

ECONOMIC UPDATE: LEEDS CITY REGION, JANUARY 2018

Key points at glance

National and international headlines

- Global growth remains solid and is strengthening, according to the latest analysis from the World Bank and OECD. The recovery is now widespread across advanced and emerging economies, with accommodative monetary policy continuing to support the upturn. The OECD identify concerns that cheap finance and low volatility are encouraging risk-taking, and both households and corporates remain highly indebted and vulnerable to shocks.
- In the UK, GDP increased by 0.4% in Q3 2017, expanding at a similar rate to the 0.3% growth seen in Q2. Manufacturing output increased by 1.1% between Q2 and Q3, with service sector output up 0.4%. The construction sector acted as a drag on growth, however, with output down 0.9%.
- PMI surveys suggest all sectors of the UK economy continued to grow in November, with increased housebuilding driving an upturn in the construction sector. The pace of growth eased in the service sector, where increasing costs fed through to the fastest price increases since 2008.
- The number of people in work in the UK fell by 56,000 in the three months to October, compared to the previous three months. The employment rate has dipped from 75.3% to 75.1%. Unemployment also fell, by 26,000.
- Inflation in the UK increased to 3.1% in November, its highest level in almost 6 years. There has been a slight upturn in wage growth, with average weekly pay up by 2.3% in October, though wages are still falling in real terms.
- The CBI has welcomed progress on Brexit talks between the UK and EU, but has also called for clarity on the length of the transitional period, particularly in sectors where regulatory changes could have a big impact. The organisation has undertaken analysis of the key issues, risks and opportunities from Brexit across a range of sectors.

Key City Region and local developments

- Business activity continues to expand in Yorkshire & Humber according to the Lloyds Bank Regional PMI. The pace of expansion has slowed a little from earlier in the year, when growth in Yorkshire outpaced other English regions. Current levels of activity closely mirror UK performance.
- Goods exports from the region so far this year are around 15% higher than the same period in 2016. Again this closely mirrors national performance so far in 2017, but is stronger growth than other northern regions.
- Over 14,000 new business bank accounts have been opened so far in 2017, an increase of 0.5% on 2016 compared to a 3.7% decline across England. This performance ranks LCR 7th out of 38 LEPs on this measure.
- As with the national picture, employment in Yorkshire & Humber declined in the three months to October, falling by 37,000 from the preceding three months. Unemployment in the region has increased by 6,000, taking the unemployment rate back from 4.9% to 5%.

Key conclusions and outlook

- Most major economies approach the end of 2017 with a stronger growth outlook than they started the year. Indeed, the European Commission recently reported that business confidence in the Eurozone has risen to its highest level in 17 years whilst the solid performance of the US economy resulted in a further rise in interest rates in December.
- The UK economy has remained more robust than many analysts anticipated through 2017, though it still seems that growth will have dipped from 2016 levels, whilst most other major economies have seen growth accelerate this year. This suggests that Brexit-related uncertainty and sterling-related cost pressures have inhibited growth somewhat.
- The 2nd consecutive monthly fall in employment suggests that the labour market may have peaked nationally with Yorkshire showing a similar trend. However, it should be remembered that employment remains at historically high levels, and businesses both here and nationally say they expect to continue to create jobs in the coming months.
- Despite the potential peak in employment, workers remain in high demand with vacancy levels on the rise. This should increase workers' bargaining power which, combined with an anticipated fall back in inflation in the new year, could ease some of the cost pressure on households. A tighter labour market also should theoretically help drive productivity growth as businesses seek efficiency gains. Indeed, an initial estimate from the Office for National Statistics suggests UK productivity increased by 0.9% in Q3 following declines in the previous two quarters.
- Recent progress in Brexit negotiations has also raised hopes that some of the business community's key objectives – particularly a transition deal to prevent a "cliff edge" scenario, and the avoidance of trade tariffs – could be achieved in the next phase of negotiations. The CBI, the Chambers of Commerce and other representative organisations are engaged in work to understand the implications of these issues at a sectoral level and this will continue as greater clarity over future arrangements emerges.

