Lancashire Economic Update

Joseph Mount – Lancashire LEP – November 2022

What is available? What is timely?

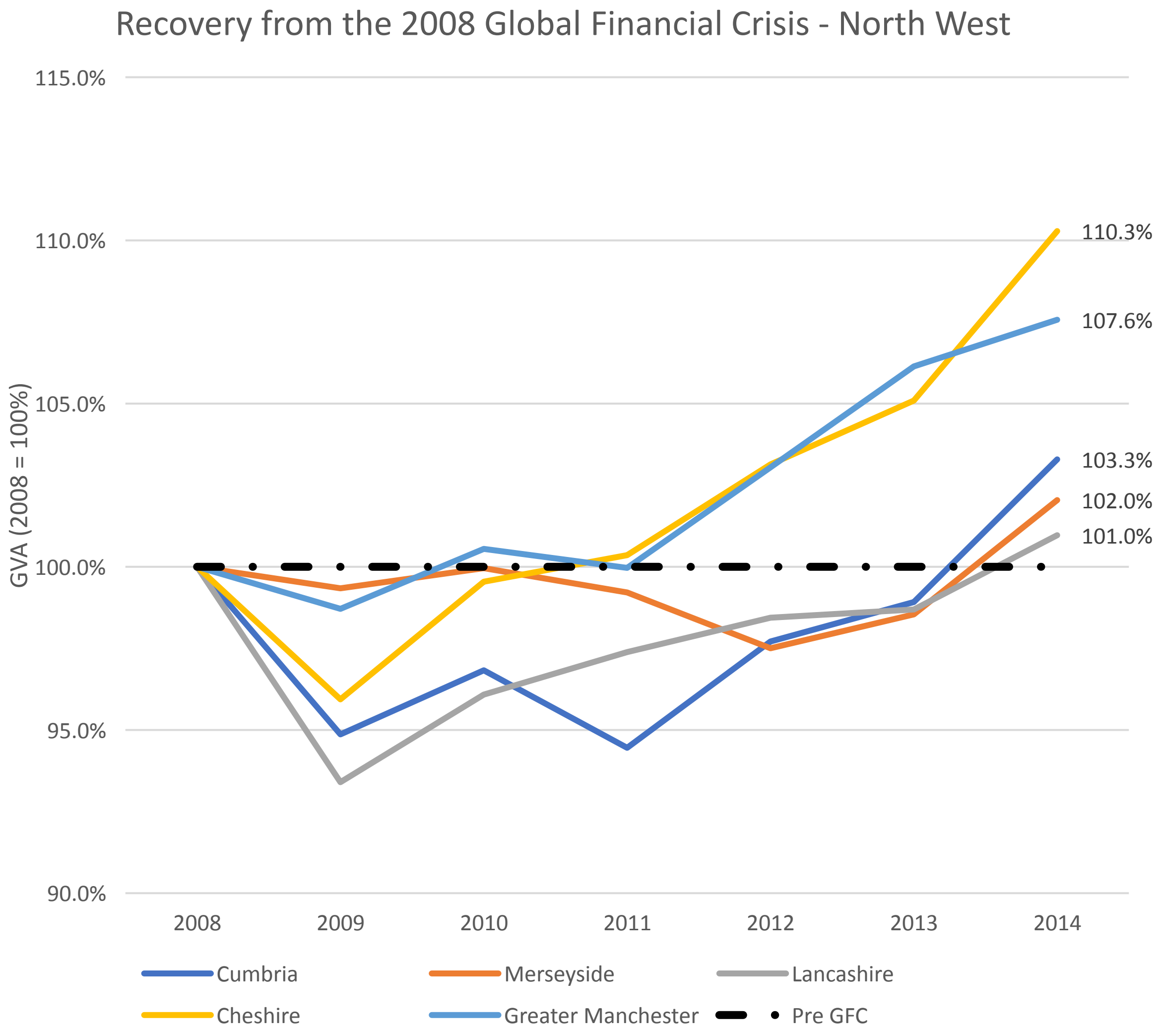
- For Lancashire as an area, data on the economy financially can be subject to considerable lag.
  - The latest figures we have for this locally are 2020’s provisional releases of Gross Value Added.
  - Regionally the latest we have are October to December 2021 GDP figures, pre-Ukraine war, pre-cost of living and inflation challenges.
- The labour market provides us with some timely useful indicators, and indeed recently, much of the impact of recent economic turbulence has been seen in the labour market.

Summary, pandemic impact.

- Pre-pandemic (2019) – The Lancashire LEP (inc BwD and Blackpool) was estimated to be worth £34.64bn.
- 2020 saw a 3.8% fall in that value, down to £33.31bn as of 2020 – a loss of over £1.3bn.
- This is a larger fall than was experienced nationally (-3.4%) and regionally (-3%).
- This however masks the true impact as it doesn't control for price inflation, not just the CPI, but the input prices paid by producers and businesses.
- In terms of volume, Lancashire's economy actually contracted by 10.8%, compared to 9.8% nationally, and 9.9% regionally.
- 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.

