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| **Report to:** | Business, Economy and Innovation Committee |
| **Date:** | 31 January 2024 |
| **Subject:** | **Economic Update** |
| **Director:** | Sarah Eaton, Director Strategy, Communications and Intelligence |
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| 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.

1.2 To provide Committee members with an opportunity to assess the state of the economy and provide any comment or steer on the implications on the CA's remit and actions.

## 2. Information

**<u>Macro-economic context</u>**

<u>Inflation</u>

2.1 The Consumer Prices Index (CPI) **rose by 4.0% in the 12 months to December 2023 heralding the 1st monthly increase (though modest) in inflation since February following the 3.9% rise in November 2023, down from 4.6% in October**. On a monthly basis, CPI rose by 0.4% in December 2023, compared with a rise of 0.4% in December 2022 and broadly continues the trend seen since the start of 2023 (February) where CPI briefly increased at the start of 2023 but has been falling consistently since then. The current headline CPI rate is akin to the level of inflation last seen in October 2021, although it should be noted that inflation at that point was beginning to rapidly accelerate in contrast to the current price backdrop.

2.2 The core components of CPI inflation **show that food costs made the largest contribution to the reduction in the headline rate between November and December 2023** – **food inflation is now estimated to be 8.0% down from 9.2% in November** – this pattern is generally consistent with the assumptions made by OBR (Office for Budget Responsibility) and the Bank of England – but if anything is falling more quickly than either assumed. **The easing of the headline food inflation rate in December is the ninth consecutive month in which food inflation has fallen from its relatively recent and historical high of 19.2% in March 2023**. The robust reduction in food inflation in December was offset by increases in transport, tobacco and alcohol and clothing costs in the month and in part reflects the effects of elevated global transport and shipping costs as well.

2.3 It should be noted that the closely watched core CPI inflation measure – this is core goods and services inflation excluding energy and food costs – rose by 5.1% in the 12 months to December, unchanged from November and down from 5.7% in October following its recent high point of 7.1% in May (which in itself was the highest rate since March 1992) – the reduction in the core CPI measure is mainly being driven by a sharp reduction in goods inflation.

Interest rates

2.4 At its meeting on the 13 December 2023, the MPC (Monetary Policy Committee) **voted by a majority of 6–3 to maintain Bank Rate at 5.25%**. Three members preferred to increase Bank Rate by 0.25 percentage points, to 5.5% - this pattern of voting was identical to MPC's Septeber meeting.

2.5 The published minutes of the Bank's December MPC meeting **make it clear that it remains concerned about the potential persistence of inflation alongside the resilience of the wider eocnonomy** but restates its view that monetary policy will need to remain restrictive for a sufficintely long period of time – in this respect the Bank is particularly focused on the underlying tightness of labour market conditions, wage growth and services price inflation – the labour market is clearly beginning to loosen whilst wage growth and services inflation remain elevated in the face of a loosening labour market – which will preoccupy the banks policy makers.

Economic Growth

2.6 **The UK economy contracted by 0.1% in Q3 2023** – July to September – this follows growth of 0.2% in the previous quarter. **The 2nd estimate of GDP in the 3rd quarter was revised downwards from the initial estimate** – publication of the 3rd quarter data alongside the monthly estimates of GDP clearly **show that the national economy has shown little or no growth since September**.

2.7 Publication of the high level monthly GDP estimates by ONS through October and November shows as yet no clear pattern in respect of the likely outturn of GDP in the 4th quarter of 2023 (this data will be published in early February along with the initial full year 2023 GDP growth estimate) - the UK economy contracted by 0.3% in October but grew by 0.3% in November – so in essence the UK economy was stagnat in the run up to the Christmas period.

2.8 The sectoral components of GDP in 3rd quarter estimates show:

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

Autumn Statement key messages from OBR economic update

2.9 Since the Committee's last meeting the OBR (Office for Budget responsibility) published its revised economic assumptions and forecasts as part of its assessment of the Autumn Statement by the Government – the key economic headlines from the OBR assessment show:

- The OBR now expect the economy to grow much more slowly over next 3 to 4 years that they assumed in last update.
- The ONS revisions (to GDP based on its new methodogy) now show that the UK economy recovered its pre-pandemic level at the end of 2021 and was 1.8 per cent

above its mid-2023 level, rather than 1.1 per cent below than had been previously assumed.

