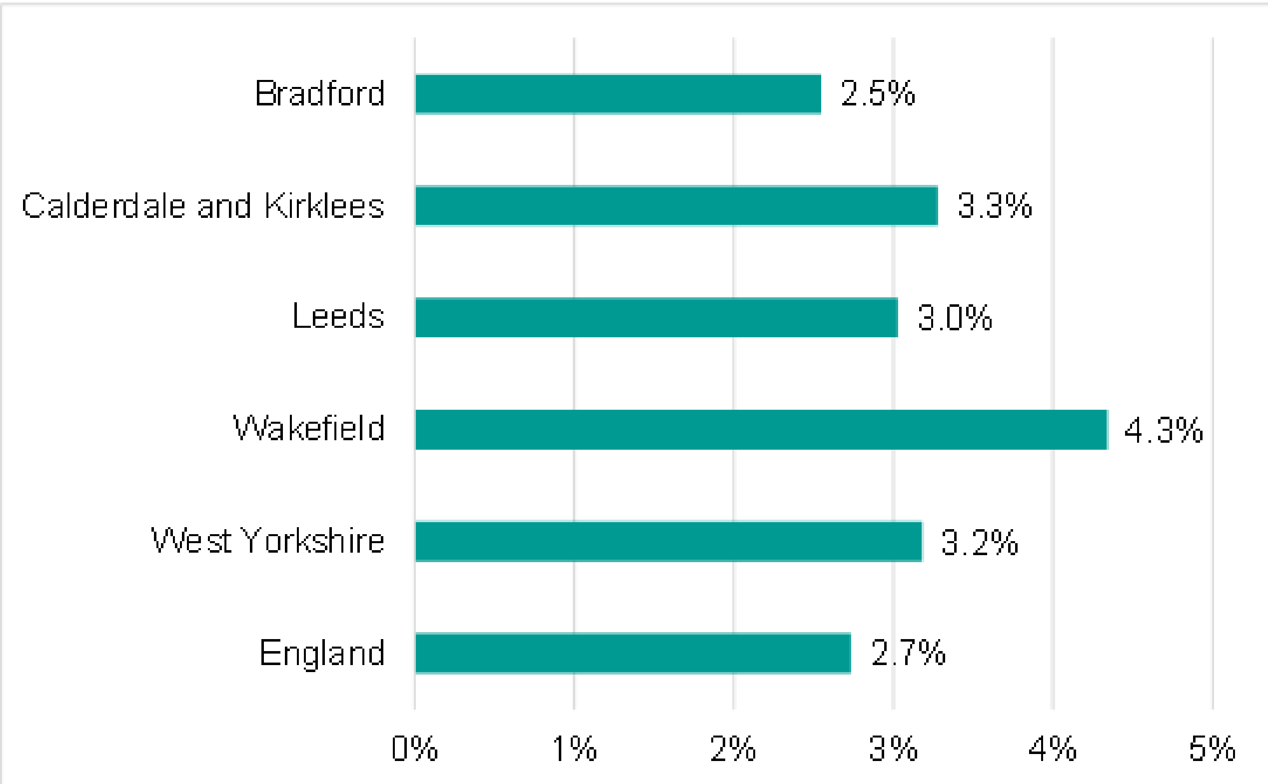
State of the Region Indicators

2.18 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.

2.19 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 Missions will be reviewed. Additional indicators put forward in the West Yorkshire Plan have been incorporated into State of the Region 2023. Performance against selected indicators that are of specific relevance to the Committee is briefly examined below.

2.20 **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.

