

West of England Economic Briefing

March 2023

Executive Summary

This briefing summarises the current state of the economy in the West of England, giving an indication of the key issues facing workers and businesses. This analysis draws on regional and national data, and uses faster indicators where possible to illuminate current conditions.

Section	Updates	Pages
A: Economic context	<ul style="list-style-type: none">▪ GDP is static overall, though this camouflages some changes - services grew by 0.5%, while construction fell by 1.7%▪ The government delivered a Budget statement, including trailblazer devolution deals for some CAs and investment zones around the nation, alongside a third round of the Levelling Up Fund▪ The Bank of England has raised the interest rate to 4.25%	3-6
B: Cost of living	<ul style="list-style-type: none">▪ Inflation in the year to February 2023 was 10.4%▪ Inflation is higher than expected but the Bank of England still expects a gradual fall▪ Wage growth is falling behind inflation - at 6.3% in the West of England and 6.1% in England	7-8
C: Business and consumer activity	<ul style="list-style-type: none">▪ The FSB South West Small Business Index reports that only 7% of small businesses took on staff in the last quarter▪ The Index also reports that business confidence in next quarter's prospects stands at -62%, worsening from -47% last quarter	9-11
D: Labour market	<ul style="list-style-type: none">▪ Regional unemployment is steady, while national unemployment is slightly increasing▪ The Bank of England forecasts a slight increase in unemployment in the next two quarters, with the national figure increasing to 4.3%	12-13

A. National context: The Budget

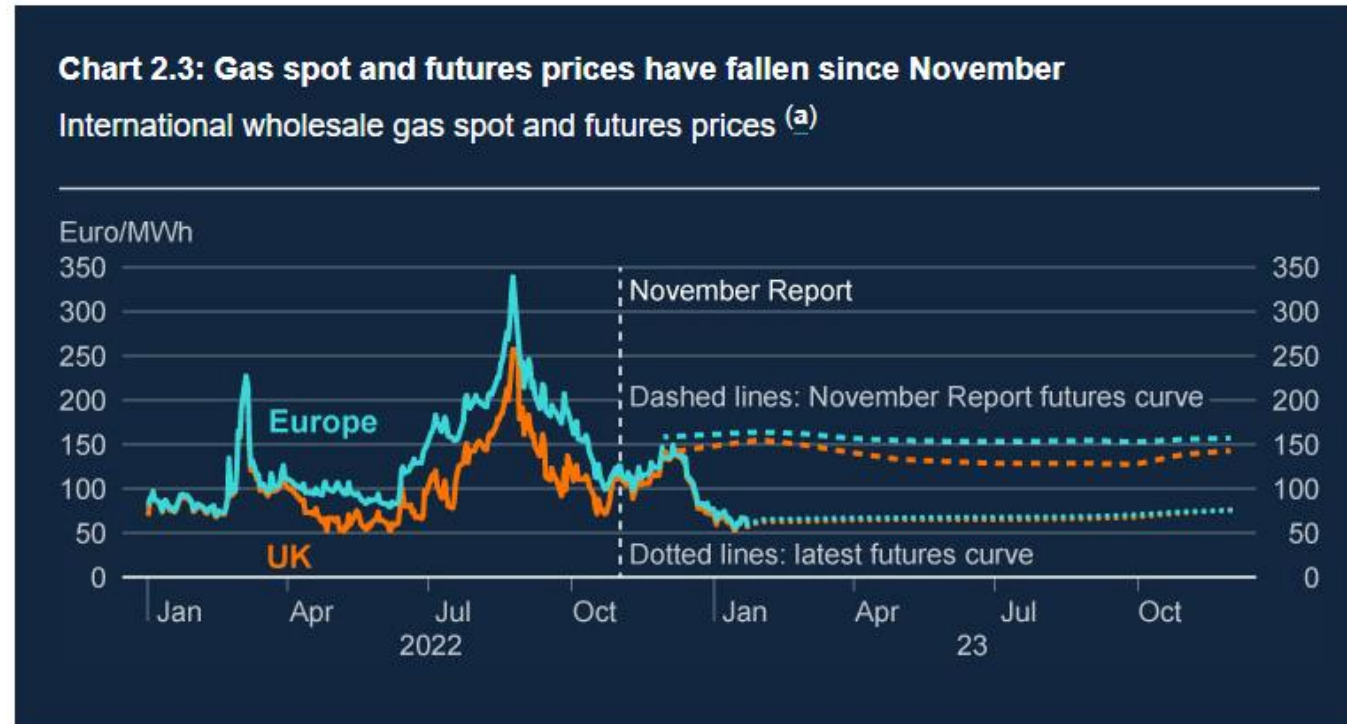
- The Chancellor announced a Budget intended to “to halve inflation, grow the economy and get debt falling.”
- The Energy Price Guarantee was extended for a further three months, but the £400 discount on bills over winter will cease
- Fuel duty, including the temporary 5p cut, will remain frozen for the twelfth year
- More construction occupations have been added to the Shortage Occupation List, demonstrating the skills shortage present in the UK
- The third round of the Levelling Up Fund was announced, totalling £1bn