- Despite the recent and welcome fall in CPI inflation in October, **OBR are forecasting that inflation will more persistent and domestically fuelled**. They feel that inflation will not return to 2% target until early 2025, with the effect of previous interest rate reductions taking longer to be passed on, for example households on fixed rate mortgages may not have been impacted by rate rises.
- **They estimate that AS package will add 0.3% to GDP** – the switch from temporary to permanent full expensing, the package of welfare and other measures targeting the inactive and long-term unemployed and the cut in NIC contribution rates which would add another 28,000 jobs to the UK economy. West Yorkshire share of these additional jobs would be around 1,500.
- **OBR expect unemployment to be higher and peak to last longer than they assumed in March. The peak is expected to reach 1.6 million people unemployed in mid-2025**.
- **Living standards, as measured by real household disposable income (RHDI) per person, are forecast to be 3½ per cent lower** in 2024-25 than their pre-pandemic level.
- **This represents the largest reduction in real living standards since ONS records began in the 1950s**.
- RHDI (Real Household Disposable Income) per person recovers its pre-pandemic level in 2027-28.

**<u>Regional data</u>**

<u>Growth forecasts</u>

2.10 As part of its wider work monitoring economic trends locally and nationally, the Combined Authority manages and maintains a detailed structural economic model of the West Yorkshire economy which is capable of forecasting likely growth by sector and local area – the Regional Economteric Model (REM).

2.11 The latest version of the REM forecasts were recently published by the Combined Authority and show the West Yorksire economy will grow by 0.6% in 2024, compared to a forecast rate of national growth of 0.7% in same period.

2.12 The pattern of growth across West Yorkshire suggests that growth will be strongest in Leeds (0.9%) with growth ranging from 0.3% in Calderdale to 0.5% in Bradford – all areas will see stronger growth in 2025.

2.13 The REM forecasts confirm that growth in 2023 is lower than 2022 across all parts of West Yorkshire.

2.14 The REM forecasts contexualise a wider range of economic data that suggests a general slowdown in the West Yorkshire economy – these indicators consistently point towards a cooling of labour market conditions (this is a pattern also seen nationally).

- Business sentiment deteriorated in quarter 4 of 2023, particularly among manufacturing firms.
- The recovery in the net business start rate following the pandemic appears to have peaked.
- Growth in the employee count has stalled in recent months, as has growth in median pay.
- The unemployed claimant count is growing, albeit at a moderate rate
- The monthly count of vacancies (online job postings) has declined for several consecutive months but remains at high levels in historic terms.

Business sentiment (QES)

2.15 Business sentiment data provides a good leading indicator of economic prospects. The quarter 4 results of the West and North Yorkshire Chamber's Quarterly Economic Survey point to a general deterioration in business sentiment compared with the previous quarter and may point to an economic slowdown. In particular, the performance / outlook for manufacturing seems to have worsened across most measures. However, QES figures are volatile over time and a single quarter's data is not conclusive.

- The proportion of respondents expecting growth in domestic sales has declined somewhat compared with Q3 and the proportion of manufacturing firms expecting sales decline outweighs the proportion expecting growth (negative balance).

- Export sales were markedly down for service sector respondents with export orders also lower for this group.

