

Mayoral Combined Authority Board

Monday, 05 June 2023

The South Yorkshire Economy

Is the paper exempt from the press and public?	No
Reason why exempt:	Not applicable
Purpose of this report:	Discussion
Is this a Key Decision?	No
Has it been included on the Forward Plan of Key Decisions?	Not a Key Decision

Director Approving Submission of the Report:
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Executive Summary

South Yorkshire's economy is currently facing similar challenges to those seen across the country, with record levels of inflation, stagnant economic growth and rising unemployment leading to difficult conditions for businesses and households. However, the region also faces particularly acute problems, with higher fuel poverty, more people economically inactive or unemployed, and food price rises of over 20% hitting those less equipped to face this.

This paper presents the latest socioeconomic data for South Yorkshire and updates the Board on the state of the economy midway into 2023. The presentation at the Board meeting will include a focus on macroeconomic conditions, the cost of living, business sentiment, and an update on the labour market and employment prospects.

What does this mean for businesses, people, and places in South Yorkshire?

Inflation and a weakening pound made imported goods and services more expensive in the last six months particularly for value-adding industries such as manufacturing.

Fortunately, a number of local businesses have proven resilient, and many can now see the end of energy market volatility on their planning horizons. Forecasters are confident that this could halve inflation by the winter and lead to lower interest rates for mortgage payers and investors.

Business sentiment is finally improving and there is increasing optimism that this could translate into increased investor confidence, which will be welcome news for businesses, residents and local communities.

Recommendations

That Board:

1. Notes the current state of the South Yorkshire economy,
2. Considers the implications of the issues highlighted in the associated presentation.

Consideration by any other Board, Committee, Assurance or Advisory Panel

Local Enterprise Partnership

18 May 2023

1. Background

- 1.1 At the meeting, a presentation will be provided which sets out an update on the South Yorkshire economy and gives an overview of the key economic challenges in the region over the past 12 months. This cover paper provides the context for the presentation.
- 1.2 This update will provide key information on macroeconomic indicators such as interest rates, changes in energy prices, local business sentiment, and an update on employment and the labour market.
- 1.3 There will also be inflation and interest rate analysis from the Bank of England, and a snapshot of business sentiment from the South Yorkshire Quarterly Economic Survey.

2. Key Issues

2.1 Macroeconomic Indicators

This presentation will focus on key socio-economic indicators that show how South Yorkshire is currently performing, giving Board Members an up-to-date understanding of the state of the economy.

Below is a summary of the main topics of interest that will be covered:

- **Bank of England Inflation Expectations** – The Consumer Price Inflation (CPI) was at 10.1% in April 2023 and has not fallen below 10% this year. This is much higher than in other developed economies like the US, where inflation fell to 5.3% in April. The Office for Budget Responsibility's (OBR) target is for UK inflation to be halved from this high point before the end of the year.
- **Wages** - Real regular pay has fallen by 2.3% since April 2022, which means households have seen a decline in short-term living standards as disposable incomes no longer go as far as they used to. The impact on

spending and consumption patterns have been especially acute in regions like South Yorkshire.

- **Economic Growth** – the latest data puts growth at roughly 0% quarter on quarter and the forecast for the rest of the year remains difficult.

2.2 Markets and the Cost of Living

- **Interest Rates** - The Bank of England raised their bank rate again on 11th May to 4.5%, the highest it has been since November 2008. These rate hikes have led to the average 2-year fixed mortgage rate rising to above 5.17%, over double that seen in April last year.
- **Energy Prices** – the cost of energy is still high for households but should fall soon when the price cap resets in July and October. Government support is expected to end at this time.

2.3 Business Sentiment

- **Local Views** – the South Yorkshire Quarterly Economic Survey captures the concerns of local businesses and what they expect the biggest challenges to the economy to be. Business confidence has fallen over the past six months, reflected in firms reporting worse domestic and export sales and cashflow positions deteriorating significantly since the end of 2022. In the last six months, 50% of businesses have cut costs and 42% have delayed or cancelled planned investments.
- **Business Snapshot** – compared nationally, South Yorkshire's construction and retail sectors remain strong, while science and technology continue to be rather modest given the size of the UK's total output. Other areas of regional strength include transport and storage, hospitality, IT, and manufacturing. In total, there were approximately 3.4% (1,695) fewer businesses in South Yorkshire than there were in 2020, but still 1.2% (565) more than in 2017.

2.4 Labour Market Update

- **Economic Inactivity** - Long term trends suggest that early retirement, long-term health conditions and a skills mismatch are continuing to dissuade people from returning to, or entering, the labour force. The latest local data indicates that economic inactivity rose by 0.4% to 23% in April, and this is 1.4% above the national average (21.6%).
- **Claimant Count and Unemployment** – these measures are moving towards their pre-Covid trends, although South Yorkshire continues to see higher levels than the UK average. Unemployment in South Yorkshire rose to 4.1% (or 29,000 people) in April 2023 after reaching 3.9% (or 27,000 people) in February. This was primarily driven by Sheffield, where

unemployment has ballooned to 4.7%. This means unemployment is marginally above the national average of 3.5%.

3. **Options Considered and Recommended Proposal – Not Applicable**

4. **Consultation on Proposal – Not Applicable**

5. **Timetable and Accountability for Implementing this Decision - No Decision is Required**

6. **Financial and Procurement Implications and Advice – Not Applicable**

7. **Legal Implications and Advice – Not Applicable**

8. **Human Resources Implications and Advice – Not Applicable**

9. **Equality and Diversity Implications and Advice**
 - 9.1 **The presentation will focus on how disadvantaged and minority people and communities in South Yorkshire have been impacted by current socio-economic conditions.**
10. **Climate Change Implications and Advice – Not Applicable**

11. **Information and Communication Technology Implications and Advice – Not Applicable**

12. **Communications and Marketing Implications and Advice – Not Applicable**

List of Appendices Included:

Not Applicable. Given the need for the latest information to be included in this item, a slide pack will be completed closer to the date of the meeting and will be presented to the board.