

## ECONOMIC UPDATE: LEEDS CITY REGION, MARCH 2018

### Key points at glance

*This report presents the latest assessment of the Leeds City Region economy. It sets out the recent developments in the world's leading economies, along with trends and forecasts for global growth. It analyses the recent economic performance of the UK, before considering in more detail the latest developments in Leeds City Region.*

#### National and international headlines

- There was a **broad based upturn in global growth in 2017**, with the IMF estimating total output increased by 3.7%, up from 3.2% in 2016, contributing to the broadest upturn since 2010.
- The **IMF expect this momentum to continue to strengthen** over the next two years. However, higher inflation, the removal of quantitative easing and ultra-low interest rates could pose risks to this momentum if not handled carefully.
- **UK GDP maintained the growth rate seen in Q3** in the final quarter of 2017. The UK economy grew by 1.7% across 2017 as a whole, down slightly on the 1.9% growth recorded in 2016 and lowest among G7 nations.
- The **number of people in work in the UK increased** by 88,000 in Q4 2017, though **unemployment also increased** over the same period, resulting in the first rise in the unemployment rate in almost two years. Employment rates remain high by historic standards, however.
- **Inflation held steady at 3% in January**. Whilst average weekly earnings growth picked up slightly to 2.5% in the three months to December, **wages continue to lag behind inflation**.

#### Key City Region and local developments

- **Businesses in Leeds City Region ended 2017 in relatively confident mood**, with expectations of profitability increasing among manufacturers. Confidence on this measure dipped among service sector firms in Q4, but remains above the level seen at the start of the year and is now similar to manufacturing.
- The **number of Leeds City Region residents in work has remained relatively stable** in the first three quarters of 2017. There are around 11,500 more people in work as of September 2017 than there were in September 2016.
- **The Leeds City Region unemployment rate dropped from 4.8% in Q2 to 4.6% in Q3**, taking it back to the joint-lowest level seen since 2005. The unemployment rate is now in line with the rate for the UK as a whole.
- The pace of export growth slowed in both services and manufacturing in Q4 2017, according to the QES with the Chambers of Commerce in Leeds City Region. Nonetheless, export activity remains high by recent standards.
- The value of goods exported from the Yorkshire & Humber fell by 2.9% in Q2, similar to the 2.2% fall seen nationally. **The value of goods exports from the region is 11% higher than in Q3 2016**.
- House prices in Yorkshire & Humber grew by 2.8% between December 2016 and December 2017, a slower pace of growth than the 5.2% seen across the UK as a whole.
- **Office market fundamentals in West Yorkshire remain relatively strong**, according to the latest analysis from real estate information company CoStar.

#### Key conclusions and outlook

- **2017 has been a strong year for the global economy**, with most major economies seeing an acceleration in growth from the previous year. This has helped the sense that the world economy is on its surest footing since the crash of a decade ago, with expectations that growth will be sustained in 2018.
- **The UK economic picture remains very mixed**. Whilst GDP growth held up better than many expected last year, it did fall from 1.7% to 1.9% in 2016. Growth in the UK was lower than in any other G7 nation last year.
- Whilst **employment in the UK remains at historically high levels, there are signs that the peak may have been reached** with the unemployment rate ticking up, albeit very slightly, for the first time in almost two years.
- **These same trends are also evident in Leeds City Region**. Businesses responding to the Chambers of Commerce Quarterly Economic Survey have reported an increase in export activity since the EU referendum in June 2016 though there are suggestions that this may have peaked in late 2017. The same is true to an extent with regard to employment growth, with data suggesting recent gains may be tailing off.
- Despite some challenges, there remain some undoubted positives for the City Region. **Business confidence remains high according to the QES**, which when combined with other survey data supports the view that businesses in our region retain a positive outlook for 2018.