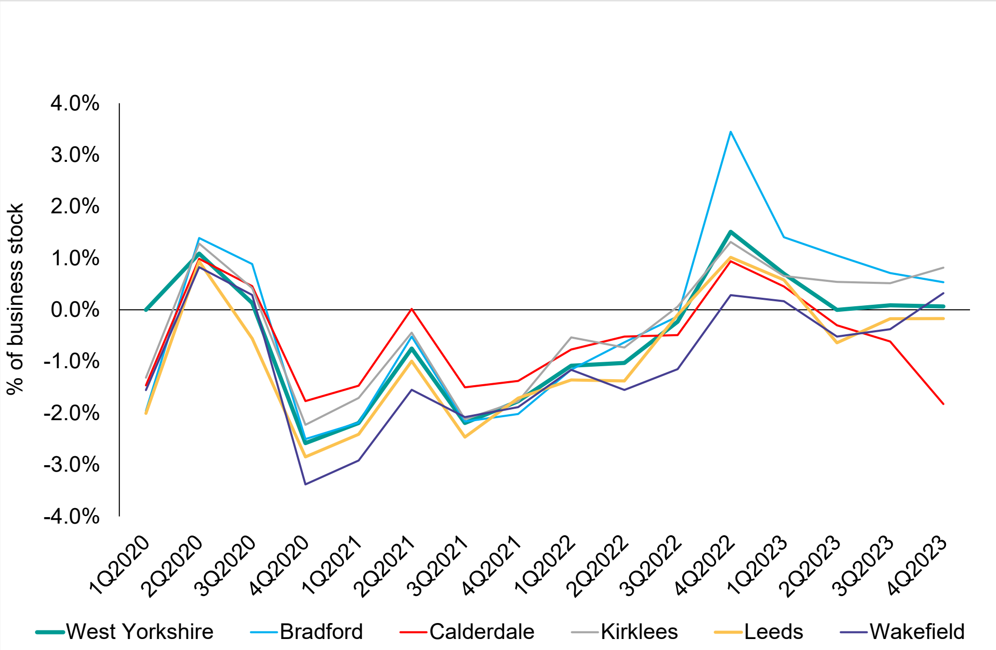
- There has been a sharp fall in hiring intent, particularly among manufacturing respondents; there was a less pronounced fall among service firms although a net positive balance of service firms still expect to expand their workforce in the coming quarter. To set this into context, however, the majority of firms in both sectors expect their workforces to remain static over this period.

- Capital investment expectations have fallen among manufacturers, moving from a net positive balance of respondents in quarter 3 to a negative balance in quarter 4. However, among service firms an increased proportion of respondents expect to invest in training in the coming quarter.

Business starts and liquidations

2.16 The pandemic had a negative impact during the early part of 2020, with the number of business liquidations outweighing business starts. Following this, there was a period of steady improvement but the data suggests that this recovery may have peaked at the end of 2022 with West Yorkshire's net position showing no improvement since then.

**Figure: Trend in net business start rate – business starts minus liquidations as % of business stock**

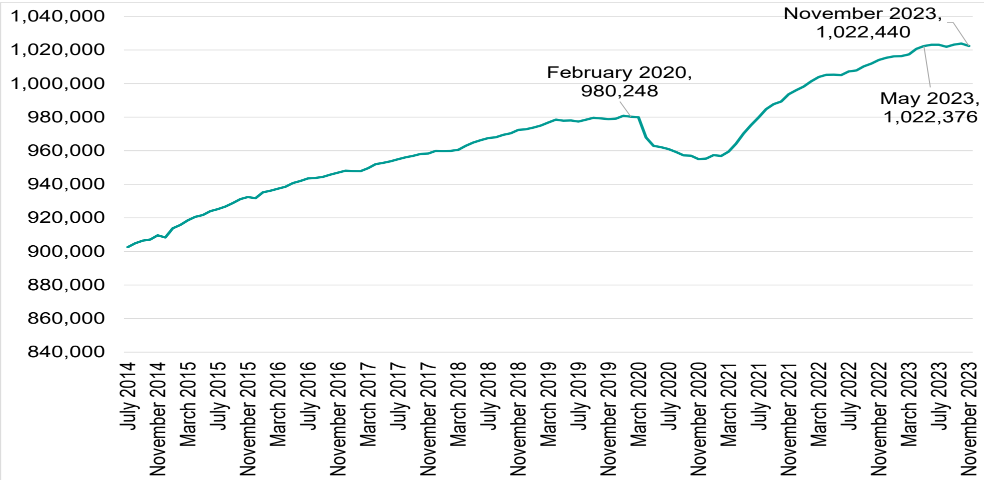



*Source: FAME*

<u>Employee count</u>

2.17 Real-time information on the count of payrolled employees in West Yorkshire shows that the level of employment in the region continues to remain largely static, with little change during the period from May to November 2023. This follows a period of sustained post-pandemic growth commencing in spring 2021.

