West Yorkshire Combined Authority

LEEDS CITY REGION ENTERPRISE PARTNERSHIP

ECONOMIC UPDATE: LEEDS CITY REGION, JUNE 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

- Global economic conditions remain relatively favourable. Accommodative financial conditions and higher levels of investment in advanced economies, combined with stronger trade is helping to sustain recent momentum.
- GDP in the Eurozone increased by 0.4% in Q1 2018, whilst the US economy expanded by 0.6%. Both saw growth slow from 0.7% in Q1.
- UK GDP growth fell to 0.1% in the first quarter of 2018, down from 0.4% in Q4 2017 to its lowest level since 2012. Adverse weather conditions were a relatively small contributory factor.
- UK productivity increased by 0.7% in Q4 2017, the 2nd consecutive quarter of growth. Despite this, productivity remains 19.6% lower than if it had followed its pre-downturn trend.
- Employment in the UK continues to increase, with the employment rate at a record high of 75.6%.
- Average earnings increased by 2.9% in the three months to February, whilst inflation fell to 2.5% in March. Earnings are now growing faster than inflation.
- The Bank of England have revised down their growth forecasts for the UK economy in light of a sluggish start to the year. They now expect growth of 1.4% this year, down from 1.8% in their previous forecast.

Key City Region and local developments

- Confidence remained high among City Region businesses at the start of 2018, with increasing expectations of profitability and turnover growth among both service sector and manufacturing firms.
- Business activity in Yorkshire & Humber expanded at a faster pace than in other UK regions in April, rebounding from a slowdown in March.
- There was a 10% drop in new business bank accounts opened in Leeds City Region in Q1 2018, compared to a 13.8% drop nationally.
- Total employment in Leeds City Region increased by 6,000 (0.4%) between Q3 and Q 42017, and by 13,000 (0.9%) over 2017 as a whole.
- Over the course of 2017, goods exports from the Yorkshire & Humber region totalled £16.8bn, up 13.6% on 2016 and slightly outpacing UK growth of 13.3%.
- House prices in West Yorkshire increased by 4.6% in the year to February 2018, with prices nationally increasing by 4.4%. In absolute terms, prices remain highest and above the national average in Harrogate and York.
- In commercial property, average rents in West Yorkshire have increased moderately since 2015 to £13.70/SF in Q1 2018. This remains competitive against the UK average of £27/SF.

Key conclusions and outlook

- Recent momentum in the global economy has largely been sustained, with solid growth in Europe and the US in Q1 2018, albeit at a slightly reduced pace from the end of 2017. The IMF expects this momentum to continue in the near term, though there remain some substantial geopolitical risks to growth and stability.
- In contrast to other major economies, the UK has experienced a marked slowdown at the start of 2018, according to official data. Retail sales and consumer spending more broadly has slowed, though falling inflation and stronger wage growth could provide more spare capacity for consumers.
- Nonetheless, recent export performance has been positive particularly for Yorkshire & Humber businesses who have seen goods exports reach record levels in 2017. The fact that growth has been strongest in key target markets such as Asia and the Middle East is also positive.
- It is notable that, although the UK context looks less positive at the start of 2018, Leeds City Region and Yorkshire & Humber businesses remain more upbeat and appear to be expanding and recruiting accordingly in spite of any concerns over Brexit. There are a number or reasons why this could be the case, including the lag between publication of national and regional data, and the possibility that survey responses are inherently more positive than hard data.

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

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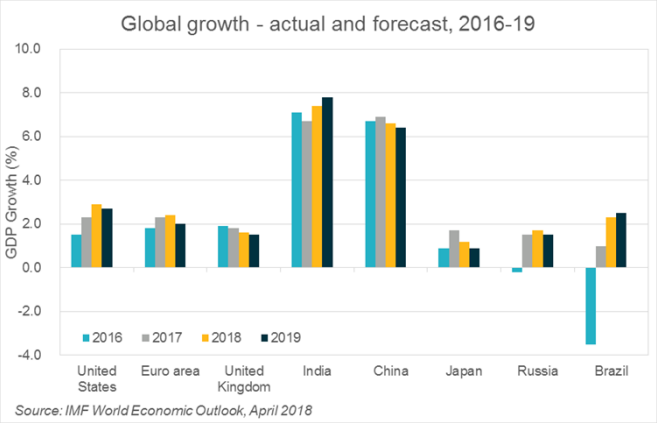
Introduction