*These issues are explored in greater detail in the remainder of this document.*

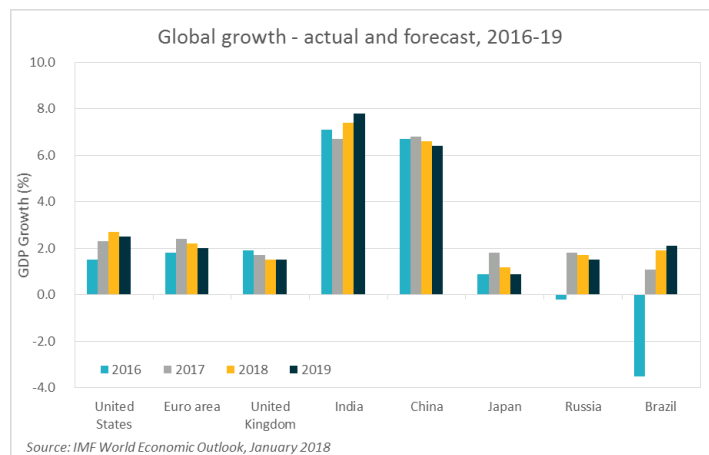
## ECONOMIC UPDATE: LEEDS CITY REGION, MARCH 2018

### Introduction

- This report presents the latest assessment of the Leeds City Region economy. It sets out the recent developments in the world's leading economies, along with trends and forecasts for global growth. It analyses the recent economic performance of the UK, before considering in more detail the latest developments in Leeds City Region.
- New data available includes updated global economic forecasts from the IMF, whilst new official UK data is available on GDP and the labour market for Q4 2017. There is also new official data on trade, inflation and consumer spending.
- For Leeds City Region, the headline results from the Quarterly Economic Survey with the Chambers of Commerce for Leeds City Region for Q4 2017 are presented. New data on the performance of the City Region labour market for Q3 2017 and regional goods exports data from HMRC for the same period. Data from Banksearch on the number of new business bank accounts for the City Region through to the end of 2017 is also available.

### Global context and forecasts

- There was a broad based upturn in global growth in 2017, with the IMF estimating total output increased by 3.7%, up from 3.2% in 2016. With 120 countries accounting for 75% of global output seeing growth pick up, this represents the broadest upturn since 2010.
- The IMF expect this momentum to continue to strengthen, forecasting growth of 3.9% in both 2018 and 2019. Recent tax reforms in the US are expected to strengthen demand in America and its main trading partners, in the near term at least. Favourable global conditions have also led to upward revisions to the outlook of major European economies and Japan.



- However, a tightening of financial conditions, perhaps driven by increased inflation and resultant higher interest rates, could dampen confidence and growth and increase risks in emerging markets.
- The Eurozone posted growth of 0.6% in the final quarter of 2017, down slightly from the 0.7% seen in the preceding two quarters. The single currency area economy expanded by 2.7% across the calendar year as a whole – its fastest pace of growth since the financial crisis.
- The US also saw the economy expand by 0.6% in Q4, driven by consumer spending. Whilst this was slightly below expectations, it contributed to growth in the world's largest economy of 2.3% in 2017.
- China, the world's second largest economy exceeded expectations in 2017, expanding by 6.9% across the year as a whole, ahead of a target of 6.5%. Growth was up from 6.7% in 2016, representing the first annual acceleration for the economy since 2010.
- Oil prices have continued to rise of late, driven by increasing global demand, OPEC's cut in production and weather and geopolitical events. Prices are around \$65 a barrel, 25% higher than in summer 2017. With demand expected to be sustained in the near future, this will be welcomed by commodity producing nations who are dependent on exporting such resources.

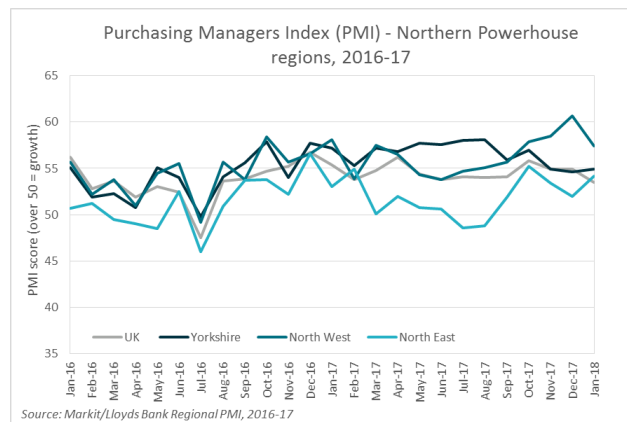
**Global economy summary:** 2017 saw a broad upturn in growth across developed and developing nations, cementing the recovery which has until now been relatively patchy. With momentum building, increased demand has led to upward pressure on prices and consequent concerns about inflation have caused some nervousness among markets of late. Whilst 2018 is expected to see a continuation of recent positive trends, the risks of higher inflation and low productivity remain, as does the uncertainty around the timings and implications of normalising monetary policy.