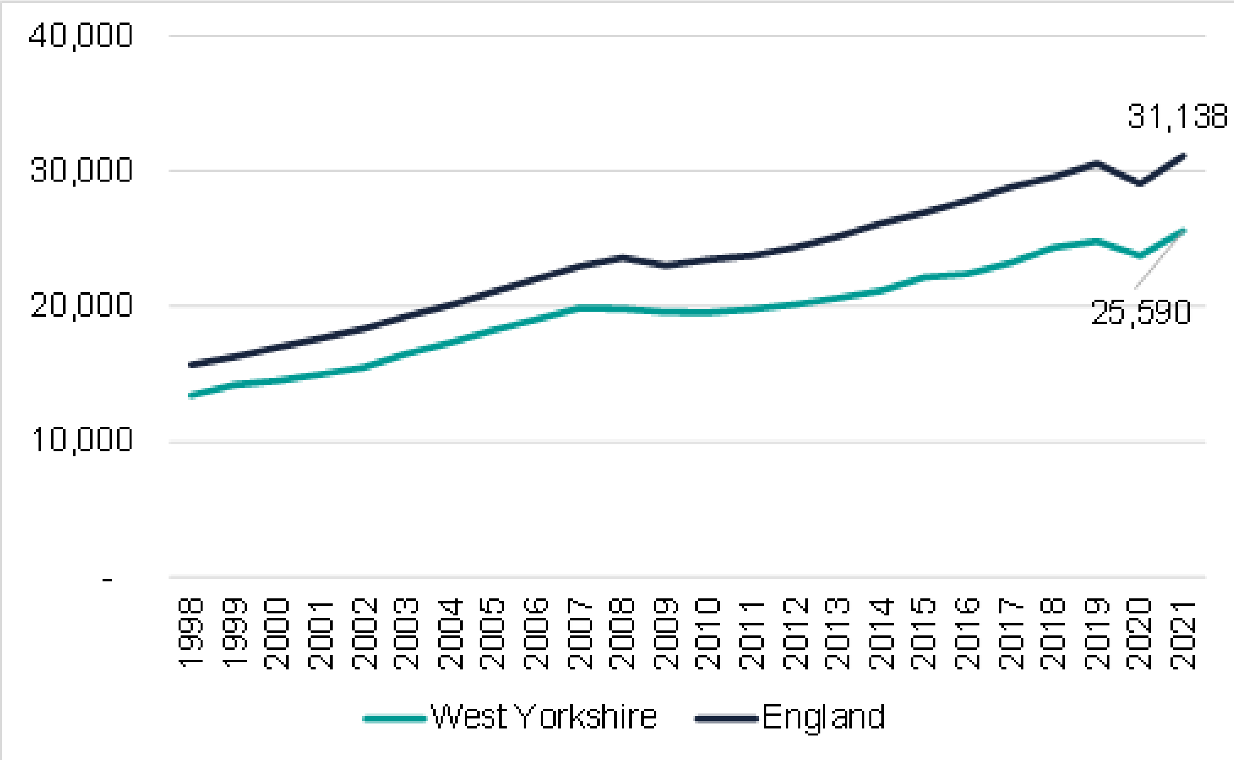
Figure: Gross value added (balanced) at current basic prices – average annual growth rate (%), 2016-21



Source: ONS, Sub-regional GVA data

2.21 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.