- 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 for Q1 2018 and the labour market up to February 2018. There is also new official data on trade, inflation and consumer spending.
- For Leeds City Region, the headline results are included from the Quarterly Economic Survey with the Chambers of Commerce for Leeds City Region for Q1 2018. Data on the performance of the City Region labour market for Q4 2017 and regional goods exports data from HMRC for the same period are also presented along with data from Banksearch on the number of new business bank accounts for Q1 2018.

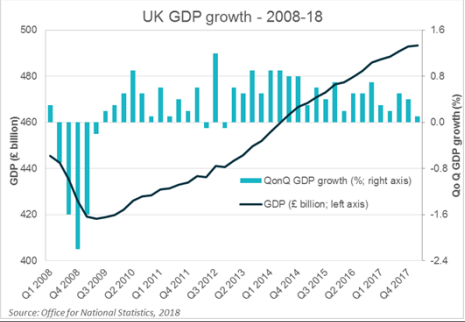
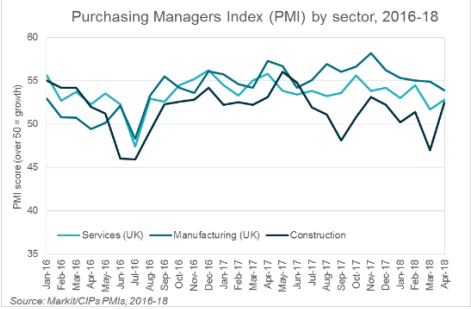
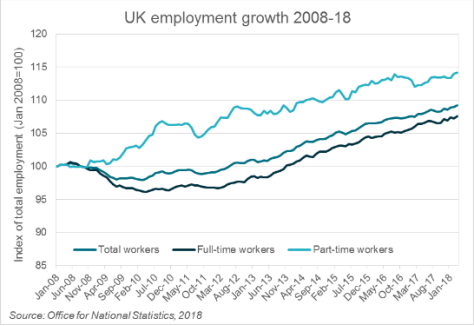
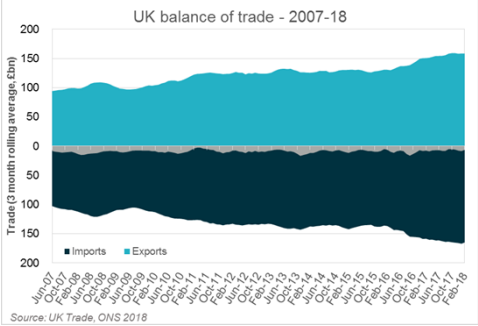
Global context and forecasts



- Global economic conditions remain relatively favourable. Accommodative financial conditions and higher levels of investment in advanced economies, combined with stronger trade benefiting both emerging exporting nations and commodity producers, is helping to sustain recent momentum.
- GDP in the Eurozone increased by 0.4% in Q1 2018, down from 0.7% in Q4 2017. A range of short-term factors such as weather and industrial action contributed to the slowdown, as did weaker export growth.
- The US economy expanded by 0.6% in Q1 2018, a slight slowdown from growth of 0.7% at the end of 2017 with weaker consumer spending growth a contributing factor. The unemployment rate in America has also fallen below 4% for the first time since 2000.
- China reported economic expansion of 6.8% in the first quarter of 2018, matching the growth rate from the preceding two quarters.
- The recent US decision to re-impose sanctions on Iran has seen oil prices rise above $75 a barrel, their highest level since 2014. The move is also expected to have an impact on European companies trading with Iran. Oil prices had already reached post-2015 highs, whilst other commodities including gas, metals and crops have also been increasing in price.
- Whilst concerns persist over the potential impact a trade war despite face to face talks between the US and China, markets have remained relatively calm. The FTSE100 has seen gains for six consecutive weeks, with both that index and the FTSE250 rising back to levels last seen in January.
- According to the latest forecasts from the International Monetary Fund (IMF), global growth is expected to strengthen slightly, from 3.8% in 2017 to 3.8% in both 2018 and 2019. A more favourable outlook for advanced economies, aided by the short-term impact of tax changes in America, contributes to this. Growth in advanced economies is now forecast to reach 2.5% in 2018 (up from 2% in the IMF's October forecast) and 2.2% in 2019 (up from 1.8%).
- The Bank of England have revised down their growth forecasts for the UK economy in light of a sluggish start to the year. They now expect growth of 1.4% this year, down from 1.8% in their previous forecast. Forecasts for 2019 and 2020 have also been revised down, by 0.1% to 1.7%.