A. National context: the Budget

- 12 Investment Zones were announced, including in eight existing, or planned MCAs and one each for Scotland, Wales and Northern Ireland
- Childcare support has been expanded, with 30 hours of free childcare per week for children aged over nine months if both parents are working
- Pensions have been reformed, with plans to remove the Lifetime Allowance and increase the annual limit for pension contributions before tax is levied
- £8.8bn has been committed for a second round of the City Region Sustainable Transport Settlement, between 2027/8 and 2031/2.

A. National context: projected gas prices have fallen since November

- In the November report, the projections were at a peak of the price over the past six months
- Prices have since fallen (both in Europe and the UK) and are projected to stay significantly lower than November levels
- Oil prices have also fallen, but not to the same degree

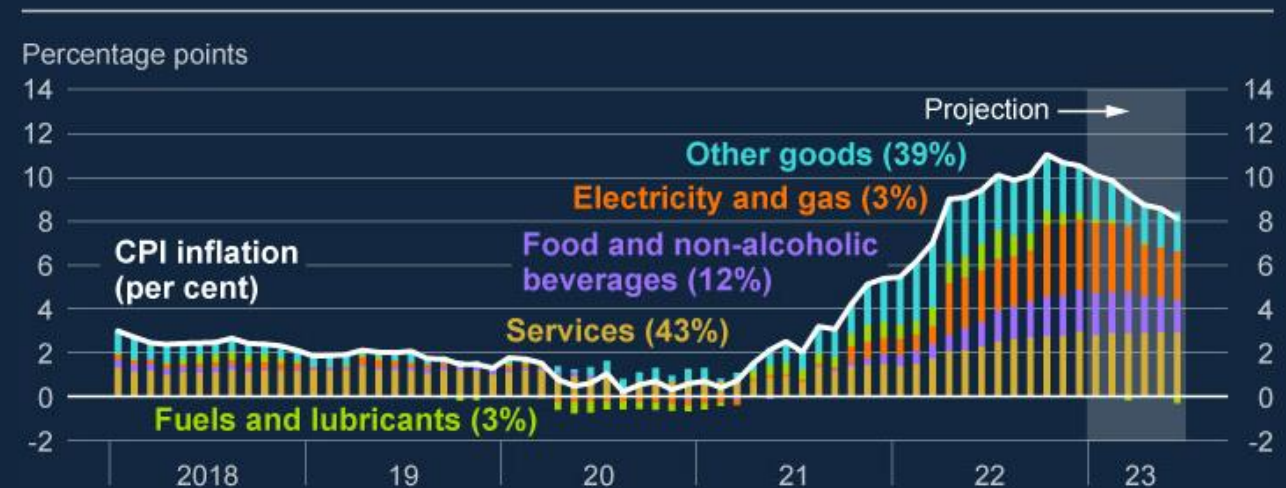


A. National context: inflation is starting to fall

- Inflation (currently 10.4%) is still driven by energy prices, suggesting that if prices fall that inflation may follow
- Food price inflation was at a 45-year high of 16.8% in December, reflecting global supply constraints and poor weather
- With easing of supply-chain issues, and expected reduction of global demand, inflation of traded goods is likely to reduce
- Consumers are still spending more on goods than they were pre-pandemic (compared to services)

Chart 2.19: CPI inflation rose to around 11% in 2022 Q4, but is expected to fall back to around 8% by 2023 Q2

Contributions to CPI inflation ^(a)



B. Cost of living: Latest ONS data

- The ONS has a dashboard of insights available at <https://www.ons.gov.uk/economy/inflationandpriceindices/articles/costofliving/latestinsights>
- Two-thirds of adults are spending less on non-essentials
- Even though house price increases are slowing, private rental prices are rapidly increasing - 4.2% in the year to December 2022
- These increases are the highest recorded since data began in 2006

After taking inflation into account, average pay has fallen

Average weekly earnings, real terms year-on-year three-month growth rates, seasonally adjusted regular pay



Office for National Statistics

The redundancy rate has increased slightly in the latest three-month period but remains low

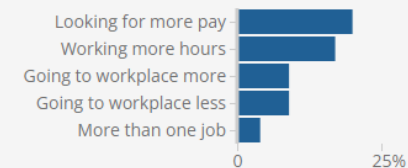
UK redundancy rate, people aged 16 years and over, seasonally adjusted



Office for National Statistics

Around 1 in 6 working adults are working more hours due to cost of living increases