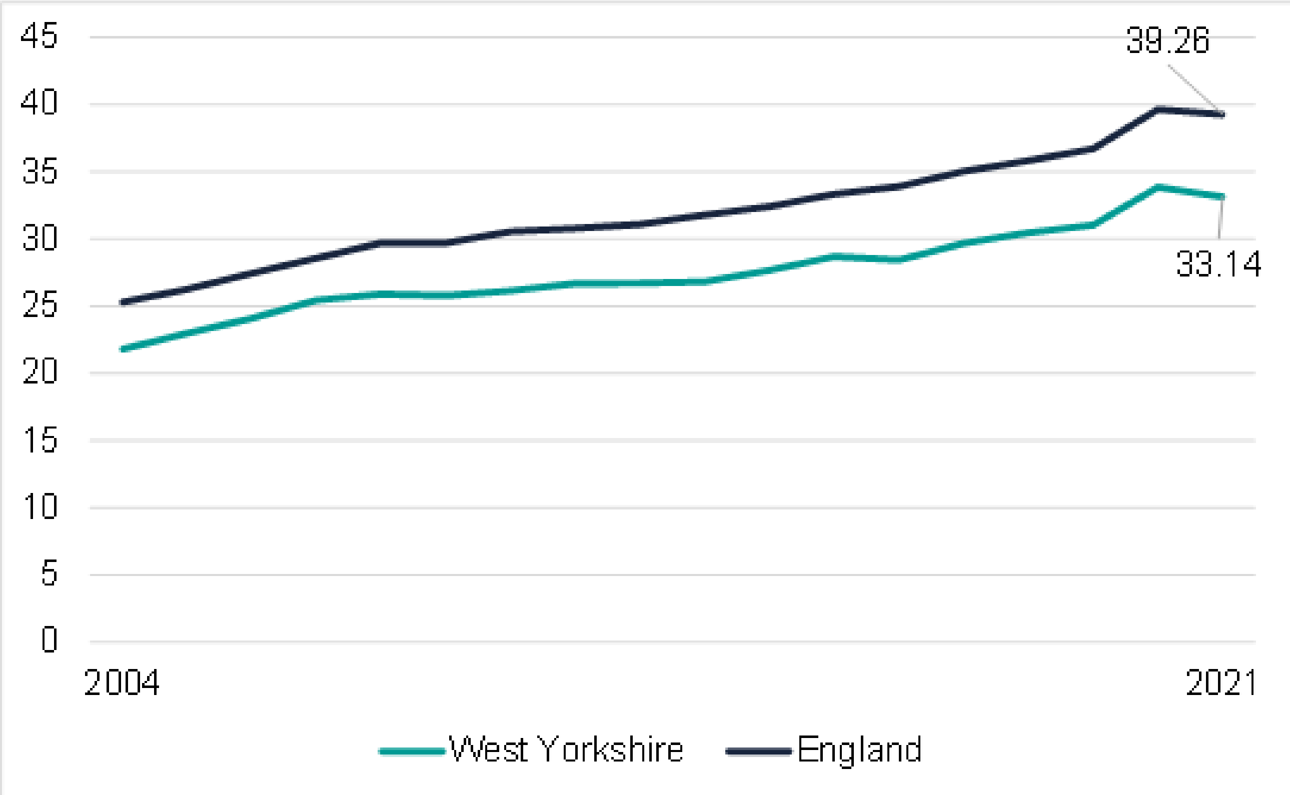
Figure: Gross value added per head (balanced) at current basic prices (£)



Source: ONS, Sub-regional GVA data

2.22 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.