Global economy summary: Recent momentum in the global economy has largely been sustained, though there has been a tapering of growth in major economies. The near-term outlook remains largely positive, though geopolitical tensions around Iran have caused a spike in oil prices, and the threat of a developing trade war poses a risk to the outlook.

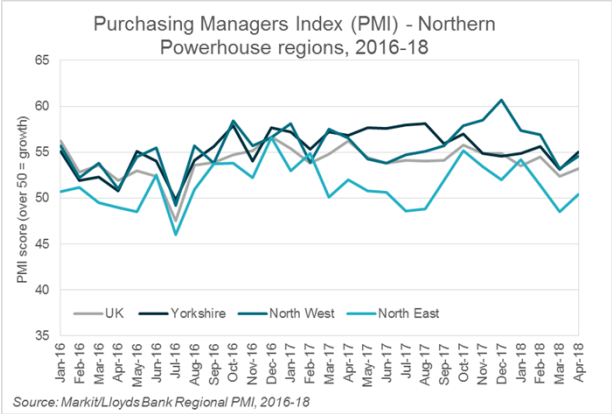
UK economic performance

Indicator	Latest position	Chart	Trend
Economic headlines	UK GDP growth fell to 0.1% in the first quarter of 2018, down from 0.4% in Q4 2017 to its lowest level since 2012. Service sector output increased by 0.3% and manufacturing growth slowed to 0.2%. This was offset by a decline in construction output, which fell by 3.3%. UK productivity increased by 0.7% in Q4 2017, the 2nd consecutive quarter of growth. Despite this, productivity remains 19.6% lower than if it had followed its pre-downturn trend.		
Confidence and sentiment	All of the manufacturing, construction and service sectors expanded in April according to Markit/CIPS PMI surveys, though the rate of growth was modest across the board. Construction rebounded following a weather-induced downturn in March, whilst the pace of growth in the service sector was inhibited by consumers' reticence to spend. Weaker growth in overseas orders contributed to slowing manufacturing growth.		
Labour market	Total employment in the UK increased by 197,000 to 32.34 million in the three months to March 2018, according to ONS. 396,000 more people are in work than a year ago. The employment rate of 75.6% is the highest on record. Unemployment fell in the three months to March, down 46,000 to 1.42 million. The unemployment rate of 4.2% is down from 4.6% a year ago.		
Trade and exports	The volume of retail sales fell by 0.5% in Q1 2018, compared to Q4 2017. March's snow was a factor, with petrol sales down 7.4%. With fuel excluded, sales volumes were largely flat. The UK's trade deficit stood at £6.4bn in the three months to February 2018, up £0.4bn on the preceding three months. The surplus in services narrowed by £0.3 billion whilst the deficit in goods widened by £0.1 billion. Trade of goods to and from the EU increased, whilst trade to and from non-EU countries decreased.		
Inflation and wages	Inflation fell to 2.5% in March, down from 2.7% in February and 3% in January. Clothing, alcohol and tobacco made the greatest contributions to lowering inflation, whilst transport and recreation costs increased. Average earnings increased by 2.9% in the three months to March compared to a year ago, picking up from 2.5% in the preceding three months. Stronger wage growth and falling inflation mean that average pay increased by 0.4% in real terms in March.		