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

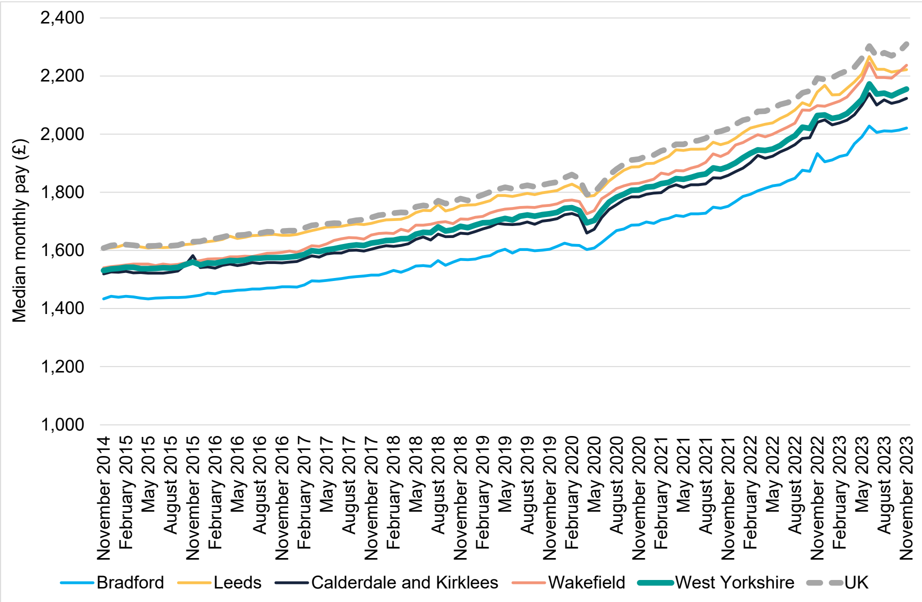



*Source: HMRC*

<u>Employee pay</u>

2.18 Median monthly pay is lower than the UK average in West Yorkshire and all five of its local authorities. Until recently, pay (unadjusted for inflation) had been growing strongly in West Yorkshire and was 18% higher at its peak in June 2023 than in May 2021, when the economy re-opened following the pandemic. However, pay growth has stalled since then and was 1% lower in November than in June in West Yorkshire and 2% lower in Leeds.