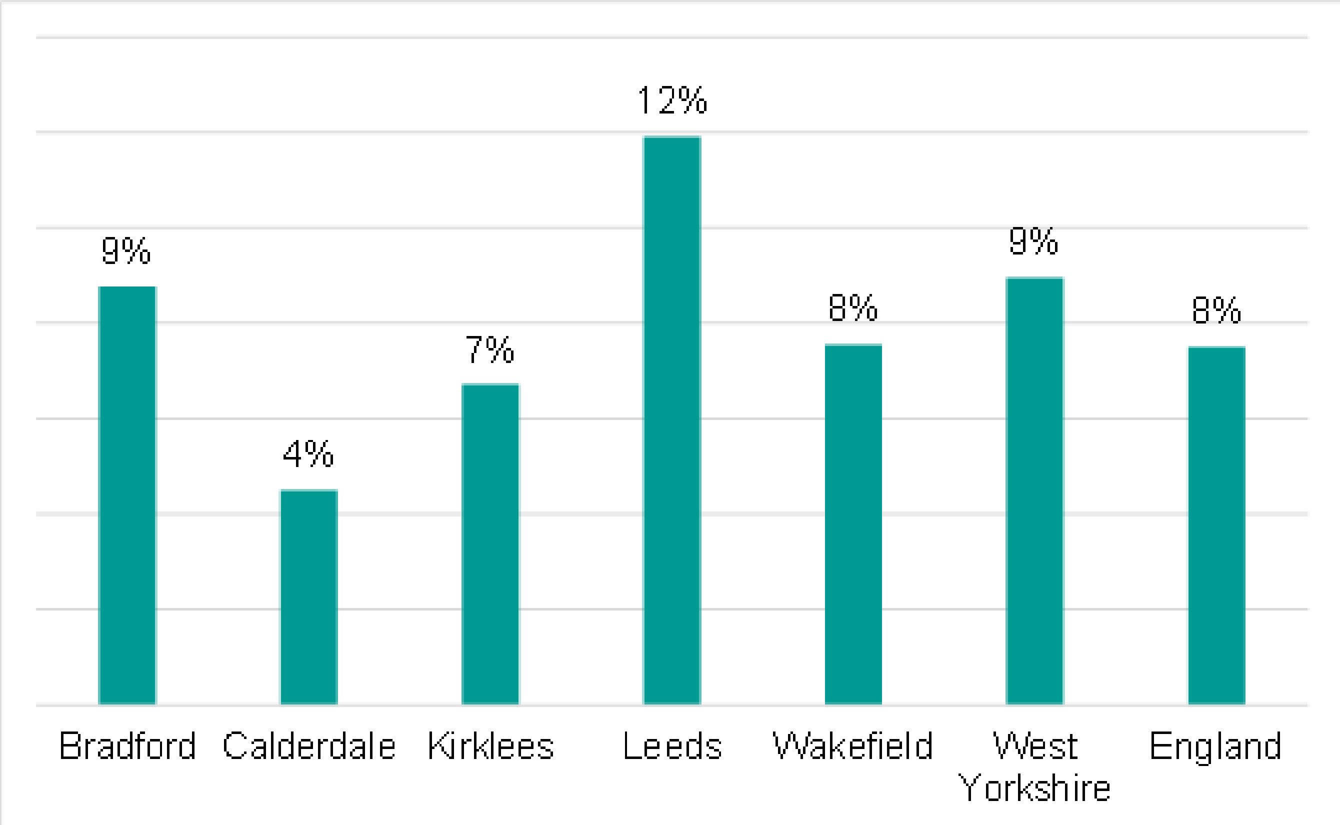
Figure: Productivity: current price unsmoothed GVA per hour worked (£)



Source: ONS, Sub-regional productivity data

2.23 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.