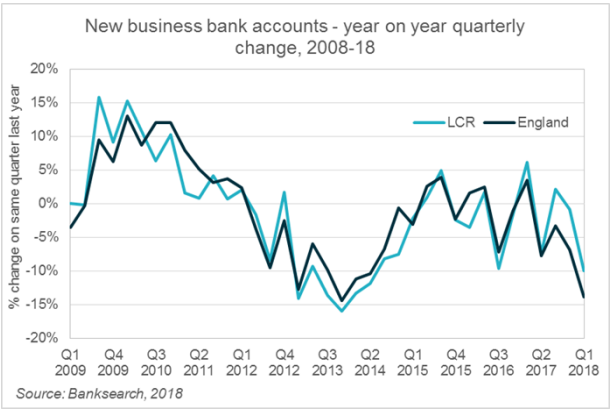
UK economy summary: There were clear signs of a slowdown in the UK economy at the start of 2018. Whilst March's cold snap contributed to this, both consumer confidence and weaker export growth were also factors. There are however signs of a modest recovery at the start of Q2 whilst the strong labour market, growing wages and moderating inflation remain positives.

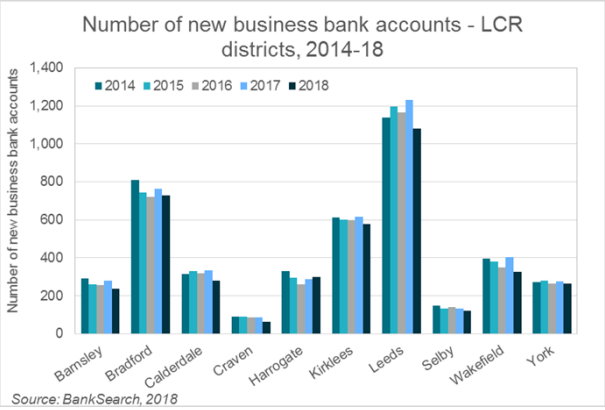
Leeds City Region – Business Performance and Confidence

- Confidence remained high among City Region businesses at the start of 2018, with increasing expectations of profitability and turnover growth. This was particularly true among the service sector, where the proportion expecting their profitability to increase rose from 38% to 59%. The upturn on this measure was more modest among manufacturers but still positive, increasing from 39% to 40%
- Both sectors reported increased domestic sales between Q4 2017 and Q1 2018, with net balance increasing by 3% to 36% for services and by 4% to 21% for manufacturers.
- There was also a strong upturn in the proportion of firms reporting increased capital investment this quarter. A net balance of 33% of manufacturers and 29% of service sector companies reported increased investment, in both cases the highest levels for over five years.
- Business activity in Yorkshire & Humber expanded at a faster pace than in other UK regions in April according to the IHS Markit England & Wales Regional PMI, rebounding from a slowdown in March. The region recorded a PMI of 55 in April, up from 53.1 in March (a PMI over 50 indicates growth). The survey also found businesses in our region reporting the highest levels of optimism, and the 2nd highest levels of job creation.



- Almost 4,000 new business bank accounts were opened in Leeds City Region in Q1 2018 according to BankSearch. This represents a 10% fall from the 4,400 recorded in Q1 2017 and the lowest number for the first quarter of a year since data collection began in 2008.
- The fall in activity on this measure was less sharp than that recorded across England as a whole, with the number of new accounts opened nationally down 13.8%. Leeds City Region is ranked 12th out of 38 LEPs so far this year.