**UK economic performance**

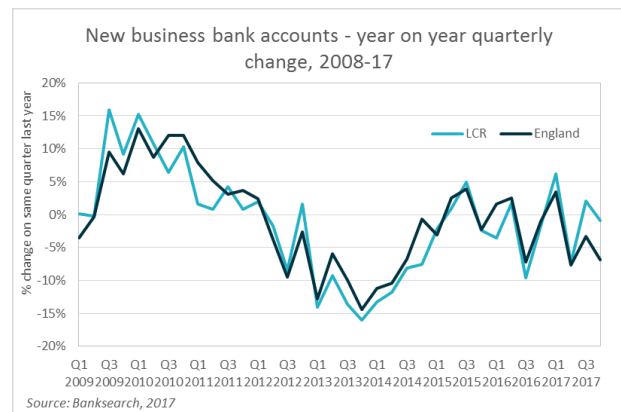
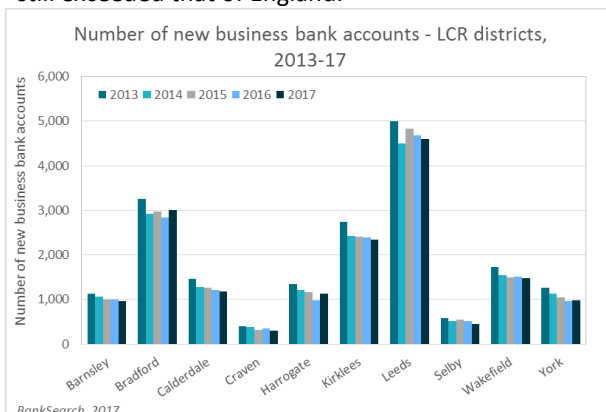
Indicator	Latest position	Chart	Trend
<b>Economic headlines</b>	<p>UK GDP increased by 0.4% in the final quarter of 2016, maintaining the growth rate seen in Q3. The UK economy grew by 1.7% across 2017 as a whole, down slightly on the 1.9% growth recorded in 2016 and lower than in other G7 nations.</p> <p>Manufacturing output increased by 1.3% in Q4, with service sector output up 0.6%. This growth was partially offset by a fall in oil production and a third consecutive quarterly decline for construction.</p>	<p>UK GDP growth - 2007-17</p> <p>Source: Office for National Statistics, 2018</p>	
<b>Confidence and sentiment</b>	<p>The pace of expansion slowed across the UK service, manufacturing and construction sectors at the start of 2018, according to the Markit/CIPS PMIs for January.</p> <p>Whilst all sectors continued to expand, service sector output increased at its slowest pace since September 2016, whilst manufacturing recorded its slowest growth since June 2017. Whilst the service sector reported an easing of price pressures, the opposite was true among manufacturers.</p>	<p>Purchasing Managers Index (PMI) by sector, 2016-18</p> <p>Source: Markit/CIPS PMIs, 2016-18</p>	
<b>Labour market</b>	<p>The number of people in work in the UK increased by 88,000 in Q4 2017, though there was a month on month dip in total employment in December. The employment rate stands at 75.2%, close to the joint-highest on record first reached in July 2017 and high by historic UK standards.</p> <p>Unemployment also increased over the same period, increasing by 46,000 to 1.47 million. That took the unemployment rate from 4.3% to 4.4% - the first time the rate has increased in almost two years though it remains low by historic standards.</p>	<p>UK employment growth 2008-17</p> <p>Source: Office for National Statistics, 2017</p>	
<b>Trade and exports</b>	<p>The volume of retail sales was broadly flat in the three months to the end of January, compared to the preceding three months, with sales growing at their slowest pace in 9 months.</p> <p>The UK's trade deficit (the difference between exports and imports) increased to £10.8bn in the three months to December. Exports to the EU decreased, whilst imports from non-EU nations increased. Declining fuel exports also contributed.</p>	<p>UK balance of trade - 2007-17</p> <p>Source: UK Trade, ONS 2018</p>	
<b>Inflation and wages</b>	<p>Inflation held steady at 3% in January. Transport costs, particularly fuel, and food and drink saw slight falls in prices from December, but this was offset by upwards contributions from recreational activities.</p> <p>Average weekly earnings increased by 2.5% in the three months to December compared to a year earlier, picking up from 2.4% in November. Whilst wages continue to lag behind inflation, Bank of England surveys suggest companies expect wage growth to pick up in 2018.</p>	<p>Wage growth and inflation, 2008-18</p> <p>Source: Office for National Statistics, 2018</p>	
<p><b>UK economy summary:</b> Economic growth in the UK maintained its recent trajectory in Q4, though the pace of growth was down in 2017 as a whole and below that of other major economies. December also saw a hint that employment may have peaked, though the labour market remains strong in historical terms. The recent strengthening of the pound may have led to a tailing off in export growth, though equally it may contribute to subduing inflation.</p>			

