



## LEP – Sub Committee

### LEP - Business Support Management Board

**Private and Confidential: No**

**Date:** Thursday, 24 November 2022

### Latest Economic Projections

(Appendix 'A' refers)

**Report Author: Andy Walker, Tel: 01772 535629,  
andy.walker@lancashire.gov.uk**

#### Executive Summary

This report draws together some recent economic intelligence and indicators at the LEP geography level to give members of the LEP Business Support Management Board (BSMB) a sense of the current trajectory of the Lancashire economy.

This report draws on a combination of recently published public and commercial data-sets, economic forecasts and past experience of similar scenarios to give a current snap-shot of the challenges and opportunities within the Lancashire economy.

In summary:-

- The value of the Lancashire economy (GVA = wages + profits) shrunk by £1.3bn (3.8%) from 2019 to 2020 largely attributable to the pandemic. This was a bigger proportionate loss than both the northwest region (-3.0%) and national (-3.4%) equivalents.
- If Lancashire's 2020 (latest) GVA was at 2019's prices, it would show our economy at £30.9bn – a fall of over £3.7bn compared to pre-pandemic, so inflation is further masking the impact of this shock.
- Lancashire typically gets hit harder and recover slower from national economic shocks (see graph slide 1 showing the impact of the 2008 financial crisis).
- With the further impact of supply costs, inflation and recession – how does Lancashire mitigate further shocks and accelerate recovery?

#### Recommendation

Business Support Management Board Members are recommended to note the content of this report and accompanying data, and consider if LEP Business Support resource, commissioning and influence is being used correctly to address the emerging market conditions.



## Background and Advice

The data in the attached slide-deck provides a snap-shot of current economic trends within the Lancashire economy (including Blackpool and Blackburn).

They show the impact of the pandemic in terms of the overall scale of the economy, and partially hint at the further headwinds presented by continued issues within global supply chains, production cost inflation, fuel cost inflation and a weakening of demand.

In terms of the labour market impact of the pandemic, the data also shows:-

- Employment is down by 49,000
- Unemployment is up by 12,000
- Economic Inactivity is up by 33,000
- Lancashire now compares poorly to the national picture across these 3 metrics, having pre-pandemic, in many cases, been stronger than the national picture.
- The Working age population is also down by 5,000

## Understanding vulnerability and "bounce-back-ability"

This data sets out a proposition that Lancashire is hit harder and takes longer to recover from national economic shocks. The data suggests we have started to see the impact of the pandemic, but more recent impacts are yet to register.

The characteristics of the economy which lead to this vulnerability are generally agreed to be:-

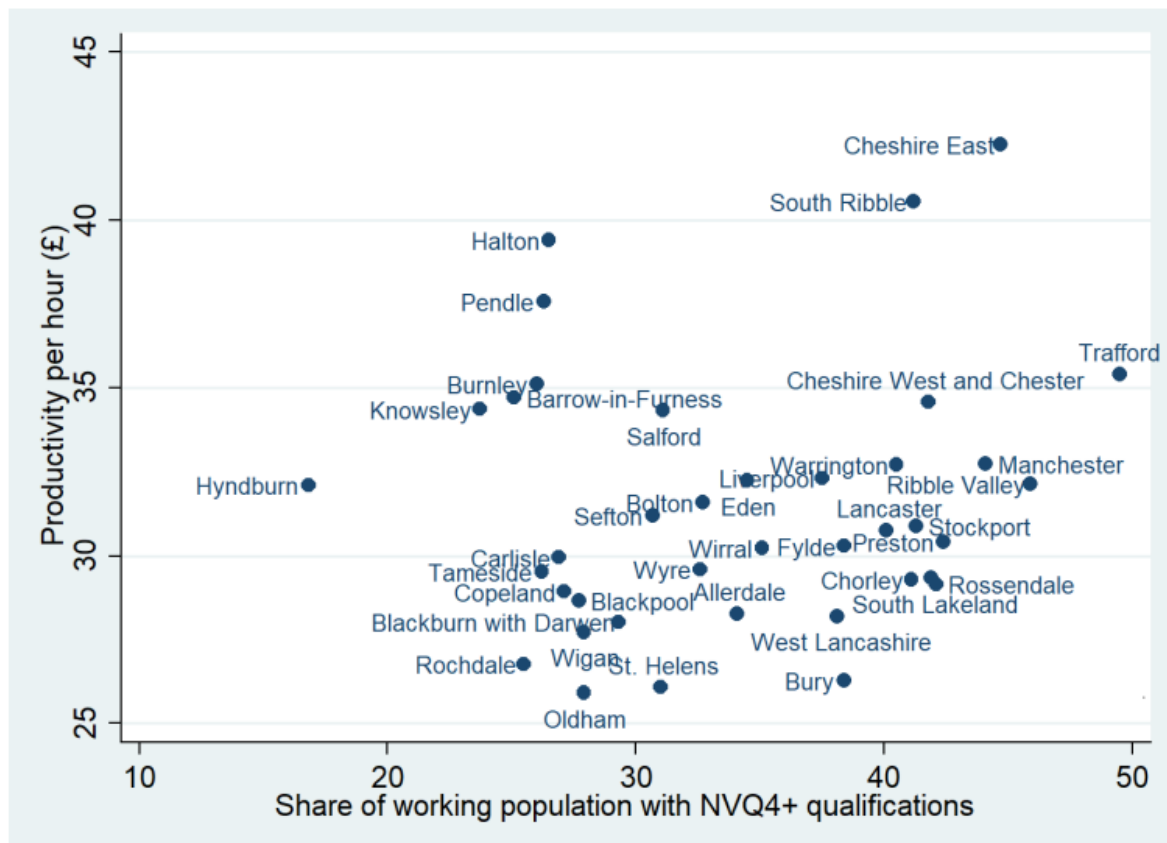
- **Economic structure and organisation capital** – It's not just that we have a less productive mix of sectors, it's that we have the lesser productive elements of the sectors we do have. The scale of businesses and the predominance of micro and small businesses is also a constraint.