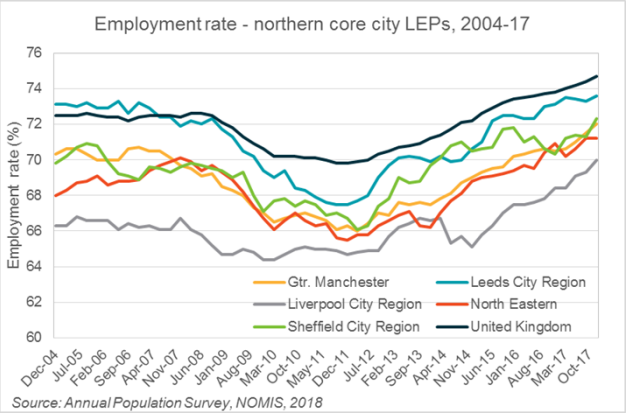


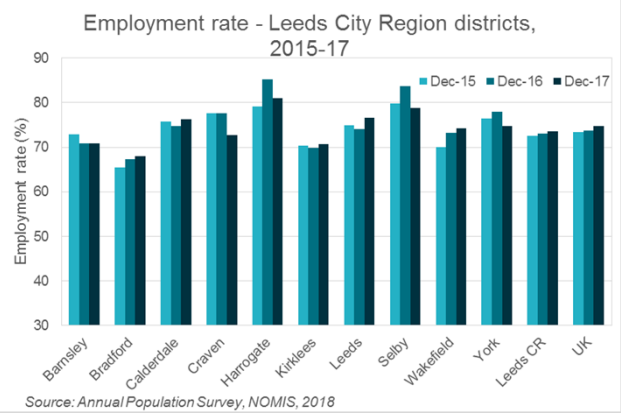
- Harrogate was the only district of Leeds City Region where the number of new accounts opened increased in Q1 2018, compared to the same period last year. A number of other districts saw falls in activity below the national average, including York, Bradford and Kirklees.

Summary: Respondents to the Chambers of Commerce QES and the Markit PMI surveys found businesses in our region upbeat about their current performance and near-term outlook. Data on new business activity is less positive, with signs of fewer start-ups at the beginning of 2018 compared to this time last year.

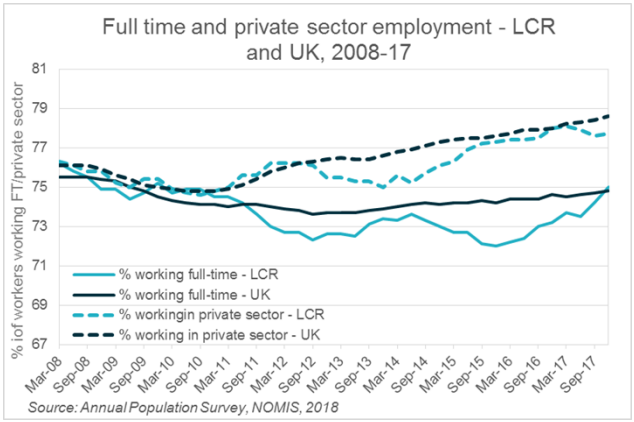
Leeds City Region – Labour Market

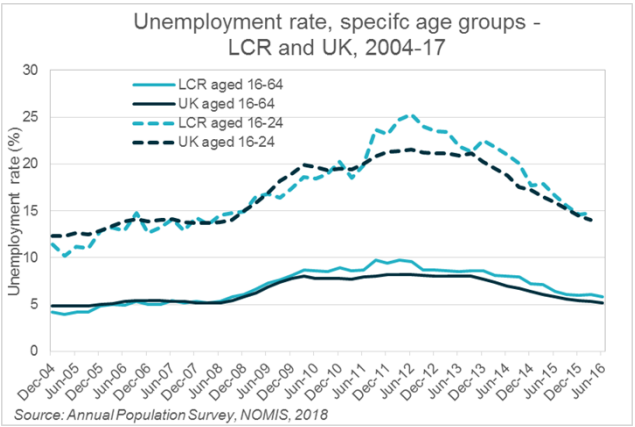
- There were 1.41 million Leeds City Region residents in work at the end of 2017, according to the ONS Annual Population Survey. This represents an increase of 6,000 (0.4%) from Q3 2017, and 13,000 (0.9%) over the year as a whole. Employment nationally increased by 0.5% between Q3 and Q4, whilst over the year it increased by 1.5%.
- The employment rate for Leeds City Region increased to 73.6% in Q4 2017, up from 73.3% the previous quarter. It has remained around 73.5% throughout 2017, whilst the UK employment rate increased from 74% to 74.7% over that period.
- Core city LEPs have seen their employment rate increase by varying degrees over the past year, with most seeing increases of around 1%. The employment rate in Leeds City Region remains higher than other core city LEPs, with the exception of West of England.
- At district level, the employment rate has increased in the West Yorkshire districts whilst decreasing elsewhere in the City Region between Q4 2016 and Q4 2017. It should however be noted that data is sample based and can fluctuate between quarters. Most North Yorkshire districts continue to have higher than average employment rates.