## Leeds City Region – Business Performance and Confidence

- Manufacturers in Leeds City Region ended 2017 in relatively confident mood, with the proportion expecting profits to increase in the year ahead increasing back to pre-referendum levels with a net balance of +37% on the Quarterly Economic Survey with the Chambers of Commerce for Q4 2017. Confidence on this measure dipped among service sector firms in Q4, but remains above the level seen at the start of the year and is now similar to manufacturing.
- The service sector continues to report increases in domestic sales, with the net balance back to its highest point in two years. Forward orders also continue to grow for their fourth consecutive quarter. Whilst manufacturers also continue to report growing domestic activity, the pace of growth slowed a little over the last quarter.
- Capital investment slowed in Q4 among both service sector firms and manufacturers. A net balance of 20% of manufacturers said investment increased, in line with its long run average after a spike in Q3. The net balance among the service sector was 18%, declining from 23% a year earlier.
- Business activity in Yorkshire & Humber expanded in January 2018 according to the IHS Markit Regional PMI. The region's PMI Business Activity Index ticked up from 54.6 to 54.9 between January and December (a reading above 50 indicates growth). The region's index was third highest among English regions.



- There were 3,800 new business bank accounts opened in Leeds City Region in Q4 2017. This figure is largely unchanged from the same period in 2016, down just 0.9%. The number of new accounts opened across England declined by 6.8% over the same period.
- Across 2017 as a whole, 16,450 new accounts were opened, an almost identical number to 2016. Again, this represents stronger performance than for England, where the number of new accounts fell by 3.6% over the year. Leeds City Region's growth rate in 2017 represented the 5<sup>th</sup> strongest performance out of 38 LEPs. The number of new accounts is however down slightly from the 17,000 averaged in 2014 and 2015, and substantially lower than the 22,000 seen in 2011 and 2012. This trajectory is very similar to England as a whole.
- At district level, Harrogate (+14%), Bradford (+5.5%) and York (+1.7%) saw an increase in the number of new accounts opened last year compared to 2016. Whilst other districts saw small declines, in most cases performance still exceeded that of England.

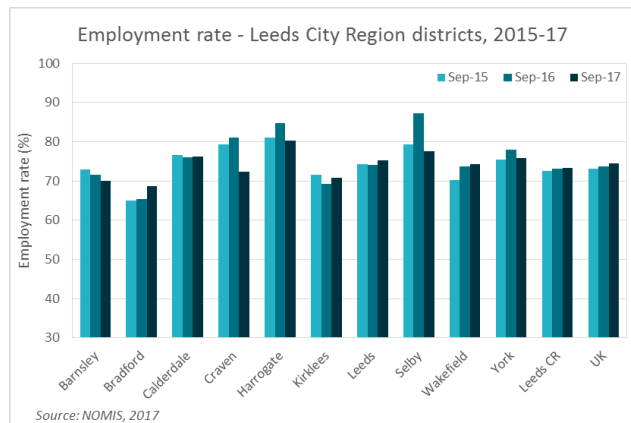
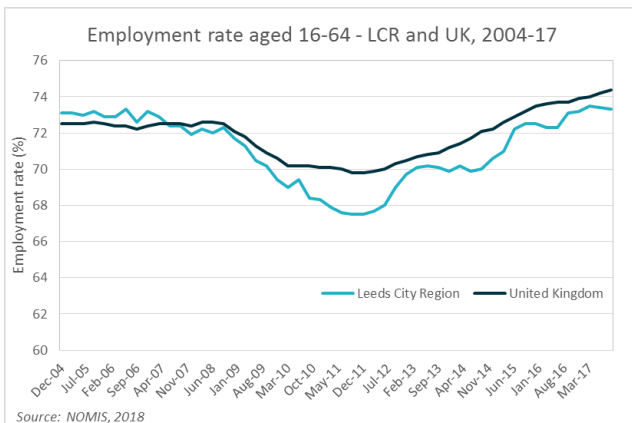


**Summary:** The Quarterly Economic Survey with the Chambers of Commerce found businesses in Leeds City Region more confident about their performance and prospects than they were at the start of it. There remain concerns about price pressures, but levels of business activity in the region have remained solid when compared to other areas of the country of late.

