

Report to: Leeds City Region Enterprise Partnership Board (LEP)

Date: 20 September 2018

Subject: **Economic reporting**

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1. Purpose of this report

- 1.1 To provide an update on the latest economic and business intelligence for the Board.

2. Information

- 2.1 This report presents recent developments in the global, national and local economies. The report is now produced on a regular, quarterly basis. As such the latest available version will be presented to the Board for each of its meetings. When no new report is available from the previous meeting, a brief update will be provided to the Board covering any recent major developments.

The version presented here is the September 2018 Economic Update.

Main national and international headlines

- 2.2 The main national and international headlines include:

- The global outlook has become more mixed in recent months, as concerns over trade wars and tariffs pose a risk to recent solid performance for some nations and regions.
- US GDP increased by 1% in Q2 2018, its fastest expansion since 2014. Growth slowed in the EU and China but remained positive.
- UK GDP increased by 0.4% Q2, compared to the previous three months. This is up from growth of 0.2% in Q1.
- UK productivity decreased by 0.4% in Q1 2018. Output per hour is 0.9% higher than a year earlier but this remains below the long term pre-recession trend of 2% growth.
- The UK employment picture remains strong, with 388,000 more people are in work than a year ago. The employment rate has risen to a new record high of 75.7%.

- The unemployment rate has also fallen, to 4.2% down from 4.5% a year ago.
- Average earnings increased by 2.7% in the three months to May, a slight slowdown on the preceding three months, but still outpacing inflation which has remained steady at 2.4%.
- The Bank of England has increased interest rates to 0.75%, their highest level in almost a decade in response to strong labour market conditions and signs of economic improvement.

2.3 **Brexit commentary and assessment**

The Board Economic report now includes dedicated commentary on the extent to which current local and national economic data offers insights on the health of the LCR and wider economy as the UK moves towards its formal exit from the European Union. This commentary will deepen in insight and detail as the UK approaches the March 2019 exit date.

Key insights in the September update show that for:

The UK:

- Growth remains on a par with late 2017 but below longer term growth rates, with business surveys pointing to Brexit as a key factor weighing on business confidence. This appears to be leading to lower or delayed investment, which will have implications for productivity growth and competitiveness. The labour market remains strong however, perhaps as businesses offset capital investment with more readily available labour. This is unlikely to remain feasible forever, with employment at record highs and some surveys suggesting companies are finding it increasingly difficult to find skilled workers.

Leeds City Region:

- As with other regions, businesses in Yorkshire and Humber continue to see cost pressures from sterling's post-Brexit fall, as well as issues such as higher oil prices and wages. Conversely, the weak pound has undoubtedly been beneficial to exporters, though there are indications this growth has levelled off.
- Brexit was cited as a key cause of the fall in business optimism in the Yorkshire & Humber June PMI survey, though concerns over trade wars and tariffs were also raised
- The City Region has seen slightly lower employment growth in the past year than the nation as a whole. Overall however, employment levels remain strong and unemployment below historical averages. Higher growth in other city regions may reflect higher levels of slack in those labour markets.
- Relatively stable commercial property prices may be indicative of wider hesitancy and risk aversion in the economy, as businesses delay investment decisions in the absence of greater clarity. Rents here remain

more affordable than other major cities, which may make the area more attractive in a risk-off environment, particularly to SMEs.

2.4 Core Leeds City Region economic headlines

For Leeds City Region, the key headlines include:

- There was a slight slowdown in private sector growth across the Yorkshire & Humber region in June, according to the Natwest/Markit regional PMI.
- Whilst optimism was higher than most other UK regions, it was still at a 22 month low.
- The value of the region's goods exports was 2.9% higher than the same period last year, broadly in line with the 2.7% growth seen nationally.
- The number of City Region residents in work was largely unchanged from the previous quarter. 5,000 more people are in work than a year ago, an increase of 0.4%.
- The employment rate for Leeds City Region is 73.5%, again broadly unchanged from Q4 2017.
- House prices in Yorkshire & Humber increased by 2.9% in the year to May 2018, up from 2.7% in the year to April. Price growth is similar to the UK, where prices were up 3% in May.

2.5 Conclusions, implications and next steps

UK growth remains on a par with late 2017 but below longer term growth ages, with business surveys pointing to Brexit as a key factor weighing on business confidence. This appears to be leading to lower or delayed investment, which will have implications for productivity growth and competitiveness.

That appears to apply equally to firms in Yorkshire, who despite still being more confident than counterparts elsewhere in the country, have seen confidence levels fall in recent months.

The Bank of England's move to increase interest rates was accompanied by concerns that a "no deal" Brexit would be "highly undesirable". Whilst the Bank also acknowledged this scenario remains unlikely, this followed similar views being expressed by senior business leaders, who suggest they are starting to plan for such a scenario.

In light of a complex and changing economic environment, there is a need for regular and more detailed intelligence on how these and other issues are affecting people and businesses. In light of this, and to support wider policy work such as work on inclusive growth corridors, work is underway to update and expand the organisation's primary survey work:

- The existing Leeds City Region Business Survey, previously undertaken biennially, will now be undertaken annually. This will improve the timeliness

of data and relevance of content, and will inform wider policy work on inclusive growth corridors and the Local Inclusive Industrial Strategy (LIIS). It is anticipated that the next iteration of this survey will take place in autumn 2018, reporting in early 2019.

- A household survey is also being prepared to inform the same areas of work. As with the business survey this will be representative of the Leeds City Region population and will focus on addressing gaps in existing evidence around transport, place satisfaction, life opportunities and housing. It is anticipated that the first household survey will take place in early 2019.
- A relatively brief and high level quarterly survey of business confidence and sentiment will also be re-established.

3. Financial Implications

3.1 There are no financial implications directly arising from this report.

4. Legal Implications

4.1 There are no legal implications directly arising from this report.

5. External Consultees

5.1 No external consultations have been undertaken.

6. Recommendations

6.1 The LEP Board is asked to note the analysis presented in the economic update and dashboard and consider how this relates to the work of the LEP and its strategy, and to note the planned approach to surveys to ensure timely and relevant intelligence.

7. Background Documents

None.

8. Appendices

Appendix 1 – Leeds City Region Economic Update Report – September 2018
Appendix 2 – Leeds City Region Economic Dashboard – September 2018