*The north-west's sectoral structure accounts for some of the productivity gap seen with the rest of the UK. However, differences in productivity within individual sectors matter more. This can be illustrated with a 'shift-share' analysis: if the north-west's sectoral structure (as measured by the number of hours worked in each sector as a proportion of total hours worked) was the same as the UK average, the region's GVA per hour worked would increase by 2.2%. If, on the other hand, the north-west retained the same sectoral structure as it has now but increased productivity in each sector to the UK average then its overall GVA per hour worked would increase by 6.5%, almost three times the effect. Efforts to improve productivity therefore need to focus not only on growing high productivity 'frontier' industries such as manufacturing, digital or financial services to improve the sectoral mix, but also on how productivity can be improved across all sectors of the economy. (The North West of England's Productivity Challenge: Exploring the issues Allmendinger, Holden, Sensier The University of Manchester Date: Oct 2021).*



- **Geography and place** – Productivity is unevenly spread across Lancashire with areas such as South Ribble having amongst the highest productivity in the region, but other locations at the coast and in the south of the county having mid to low productivity bases. Continued hybrid working might also impact the economy of town centres, as well as impacting levels of innovation and informal skills development. Remedies would include better transport and digital infrastructure to promote agglomeration benefits.
- **Human capital, skills and health** – The connectivity between access to skills and high productivity is well recognised, although the correlation is weaker in the north west and particularly weak in those areas of east Lancashire with strong manufacturing bases which have not typically required formal level 4 qualifications.

Local authority productivity and share of population with above degree level qualifications, 2018



In addition to skills, the health of the population is increasingly recognised as a key factor in terms of productivity, with people experiencing long term ill-health typically finding it harder to find sustained, well-paid employment.

- **Investment and knowledge capital** - The North West Business Leadership Team’s 2016 review of productivity argued that “decades of underinvestment in the North West’s infrastructure, skills base and business support and innovation networks has left much of the region struggling to compete in a rapidly advancing global economy” (NW BLT, 2016). Whilst HMT statistics show that



the NW ranks behind London and the three devolved administrations in terms of the levels of public investment (£10,204 per head), there is an argument that much of this investment is directed at dealing with the impacts of low productivity (welfare payments) as opposed to fundamentally addressing this issue.

Similarly, in terms of Research and Development expenditure in Lancashire the overall levels of R&D expenditure are low and highly focussed on a small number of key businesses. Business expenditure is also not matched by the non-market sector.

- Institutions and governance** - *The result of the current system is that much of the local capacity that exists is spent coordinating multiple agencies, attempting to influence national policies, and bidding to disparate central funding pots based on expectations about what government will fund not what is needed, as well as national and regional strategies routinely not being implemented due to funding not being available or changing political priorities (Seaford et al, 2020). The result is fragmentation, duplication, and short-termism with the effect that interventions deliver less than the sum of their parts and fail to inspire confidence and crowd in investment from the private sector. Equipping places with appropriate institutions and what Andy Haldane, then chief economist at the Bank of England, referred to as the “holy trinity of powers, monies and people” to secure the local foundations for productivity growth will be critical to delivering an effective and long-lasting solution to the ‘levelling up’ problem.*

### The Role of the LEP

Whilst the volume of resource being channelled through the LEP has now diminished markedly, the entity retains key assets in the form of capital funds (GPF), a limited annual revenue budget and a strong and established conduit for the private sector voice and real-time experience of the economy to be heard.

Recent sector plans, and strategies for innovation, internationalisation, business investment and culture all contribute to Lancashire's understanding of these issues, but we need to focus what resources we have on developing those initiatives which will have the most impact.

### List of Background Papers

Paper	Date	Contact/Tel
None		
Reason for inclusion in Part II, if appropriate		
N/A		