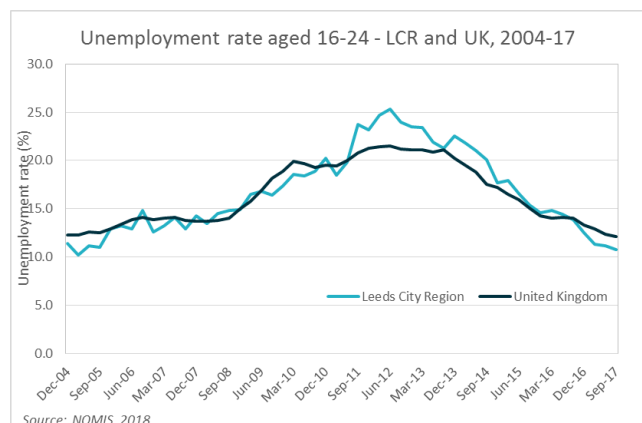
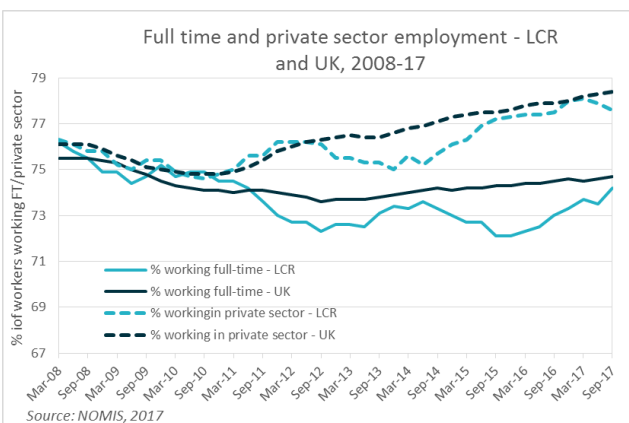


## Leeds City Region – Labour Market

- The number of Leeds City Region residents in work has remained relatively stable in the first three quarters of 2017 at around 1.405 million. There are around 11,500 more people in work as of September 2017 than there were in September 2016, an increase of 0.8%. This growth rate is the same as that seen in the other northern core city LEP areas in Sheffield and the North East, but below the 2% growth seen in Liverpool City Region and Greater Manchester.
- Within the City Region, Bradford (+5.5%), Kirklees (+3.3%) and Leeds (2.4%) saw the strongest growth in residents in employment over the past year. Most North Yorkshire districts saw falls in job numbers since Q3 2016, though these numbers are sample-based and can fluctuate, particularly for smaller geographies.
- The employment rate for Leeds City Region has dipped to 73.3%, falling by 0.1 percentage points in each of the last two quarters. It remains above the 73.1% recorded a year earlier, and the employment rate is above the national average of 74.4% in most North Yorkshire districts in the City Region, as well as in Leeds and Calderdale.



- Total unemployment remained unchanged at 71,000 between Q2 and Q3, though there are 7,000 fewer unemployed people in the City Region than there were a year ago. The unemployment rate dropped from 4.8% in Q2 to 4.6% in Q3, taking it back to the joint-lowest level seen since 2005. The unemployment rate is now in line with the rate for the UK as a whole.
- The employment rate among 16-24 year olds has dropped to 52.1% in Q3, down from 52.6% in Q2 and almost 54% in Q3 2016. However, the unemployment rate for this age group also continues to fall. 10.8% of 16-24 year olds are presently unemployed in Leeds City Region, down from 13.9% a year ago. The unemployment rate for 16-24 year olds in the UK presently stands 12.1%.