What does this mean going forward?

- Our recently procured forecasts from Cambridge Econometrics suggest Lancashire is/was due to recover to pre-pandemic levels of GVA by 2023, a year ahead of the previous forecasts, and now a year ahead of the UK.
- 2023 was expected to see Lancashire GVA recover to 0.5% above it's Pre-Pandemic level, in line with the North West, whilst the UK GVA was expected to be 0.6% below it's pre-pandemic level at that point. Lancashire's economy was also forecast to see growth through to 2050 of 3% higher than the national rate.
- Unfortunately, the forecast scenario comes from a macro scenario that pre-dates the cost of living crisis and the Ukraine war. This is the latest that's available from Cambridge Econometrics, and the next quarterly scenario should show a more up to date picture.



The chart above shows the recovery from the Global Financial Crisis, Lancashire's GVA recovered more slowly than both Greater Manchester and Cheshire, and was weaker than the recovery in Merseyside and Cumbria when it did eventually arrive. Previous forecasts indicated that 2019 GVA would be achieved by 2023, 4 years later, during the GFC, it took Lancashire 6 years to recover to Pre-GFC levels. What might this mean for the forecast upcoming recession?

Talk of recession, any early signs?

- Business start-ups are still quite buoyant, and data shows a 3 month moving average where the last month actually shows a slight up-turn.
- Business closures are generally subject to a bigger lag than business start-ups, but the three month average of closures is trending slightly downwards for the last few months.
- Despite no big warning signs, yet, from Companies House data for Lancashire companies:
  - Begbies Traynor are using Red Flag Alert data, and state that there has been a 4% quarterly increase in their "Businesses in significant financial distress" score for Lancashire businesses. This projects more than 10,000 businesses that were operating under significant financial distress in Lancashire in Q3 of 2022. If this is to be believed, depending on the denominator, this could represent as many as 1/5th of all Lancashire businesses.