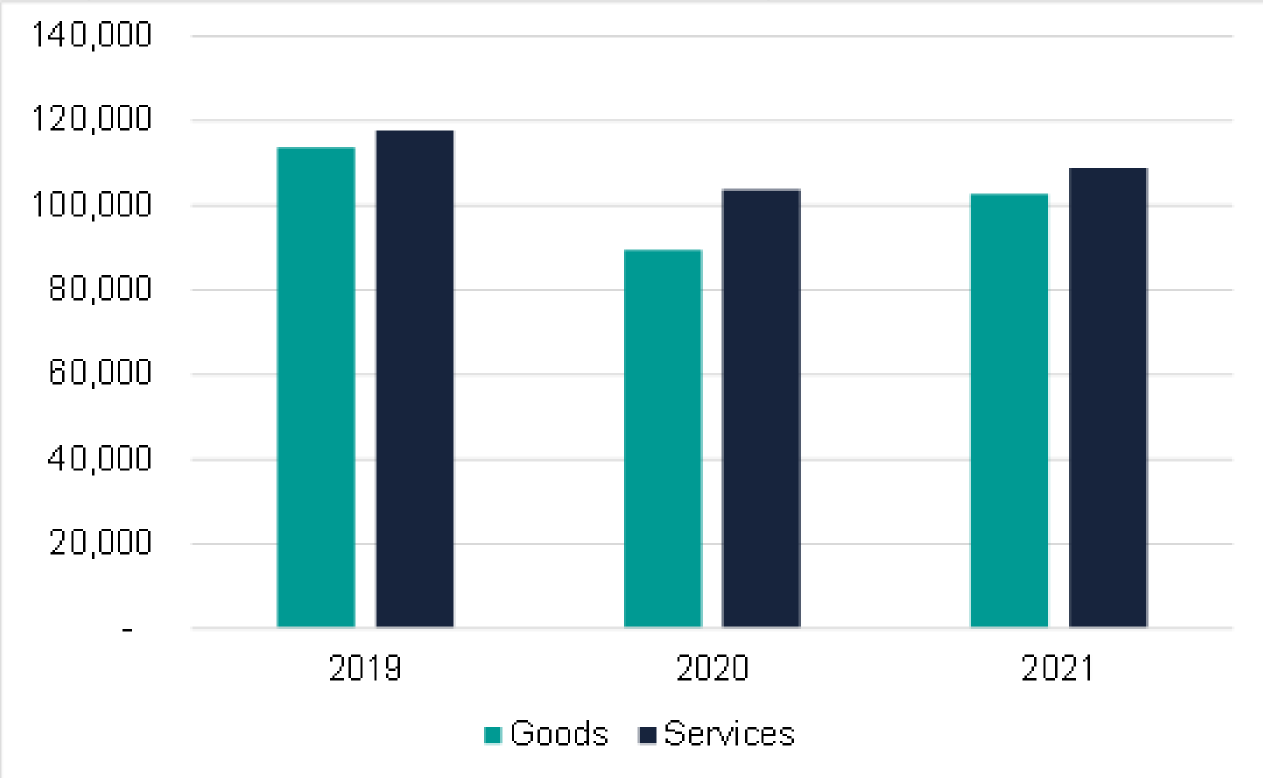
Figure: % net change in count of private sector businesses, 2016-22



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

2.24 **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



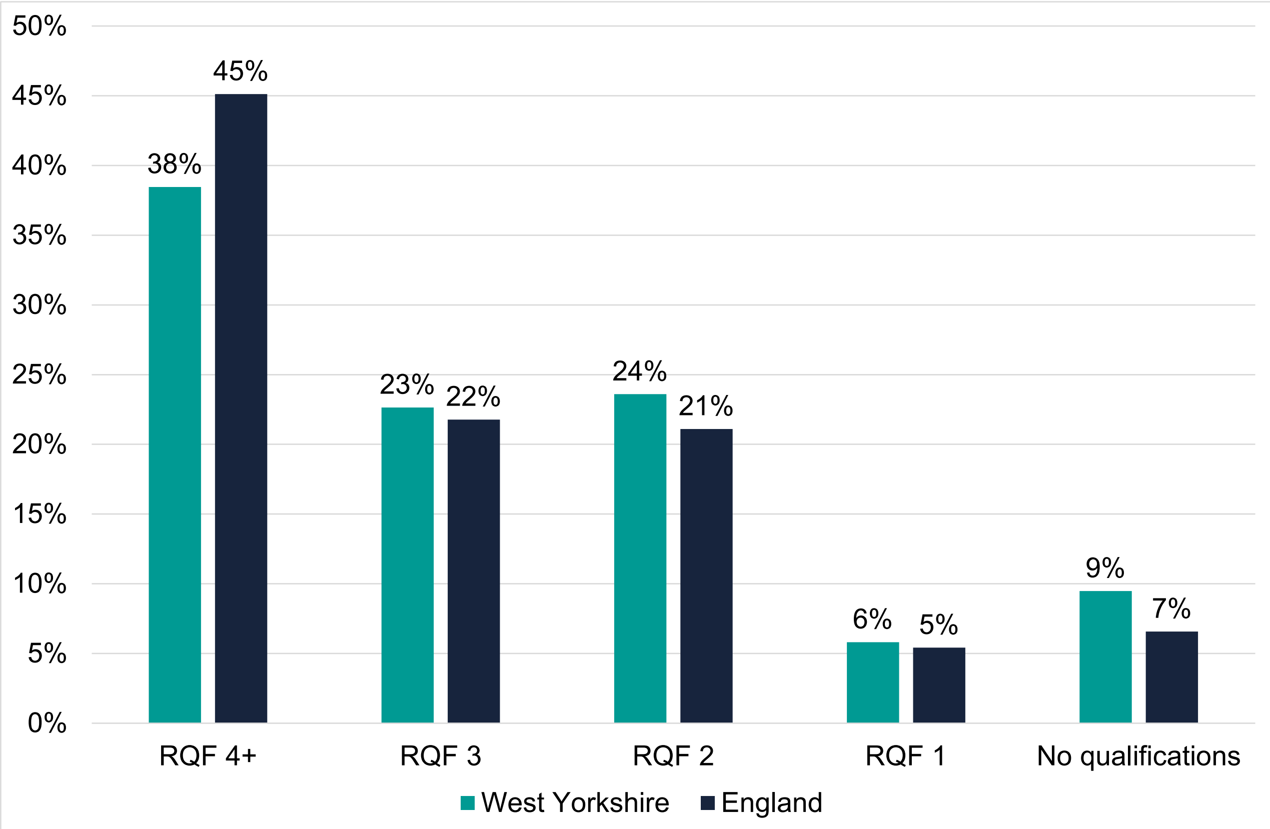
Source: ONS, International exports of services from subnational areas of the UK