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

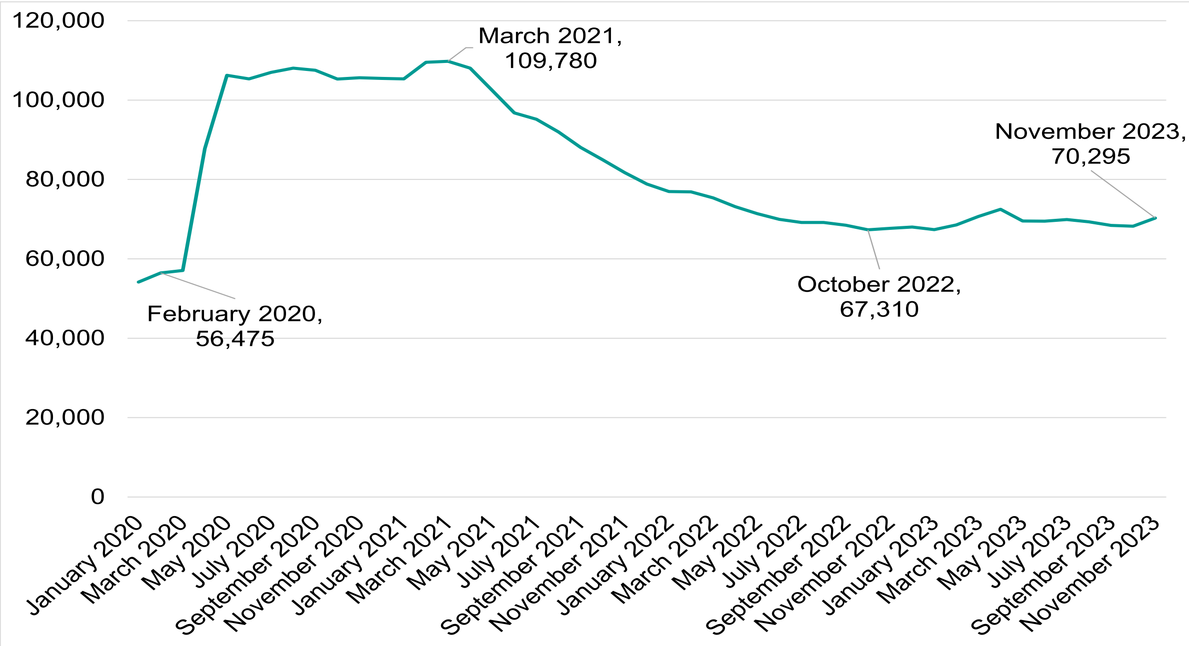



*Source: HMRC*

<u>Claimant count</u>

2.19 The claimant count – the official count of people who are claiming benefits primarily because they are unemployed - has been on a modest upward trend in West Yorkshire and nationally since October 2022. West Yorkshire's count has grown by 4% or around 3,000 during the period from October 2022 to November 2023. This follows a long period of steady decline starting in early 2021 coinciding with the lifting of lockdown restrictions. The claimant count has grown fastest since October 2022 among younger people aged 16-24, with an increase of around 1,500 or 11%. The overall level of claimant unemployment in West Yorkshire is still (as of November 2023) 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 3.6% in Wakefield to 6.6% in Bradford.

**Figure: Claimant unemployment trend, West Yorkshire**

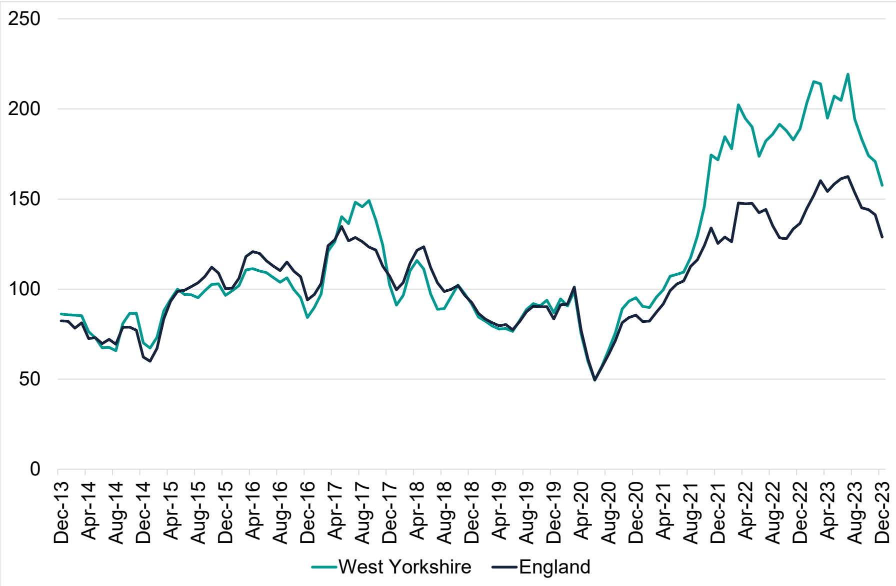



*Source: NOMIS*

Vacancies (online job postings)

2.20 Job vacancies provide a key insight into trends in labour demand and employers' recruitment activity. At local level this means examining the jobs that are being advertised via online job postings. The monthly count of online job postings, both in West Yorkshire and nationally, fell sharply during the pandemic but soon began a sustained recovery, reaching a peak level in summer 2023. Since then, the trend has been downwards. In West Yorkshire, the level of postings as of November 2023 (based on was around a fifth lower than at its peak and 10% lower than a year earlier in November 2022. Nonetheless, postings remain relatively high in historic terms and are around 80% higher than before the pandemic (November 2019). West Yorkshire has also performed more strongly than the wider national (England) picture; the latter being just over 50% higher in terms of level of postings compared with November 2019.