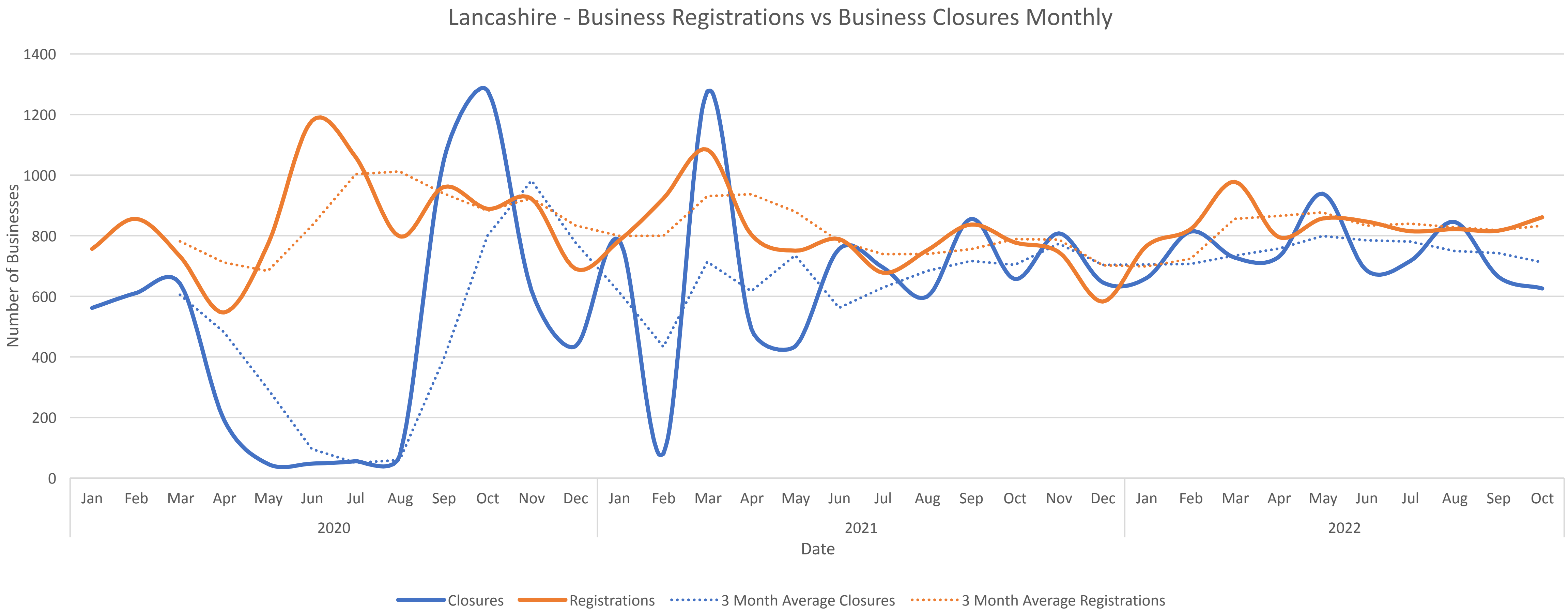
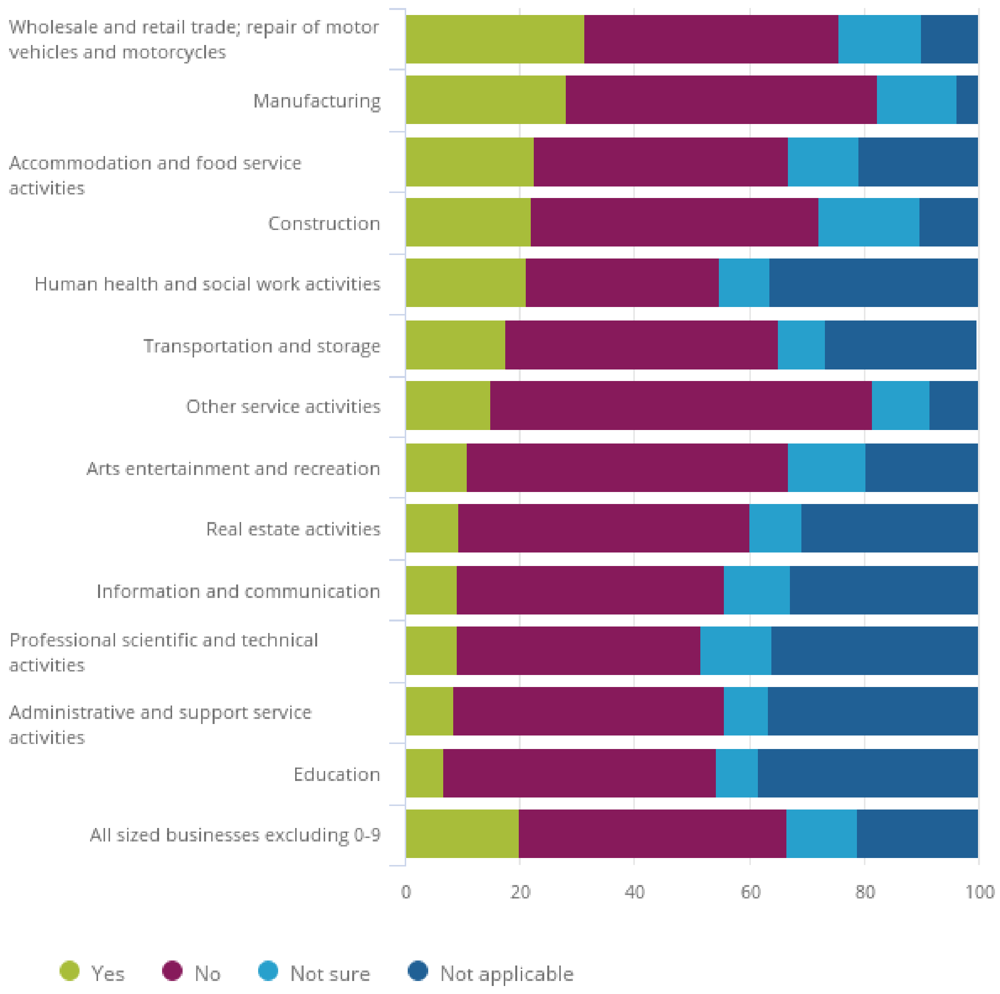


Figure 5: One in five (20%) businesses with 10 or more employees reported experiencing global supply chain issues in September 2022