- Full-time employment has increased in Leeds City Region over the second half of 2017. 75% of workers are now employed in full-time positions, up from 73.5% in June 2017. This is the highest proportion of people working full-time in the City Region since 2009, and is currently in line with the national average.
- Around 13% of workers in Leeds City Region are self-employed, a figure that has remained relatively static since 2015. Self-employment is below the UK level of 14.2%.
- 4.7% of workers in Leeds City Region were in non-permanent employment in December 2017. This figure has also remained relatively stable of late, and is close to the UK level of 5%.





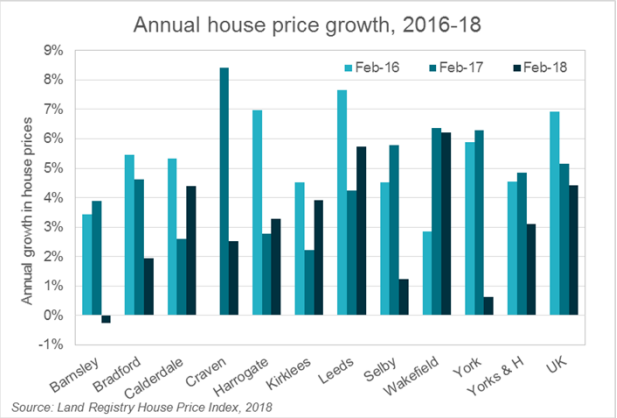
- Total unemployment in Leeds City Region increased by 2,000 (2.9%) between Q3 and Q4 2017, to 70,000. There are however 2,300 fewer people unemployed than at the end of 2016.
- The unemployment rate in the City Region is 4.7%, close to the UK average of 4.5%. The rate is lowest in York (2.8%) and Calderdale (3.4%) but is above the UK level in Barnsley, Bradford, Selby and Wakefield.
- The unemployment rate among 18-24 year olds is 11.6% in Leeds City Region, below the UK rate of 12.1%.

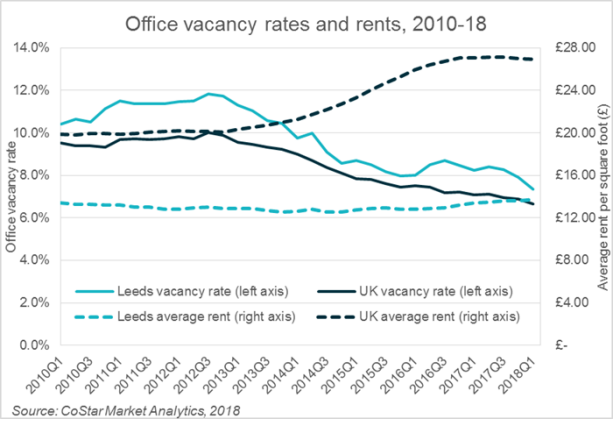
Summary: There was a modest upturn in employment in Leeds City Region at the end of 2016, with the number of people working full-time showing strongest growth. There was also a small increase in unemployment, thought the unemployment rate remains close to the UK average.

Leeds City Region – Trade, exports and investment

- Yorkshire & Humber businesses exported goods worth a total of £4.3bn in Q4 2017, an increase of £300m (7.1%) on Q3. UK exports increased by 6% over the same period.
- Over the course of 2017, goods exports from the region totalled £16.8bn, up 13.6% on 2016 and slightly outpacing UK growth of 13.3%.
- Exports increased to most markets from Yorkshire & Humber in 2017, with Asia & Oceania (+24%) and the Middle East & North Africa (+19%) seeing the fastest growth in percentage terms. There was an 11% fall in exports to non-EU Eastern Europe whilst exports to North America were largely flat.
- Asia & Oceania accounted for 12.5% of the region's exports last year, with exports to the Middle East accounting for 5%. The region's exports to the EU increased by 16% over the course of 2017 and accounted for 57.5% of goods exports.

- Export activity slowed among both manufacturers and service sector firms at the start of 2018, according to the Quarterly Economic Survey with the Chambers of Commerce in Leeds City Region. The net balance of manufacturers reporting export growth dropped from 35% to 20%, whilst the number decreased from 26% to 18% for services. Looking ahead, there was a slight slowdown in manufacturing export forward orders though the figure was stable in the service sector.