2.25 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.

2.26 **Innovation** is central to productivity growth through the development and application of new products / services, processes and technologies. Sixty-four per cent of businesses in the region are engaged in innovation-related activities according to the West Yorkshire Business Survey 2023. This is slightly lower than the proportion recorded in earlier iterations of the survey (e.g. 71% in 2017). National statistics indicate that spending on research and development is below that national average in West Yorkshire compared to the UK, whilst the value of R&D Tax Credit claims is relatively small, at £176 per worker compared with the UK average of £252. Total qualifying expenditure is worth £851 per worker in West Yorkshire compared with £1,473 UK average.

Figure: Profile of working age population by highest level of qualification held (Regulated Qualification Framework Level), 2022



Source: Annual Population Survey

2.27 One of the key challenges facing West Yorkshire is a deficit in its skills base relative to other parts of the UK. This is closely associated with the area's underperformance on productivity and innovation. For example, according to one study, higher skill levels among London's workforce explain about two-thirds of the productivity gap between the capital and the rest of the country[1]. The proportion of working age people in West Yorkshire with higher level (Level 4 and above) qualifications has steadily increased over the last two decades, but the latest figures show a continuing deficit with the national average for West Yorkshire. Meanwhile 15% of people in West Yorkshire (over 200,000 in absolute terms) currently have no qualifications or are qualified to a low level (below Level 2) compared with the England average of 12%. This has a significant negative impact on the employability and career prospects of the people concerned.

2.28 The Combined Authority's Corporate Plan sets out commitments to support 53,900 adults to upskill, re-train or access employment and for 45,000 people to achieve formal qualifications through its adults skills and employment support programmes. Alongside

[1] Industrial Strategy Council, UK Skills Mismatch in 2030 (2020)

this, there is a target to engage 198 businesses through employment and skills programmes.

2.29 West Yorkshire's underperformance on productivity is directly reflected in its relatively low of prosperity as measured through GVA per head of population. Linked to this, the region faces challenges in respect of key dimensions that are known to drive productivity growth

- A small business base relative to the size of the region's population.
- A low intensity of exporting activity in terms of both goods and services, with trade values below pre-pandemic levels according to the latest data available.
- Low investment in innovation as reflected in the level of R&D expenditure and engagement in innovative activities.
- A weak skills base, with a relatively small number of people with the higher level qualifications needed to drive productivity growth.

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 had 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 Board notes the content of this report.

11. Background Documents

None.

12. Appendices

None.