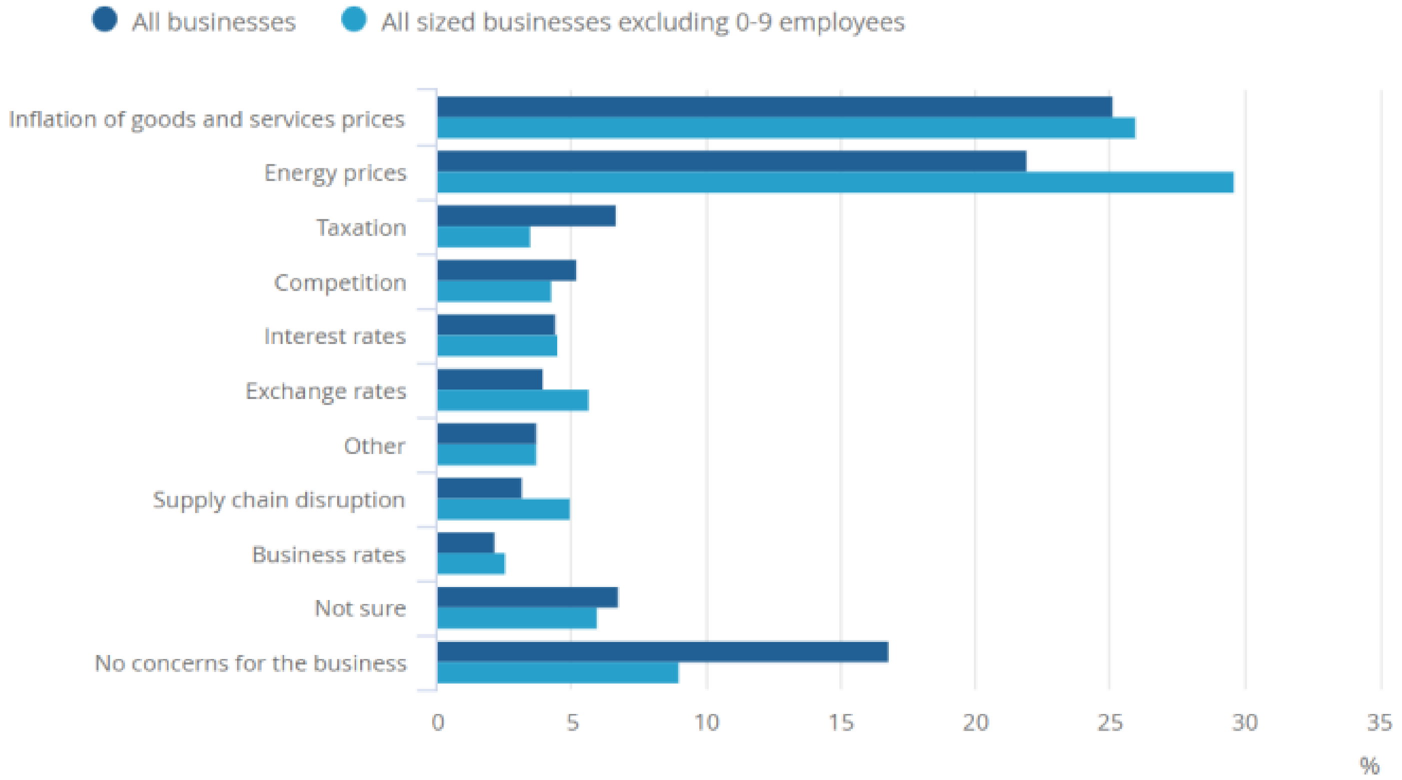
Global supply chain disruption, businesses not permanently stopped trading with 10 or more employees, broken down by industry, weighted by count, UK, 1 to 30 September 2022



Source: Office for National Statistics – Business Insights and Conditions Survey

What are businesses struggling with currently? This is national data from the ONS Business Insights and Condition Survey.

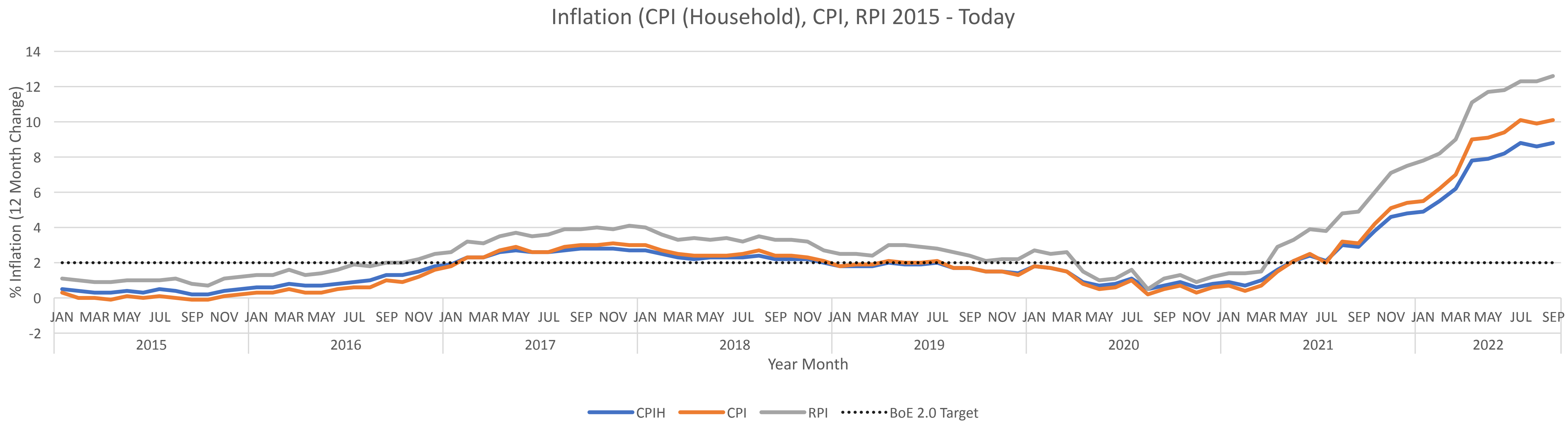
Business concerns, businesses not permanently stopped trading, broken down by response option, weighted by count, UK, 1 to 30 November 2022



The survey also notes almost 40% businesses who export or import, finding that changes in exchange rates have been a challenge for businesses who import, as well as transportation costs and customs duties/levies. Lancashire has a more progressive balance of trade (though still a deficit, approx. a third of the proportion of the national deficit), and so might be less impacted by currency fluctuations on imports, and might benefit from a devalued currency boosting exports.