National and international				Leeds City Region			
Indicator	Latest position	Chart	Trend	Indicator	Latest position	Chart	Trend
Economic headlines	<p>UK GDP increased by 0.4% in Q3 2017, expanding at a similar rate to the 0.3% growth seen in Q2. Growth so far in 2017 has averaged around half the 0.6% quarterly average seen in the preceding three years and is now below that of other G7 nations.</p> <p>Manufacturing output increased by 1.1% between Q2 and Q3, with service sector output up 0.4%. The construction sector acted as a drag on growth, however, with output down 0.9%.</p>	<p>UK GDP growth - 2007-17</p>		Economic headlines	<p>The Lloyds Bank Regional PMI showed business activity across Yorkshire & Humber continued to expand in November, albeit at a slower pace than seen so far this year. Yorkshire & Humber broadly mirrors the national picture in this regard.</p> <p>Initial headlines from the Q4 2017 Quarterly Economic Survey for Leeds City Region produced in partnership between the LEP and local Chambers of Commerce suggest on most indicators, LCR businesses finished 2017 more positively than they began the year.</p>	<p>Purchasing Managers Index (PMI) - Northern Powerhouse regions, 2016-17</p>	
Business performance & confidence	<p>The construction and manufacturing sectors reported stronger growth in November, according to Markit/CIPS PMI surveys. Growth slowed in the service sector, whilst firms also reported a sharp increase in costs, resulting in the sharpest rise in prices charged in the sector since 2008.</p> <p>The CBI has welcomed progress on Brexit talks between the UK and EU, but has also called for clarity on the length of the transitional period, particularly in sectors where regulatory changes could have a big impact, such as financial services and food and drink.</p>	<p>Purchasing Managers Index (PMI) by sector, 2016-17</p>		Business performance & confidence	<p>There were 1,400 new business bank accounts opened in Leeds City Region in October, 2017, a 4% increase on October 2016.</p> <p>Over 14,000 new accounts have been opened so far in 2017. This figure is around 0.5% higher than 2016, which represents outperformance of the picture across England where the number of new accounts is down 3.7% this year. This performance ranks LCR 7th out of 38 LEPs on this measure.</p>	<p>Number of new business bank accounts - LCR districts, year to October 2013-17</p>	
Trade and exports	<p>The UK's trade deficit (the difference between exports and imports) narrowed by £2.7 billion to £5.0 billion in the three months to October 2017, due largely to a narrowing of the deficit with non-EU countries on the trade in goods.</p> <p>Retail sales in the UK grew by 1.1% in November compared to the previous month, boosted by Black Friday sales. The underlying trend also remains positive, with sales volumes up 0.8% in the past three months.</p>	<p>UK balance of trade - 2007-17</p>		Trade	<p>Yorkshire & Humber companies exported goods worth £4.2bn in Q3 2017, a slight decline from the £4.2bn averaged in the first half of 2017, but around 11% higher than in Q3 2016.</p> <p>Goods exports from the region so far this year are around 15% higher than the same period in 2016. This is similar to national performance but is stronger growth than the other northern regions North East (8%) and North West (6%).</p>	<p>Export of goods - Yorkshire & Humber and UK, 2013-17</p>	
Labour market	<p>The number of people in work in the UK fell by 56,000 in the three months to October, compared to the previous three months. The employment rate has dipped from 75.3% to 75.1%. There are however 325,000 more people in work than a year ago. The number of people unemployed fell by 26,000.</p> <p>Inflation in the UK increased to 3.1% in November, its highest level in almost 6 years. There has been a slight upturn in wage growth, with average weekly pay up by 2.3% in October, though wages are still falling in real terms.</p>	<p>UK employment growth 2008-17</p>		Labour market	<p>The number of people employed in Yorkshire & Humber in the three months to October is 37,000 lower than the preceding three months. Most regions of the UK have seen headline levels of employment fall over the past quarter. The employment rate is 72.6%, down from 73.3% a year ago.</p> <p>The number of people unemployed has increased by around 6,000 over the past three months, taking the unemployment rate up to 5% from 4.9% (though it remains below the 5.4% seen a year ago).</p>	<p>Employment and unemployment rate - UK regions, October 2017</p>	
Forecasts/prospects	<p>The latest analysis from the OECD confirms that global growth is strengthening, with monetary policy continuing to support the upturn. Private investment remains modest, however, and inflation and wage growth are subdued.</p> <p>The OECD forecast global growth with rise from 3.1% in 2016 to 3.6% in 2017% and 3.7% in 2018. They forecast UK growth to fall from 1.8%, to 1.5% then 1.2% over the same period.</p>	<p>Global growth - actual and forecast, 2016-19</p>		Other indicators	<p>The average price paid for a house in Yorkshire & Humber increased by 3.3% between October 2016 and October 2017 to an average of £155,300. However, it has dipped slightly from £157,700 in August. UK prices have increased by 4.5% this year to an average of £223,800.</p> <p>Craven and Harrogate have both seen prices increase by 7% over the past year, whilst prices in Calderdale are 1% lower than in October 2016.</p>	<p>Annual house price growth - LCR districts, year to October 2014-2017</p>	
Summary	<p>The UK economy has remained more robust than many analysts had anticipated through 2017, though it still seems that growth will have dipped from 2016 levels, whilst most other major economies have seen growth accelerate this year. National and regional labour market data suggests that employment may have peaked, though it remains close to its recent high and remains strong by historic standards. Companies in Yorkshire say they are still looking to expand their headcount, and vacancy rates suggest that workers with the right skills remain hard to come by. This demand for labour could push up wages in the new year which, combined with an anticipated fall back in inflation, could ease some of the pressure on living in 2018.</p>						