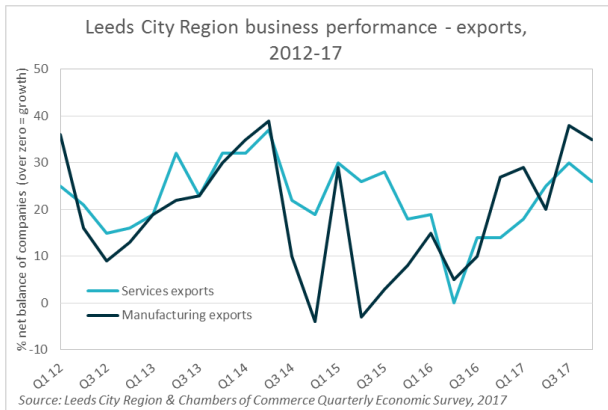
- The proportion of Leeds City Region residents employed in full-time positions increased to 74.2% in September, up from 73% a year earlier. Whilst this remains a little below the 74.7% seen nationally, it represents the highest level on this measure in the City Region since June 2011.
- Private sector employment accounted for 77.6% of residents' work in the City Region in Q3 2017, down from 77.9% in Q2 but in line with the same period last year.

**Summary:** The employment picture has been relatively static in Leeds City Region through the first three quarters of 2017, with the number of people in work relatively unchanged. Unemployment has been held in check too however, whilst the proportion working full-time has increased.

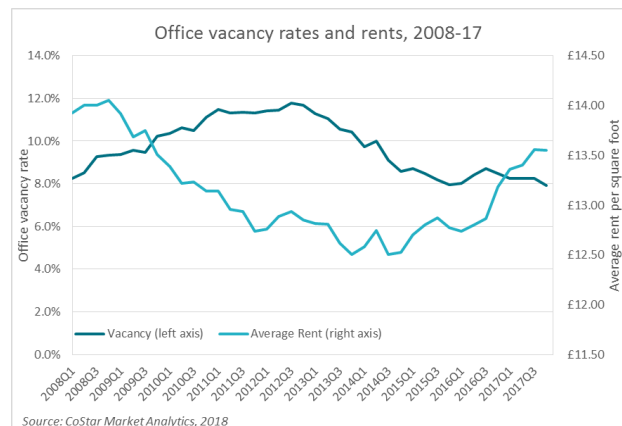
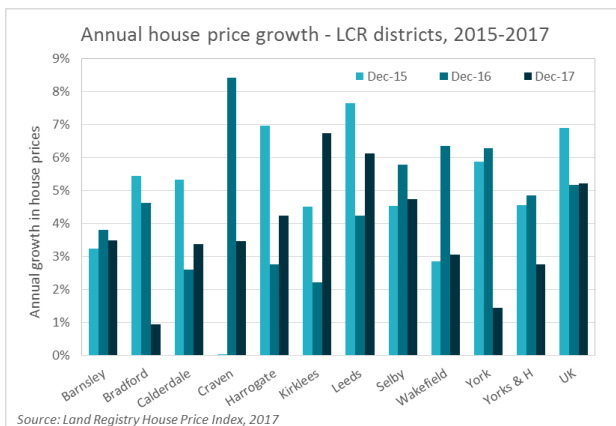


## Leeds City Region – Trade, exports and investment

- The pace of export growth slowed in both services and manufacturing in Q4 2017, according to the QES with the Chambers of Commerce in Leeds City Region. Nonetheless, export activity remains high by recent standards.
- The export sales net balance among manufacturers fell by 2 points to 35% in Q4, though it remains close to the three year high recorded in Q3. Similarly, although the service sector net balance declined by 4 points between Q3 and Q4 it is still at a level not seen since mid-2015.



- The value of goods exported from the Yorkshire & Region totalled just over £4bn in Q3 2017, according to data from HMRC. This represents a fall of 2.9% on Q2, similar to the 2.2% fall seen nationally. The value of goods exports from the region is 11% higher than in Q3 2016.
- There was a 4.1% decline in the value of goods exported from Yorkshire & Humber to the European Union in Q3. Despite this dip, exports to the EU are still up substantially in the year to date compared to the preceding two years, and the EU still accounted for £2.3bn (57%) of exports from the region in Q3.
- This decline in exports to the region's largest market in Q3 was partially offset by increases in exports to the three next largest markets of North America (up 1.3% on Q2), Asia & Oceania (+6%) and Middle East & North Africa (+0.9%).