**Figure: Index of monthly count of online job postings, three month moving average (2012 = 100)**




*Source: Lightcast*

**West Yorkshire Business Survey 2023**

2.21 The following section provides an overview of the West Yorkshire Business Survey 2023, including the background to the survey and a brief summary of key messages arising from the results of the survey.

Background to the survey

2.22 The West Yorkshire Business Survey is conducted annually. The purpose of the survey is to provide a snapshot view of business confidence, investment experiences and intentions; to provide the West Yorkshire Combined Authority with insight into the issues currently affecting businesses; and to support monitoring of progress against the Combined Authority's strategic priorities. The survey addresses a range of themes of direct relevance to the work of the committee.

2.23 The survey results have a variety of applications. They are used for monitoring the progress of the West Yorkshire economy in the context of State of the Region (e.g. trend in proportion of businesses engaged in innovation activities) and a number of thematic strategies (e.g. Digital Strategy). The results are also used to brief Combined Authority committees on economic conditions and prospects and progress against key indicators relevant to their respective remits.

2.24 In 2023 1,014 interviews were conducted among private, public and voluntary/community sector organisations with at least one employee, with quotas set for organisation size, sector and district. The survey is conducted primarily via computer-assisted telephone interviews, undertaken by research contractor BMG Research. This year this approach was supplemented with web-based (online) interviews which were needed to achieve the respondent quota for larger businesses. The survey fieldwork took place between 10th July and 15th September 2023.

Key messages from the survey

2.25 The most salient points from the survey findings are presented in summary below. Further analysis is provided in appendix 1 to this paper.

1. Businesses most commonly identify a lack of customer demand, access to skilled labour and cost of living issues (including rising energy costs) as future barriers to growth.
2. Skills gaps are at their highest since the survey began, with four out of five respondents identifying a need to improve the skills of their staff. Businesses are most likely to flag sales and marketing, digital skills, management skills and green skills as the areas in need of improvement.
3. Hard-to-fill vacancies are widespread with a third of businesses affected in the last year (as compared with around a fifth in each of the pre-pandemic years). Respondents are most likely to identify job specific technical skills as being hard to find.
4. The proportion of businesses that have sought advice on issues such as finance, marketing, legislation or staffing has fallen for the second consecutive year.
5. 45% of respondents believe that the UK’s exit from the EU has had a negative impact on their business/organization, rising to 64% of manufacturing businesses. Only 5% believe that it has had a positive impact. The key issues are increase in cost of EU imports, impact of tariffs and customs procedures.
6. Two thirds (64%) of organisations have undertaken innovation / R&D in the last 3 years, rising to 75% of manufacturing businesses and 91% of medium/large businesses.
7. 15% of organisations see climate change as an opportunity for their business (compared with 19% who see it as a risk and 52%who consider it to be neither. This rises to 27% of Construction firms who identify it as an opportunity.
8. 60% of organisations consider reducing carbon emissions, waste or water use to be an objective of their business (10% = primary objective; 50% = secondary objective). The figure increases to 97% of medium and large businesses and 68% of Manufacturing businesses.
9. A positive balance of businesses expect to need more physical space in the coming year (19% will need more space and 7% less), with 10% planning to move premises.
10. 40% of organisations are satisfied with the quality of local highways and public transport infrastructure whilst 42% are dissatisfied (dissatisfaction rises to 52% in

Kirklees). Priorities for improvement relate to the condition of roads (highlighted by 86% of respondents), levels of traffic congestion (75%) and quality of bus and train services (69%).

**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. Whilst the overall level of inflation is falling – the level of food inflation remains elevated at just over 8% with this level of food inflation having a higher impact on the poorest households as they typically spend much more of their household income on food - this in turn continues to have a higher impact on their disposable and discretionary income compared to more affluent housholds.

**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

Appendix 1 – Key messages from the West Yorkshire Business Survey, 2023.