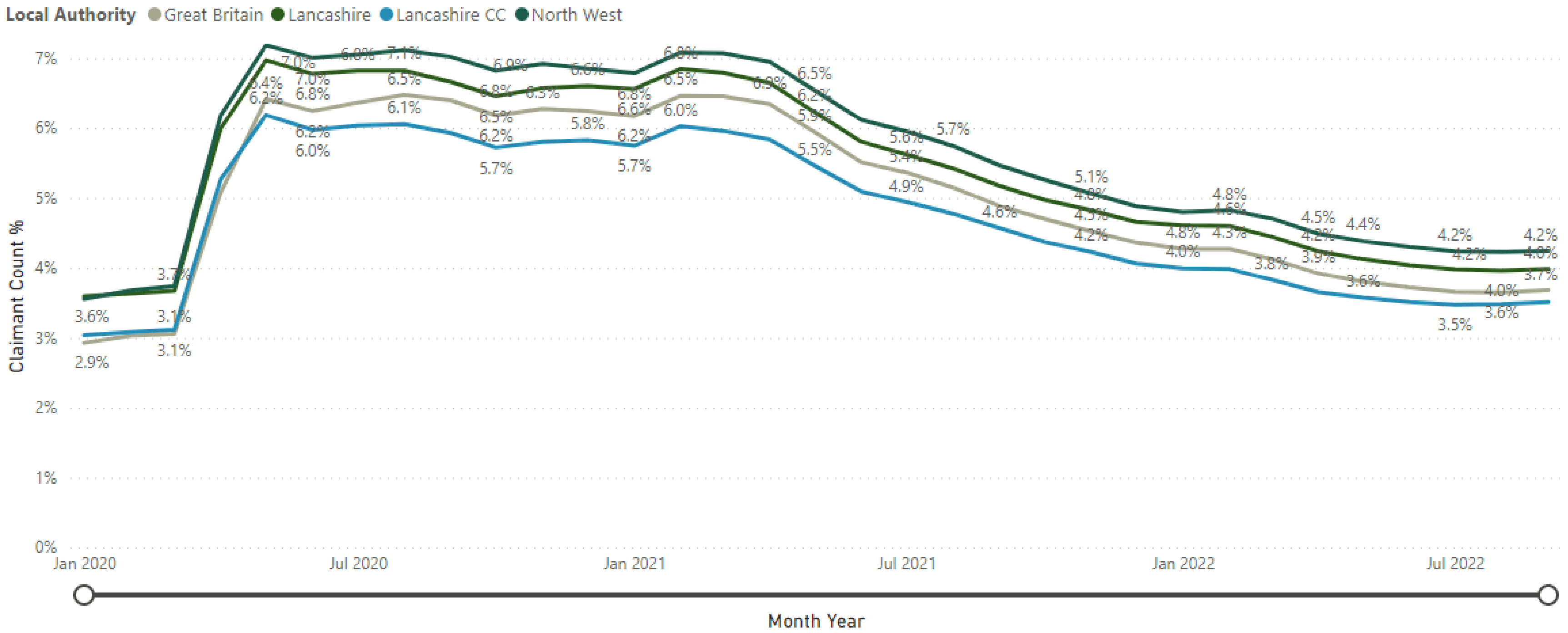
Obviously there are now other factors at play - Inflation

- In the early summer of 2021 inflation met and the exceeded the Bank of England's 2.0% target, and continued to rise, for the remainder of the year.
- The Bank of England raised interest rates in December 2021 to try and combat inflation for the first time since August 2018. Subsequent MPC meetings brought the base rate to it's pre-pandemic levels by March 2022.
- By this time inflation was becoming more entrenched as a result of the supply chain disruption during the pandemic, and the spike in hydrocarbon prices as a result of the invasion of Ukraine.
- Inflation now is in double figures across all measures, with the retail price index the highest of the three shown below.
- Inflation, and below inflation pay rises are putting pressure on household finances and will likely have already depressed demand. Interest rate rises and market determined bond yields are also causing increases in mortgages that aren't fixed, further adding pressure to households. Many contracted products are RPI linked every March, which could see further inflationary pressure.
- Businesses will also be feeling the pinch through increased cost pressures, particularly energy and also some wage pressures, and also a drop in demand. This will vary by sector no doubt.
  - For this kind of information at present we would have to rely on national PMIs and indicators, though North & Western Lancashire Chamber of Commerce have just issued their Quarterly Economic Survey – this could provide some insight in the future.