- House prices in Yorkshire & Humber grew by 2.8% between December 2016 and December 2017, a slower pace of growth than the 5.2% seen across the UK as a whole. All districts of Leeds City Region saw house prices increase in 2017, albeit to varying degrees. Both Kirkstiles (+6.7%) and Leeds (+6.1%) saw prices increase faster than the national average, whilst growth was lowest in Bradford (+0.9%) and York (+1.4%).
- Office market fundamentals in West Yorkshire remain relatively strong, according to the latest analysis from real estate information company CoStar. The five prime office buildings delivered in 2016 have been met with healthy demand, leading to a fall in the vacancy rate over 2017. Robust occupier demand, particularly for good quality refurbished stock and flexible co-working space, has helped to boost average rents.

**Summary:** Export activity has remained robust through Q3 2017 according to data from HMRC, whilst the survey data from the Chambers of Commerce suggests that this trend has continued through to the end of the year. Trade with all of the region's key export markets has increased so far this year.



## Conclusions and outlook

- 2017 has been a strong year for the global economy, with most major economies seeing an acceleration in growth from the previous year. This has helped the sense that the world economy is on its surest footing since the crash of a decade ago, and this broad-based cyclical upturn has led to expectations that growth will be sustained in 2018.
- This upturn brings its own risks, with concerns remaining about the approach that central banks will take towards normalising monetary policy. Rising demand driven by the stronger economy has led to concerns focusing on the risk of higher inflation, which could force interest rates to rise and quantitative easing to be unwound more quickly than had been anticipated.
- The UK economic picture remains very mixed. Whilst GDP growth remained at a reasonable 0.4% in Q4, growth across 2017 as a whole fell from 1.9% to 1.7% when compared to 2016. Whilst this is substantially higher than many post-referendum forecasts anticipated, it still represents a slowdown from the previous year at a time when other major economies have seen growth accelerate. Whilst growth in the UK outpaced both the Eurozone and the US in 2016, both of those economies substantially outperformed the UK last year, with growth of 2.4% and 2.3% respectively. Indeed, growth in the UK was lower than in any other G7 nation last year.
- Indications from surveys such as the Markit/CIPS PMIs have suggested that the economy has continued to cool a little at the start of 2017, although manufacturing remains a relatively strong performer driven by overseas demand boosted by the weaker pound. Sterling has recovered somewhat of late, however, particularly against the dollar. Whilst this may help to explain a tailing off in export growth levels of overseas trade remain higher than in 2016, and these recent exchange rate moves could equally prove beneficial by keeping inflation, still running well above the government's 2% target, in check.
- Employment in the UK also remains at historically high levels, though again there are signs that the peak may have been reached with the unemployment rate ticking up, albeit very slightly, for the first time in almost two years. There has for some time been an expectation that with employment levels so high, wage growth would soon have to pick up as the bargaining power of workers increased. Should the recent sign of a downturn in employment persist and develop into something more substantial, this may subdue the anticipated acceleration of wage growth.
- Data suggests that the UK trends reported above are also evident in Leeds City Region. Businesses responding to the Chambers of Commerce Quarterly Economic Survey have reported an increase in export activity since the EU referendum in June 2016, and among manufacturers in particular that has helped to boost confidence. Both the QES and the official data on goods exports from HMRC suggest that growth in export activity may have levelled off in late 2017, but still remains a positive picture.
- The same is true to an extent with regard to employment. There has been a 0.8% increase in the number of City Region residents in work in the year to Q3 2017, similar albeit slightly lower than the 1.2% increase seen nationally. Whilst this suggests that the recent strong growth in employment may have peaked, it also means that there remains a gap between the local employment rate, where 73.3% of people are in work, and the national rate of 74.4%.
- Despite some challenges, there remain some undoubted positives for the City Region. Business confidence remains high according to the QES, whilst the IHS Markit regional survey found that business activity continues to expand at among the fastest rates among UK regions. Combined with data from BankSearch showing that the City Region was among the top performing LEP areas in terms of new business bank accounts opened in 2017, this supports the view that businesses in our region retain a positive outlook for 2018.

*This briefing has been produced by the West Yorkshire Combined Authority Research & Intelligence team. Any comments or queries can be addressed to [research@westyorks-ca.gov.uk](mailto:research@westyorks-ca.gov.uk)*