- House prices both locally and nationally have fallen slightly so far in 2018, with prices in West Yorkshire down 0.5% between December 2017 and February 2018, and UK prices down 0.4% over the same period according to the Land Registry House Price Index. Prices in West Yorkshire are however 4.6% higher than in February 2017, with prices nationally increasing by 4.4%. Price growth outstripped the national average in Leeds and Wakefield in the year to February. In absolute terms, prices remain highest and above the national average in Harrogate and York.
- The West Yorkshire office market remains relatively strong, according to the latest analysis from real estate information company CoStar. Average rents have increased moderately since 2015 to £13.70/SF in Q1 2018. Average rents are highest in Leeds city centre at around £21.50/SF, with rents in other West Yorkshire districts ranging from £9-11/SF. All parts of the region remain competitive against the UK average of £27/SF. Rents are expected to continue an upward trajectory as the vacancy rate, currently at 7.3%, falls in the near term.

Summary: The region saw strong performance on exports in 2017 helped, as with national exports, by the fall in sterling. There are signs this growth is levelling off at the start of 2018 but remains in positive territory. Both commercial and residential property markets have maintained modest growth, and both remain more affordable than the average nationwide.

Conclusions and outlook

- Recent momentum in the global economy has largely been sustained, with solid growth in Europe and the US in Q1 2018, albeit at a slightly reduced pace from the end of 2017.

- The IMF expects this momentum to continue in the coming years. An upturn in investment has driven recent improvements in output, and the recent tax reforms in the US are likely to stimulate further investment and increased demand, in the short term at least. The effects of this will be felt well beyond the US, with its key trading partners and commodity exporters also seeing higher levels of trade.

- Whilst this outlook is broadly positive, there remain some substantial geopolitical risks to growth and stability, not least the threat of tariffs and an escalating trade war, currently focused on the US and China but with substantial implications for European economies as well.

- The same forecasts however project slower short-term growth for the UK, with weak levels of investment due to the uncertainty of Brexit a key factor in this. In the medium term, the IMF expect increased trade barriers and lower investment to subdue growth.

- Meanwhile, the decision to reimpose sanctions on Iran has already led to increasing oil prices, which could lead to higher inflation if sustained. This comes at a time when inflation in the UK has begun to fall back towards target levels after a lengthy period of above trend price rises driven by sterling's post-Brexit fall. A persistent spike in oil prices could increase input cost pressures for manufacturers in particular, at a time when such concerns had been easing.

- In contrast to other major economies, the UK has experienced a marked slowdown at the start of 2018, according to official data. The snow in March contributed to a sharp drop in construction output, though there were wider factors contributing to growth falling to 0.1%. Retail sales and consumer spending more broadly has slowed, though falling inflation and stronger wage growth could provide more spare capacity for consumers.

- Falling inflation also signifies the dwindling impact of sterling's post-Brexit fall on prices. Whilst this may provide some benefit to consumers, it also appears to be contributing to a levelling off in export growth as the exchange rates prove less attractive to overseas customers.

- Nonetheless, the UK's export performance has clearly seen some significant benefit from exchange rates over the past year and this benefit has been shared by Yorkshire & Humber businesses who have seen goods exports reach record levels in 2017. The fact that growth has been strongest in key target markets such as Asia and the Middle East is also positive.

- It is notable that, although the UK context looks less positive at the start of 2018, Leeds City Region and Yorkshire & Humber businesses remain more upbeat. There are a number or reasons why this could be the case, including the lag between publication of national and regional data, and the possibility that survey responses are inherently more positive than hard data. The region's businesses reported stronger output growth in April than any other region of the UK, whilst also reporting strong employment growth on the Markit PMI survey.

- The QES with the Chambers of Commerce similarly finds businesses in positive mood, with domestic sales increasing and optimism about turnover and profits for the coming year also on the rise. It is also notable that this increased optimism has coincided with an upturn in investment. This is in spite of the ongoing uncertainty around Brexit, to which recent sub-standard levels of capital investment has been largely attributed.

- Any upturn in investment is welcome, particularly given the importance of investment to increasing productivity performance. Maintaining this trajectory will be crucial at a time when there is decreasing slack in the labour market with which to meet increasing demand. It also suggests that businesses remain largely unconcerned about Brexit, in the absence of any greater clarity about future arrangements.

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.