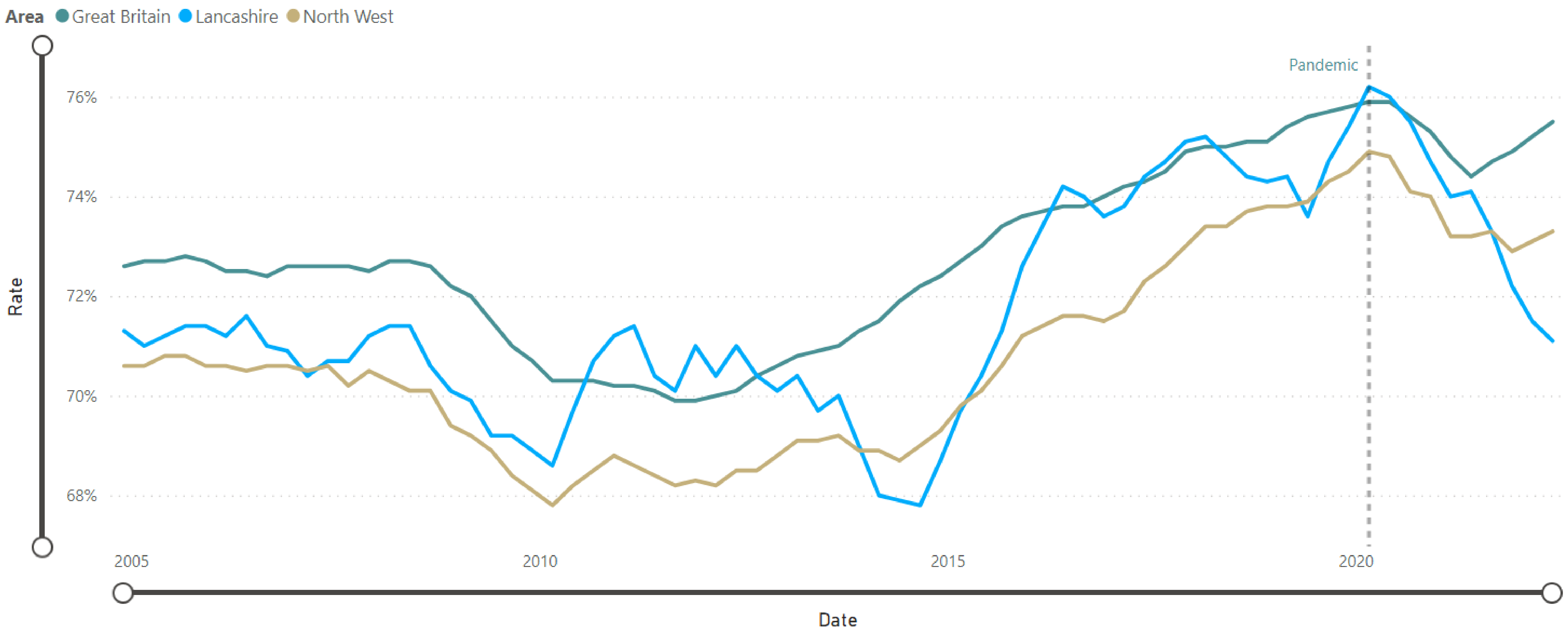
Employment, Unemployment and Inactivity – Claimant Count

- The biggest change structurally since the pandemic, and the trend which is continuing, is the relationship between employment, unemployment and economic inactivity.
- Claimant Count data suggests that unemployment is falling back towards it's pre-pandemic level, in March 2020 the LCC area claimant count rate was 3.7%, peaking at 7% in May 2020, and has now fallen to 4.0%.
- The Unemployment Rate differs slightly, in that it is model based and for a 12 month average, which puts the latest figure (Jul 21- Jun 22) at 5.1%
  - This has increased from 3.2% from pre-pandemic.
- There are an estimated 34,000 unemployed people in Lancashire now – this is roughly in line with the 37,000 who are currently claiming universal credit because they are unemployed. ~12,000 more than pre-pandemic.



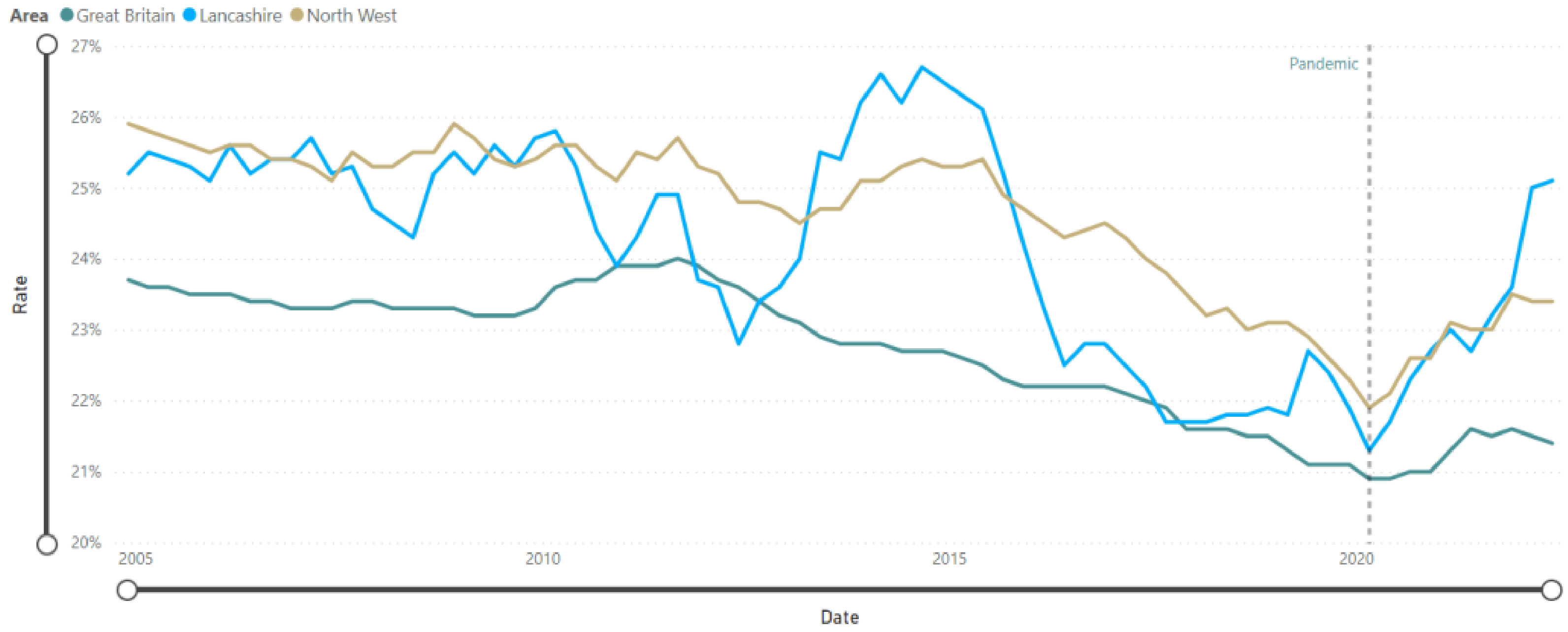
Employment, Unemployment and Inactivity – Employment

- Pre-pandemic, Lancashire's employment rate was 76.2% - above the national average of 75.9% at the time.
- It is now 71.1%, a considerable drop, whereas the national rate only dropped 0.5 percentage points to 75.5%.
- In terms of the number of people, there are now ~634,000 employed people in Lancashire, compared to ~683,000 pre-pandemic.
  - This is roughly ~49,000 fewer than pre-pandemic.



Employment, Unemployment and Inactivity – Inactivity

- There is a disconnect between what has happened with Employment and Unemployment
  - There are 12,000 more unemployed people
  - But 49,000 fewer employed people
- This is because the remainder have either become economically inactive or have moved out of the working age population.
  - We've got 33,000 more economically inactive, making up the bulk of the difference between the 40,000 fewer employed people and the 12,000 more unemployed people. There are also 5,000 fewer working age people.
- 25.1% of Lancashire's working age population are now economically inactive, which is 223,000 in total. This compares to 21.4% in Great Britain.
  - Pre-Pandemic, Lancashire had a marginally higher economic inactivity rate (21.3%) than GB (20.9%)
- 19.3% of Inactive residents in Lancashire state that they would like a job, above the national figure of 18.5%. This equates to 43,000 people.
- Personal independence payment data and Universal Credit Data suggests that lots of this could be due to ill health specifically, and not all who are inactive will be claiming benefits as a result of being inactive.

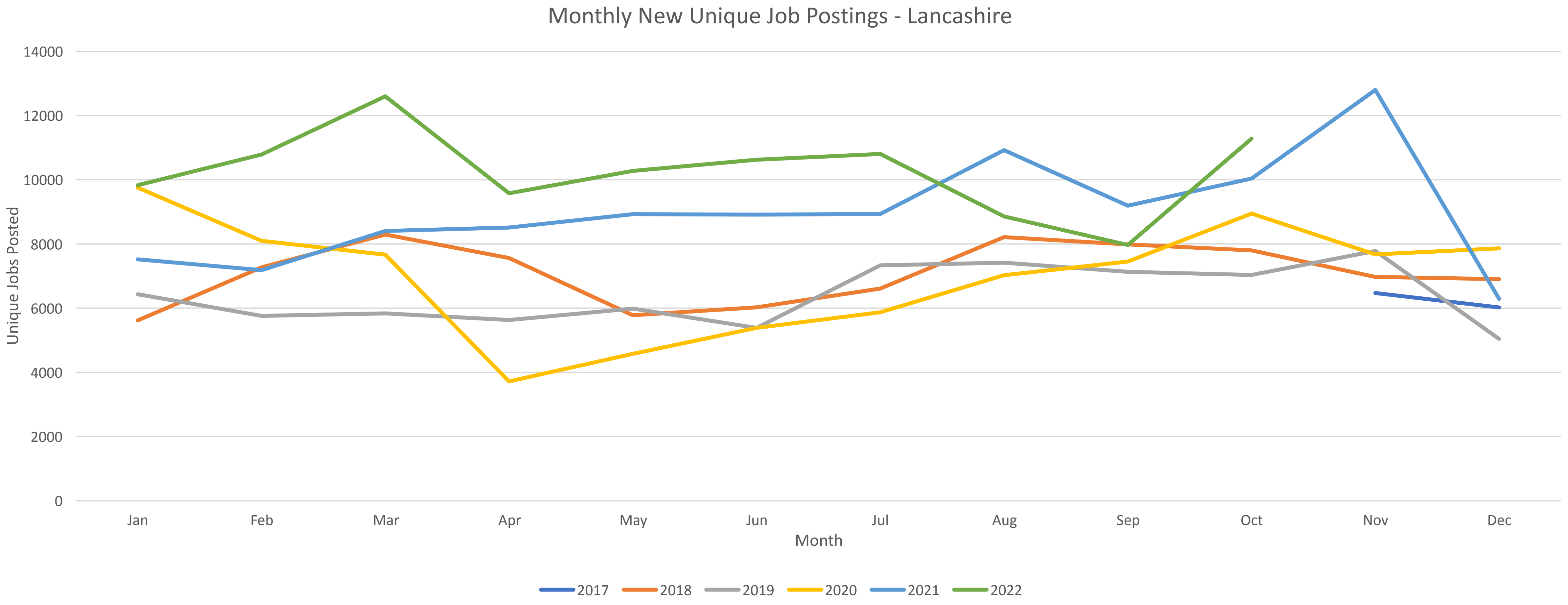


So far…

- Employment is down by 49,000
- Unemployment is up by 12,000
- Economic Inactivity is up by 33,000
- Working age population is down by 5,000
- Lancashire now compares poorly to the national picture across these 3 metrics, having pre-pandemic, in many cases, been stronger than the national picture.
- These are our fundamentals of the labour market as it stands at the moment.

Labour Market Activity – Hiring (Source: Lightcast/EMSI Burning Glass)

- Recruitment challenges are being experienced nationally as well as in Lancashire, with businesses finding it hard to recruit.
- Job vacancy levels are still buoyant, with monthly active job posts in 2022 above each year since 2017 from January to July, with August and September below 2021 levels, before rebounding in October to above 2021 levels again.
- The summer dip in job postings is interesting in the context of seasonality, in previous years there have been seasonal increases in postings at this time of year.
- Posting intensity for October (last full month) has fallen to 1:1, having averaged at between 2.5 and 3 since 2017.
- This is used as a measure of how hard employers are trying to fill roles – does this mean some labour market shortages are beginning to subside? Or does it mean businesses are having second thoughts about going back out to market to try and fill a role that they have previously been unsuccessful in doing?



So hiring is up, but perhaps slowing?

- Hiring is holding up okay, but is showing signs of slowing down, and perhaps early signs of businesses holding off on hiring, perhaps due to the economic climate.
- This implies something quite strange, that despite record vacancy levels for the last 18 months or so, we've still got unemployment higher than pre-pandemic, and a smaller workforce.
- A study by PWC estimated that 1 in 5 UK workers were actively looking to or expecting to seriously consider changing jobs in the last 12 months – this is could be in response to wage offers below inflation and cost of living pressures, with people seeking to move job to access higher wages.
  - In Lancashire evidence suggests this hasn't been quite as substantial, with data from LinkedIn suggesting 32,000 Lancashire workers have moved jobs in the last 12 months. This is from a sample of 350,000 LinkedIn profiles of Lancashire workers, suggesting just less than 1 in 10 have changed jobs.
- So the vacancies in Lancashire have been in a large part filled by the churn of people who were already employed moving into new jobs to try and access higher wages, potentially at the expense of those who have been out of work for some time.
- Data from DWP suggests that more than a quarter of claimants have now been claiming for between 2 and 3 years, compared to 8% pre-pandemic. 2/3rds of unemployment benefit claimants in Lancashire are now long-term unemployed, compared to just over 1/3rd pre-pandemic.