Working adults in Great Britain, 21 December 2022 to 8 January 2023

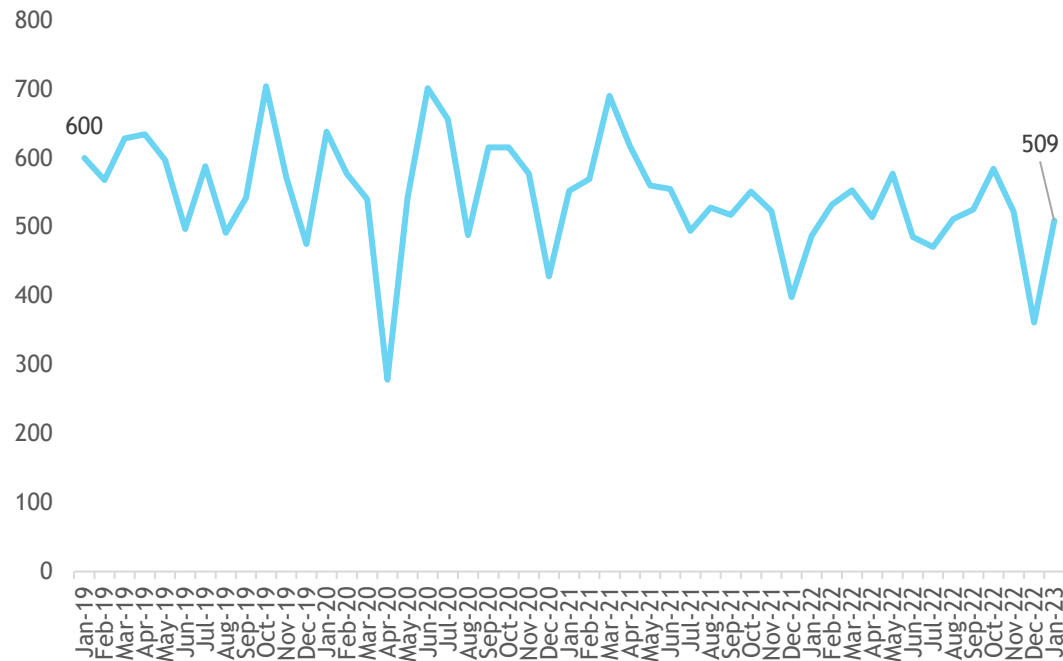


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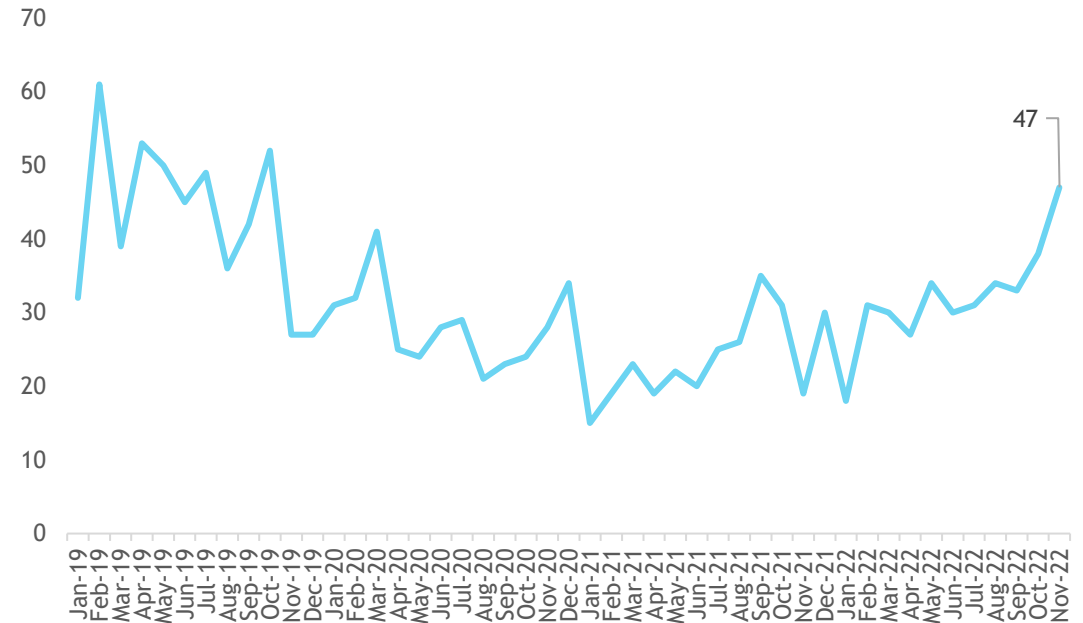
C. Business and consumer activity: New business start-ups slightly below average, insolvencies rising

- New business start-ups continue the general trend of slightly below the pre-pandemic average, with no signs of major improvements or reductions
- Insolvent businesses has not been updated this month as we're investigating improved data sources

New business start ups in the West of England



Number of businesses in the West of England with liquidators appointed

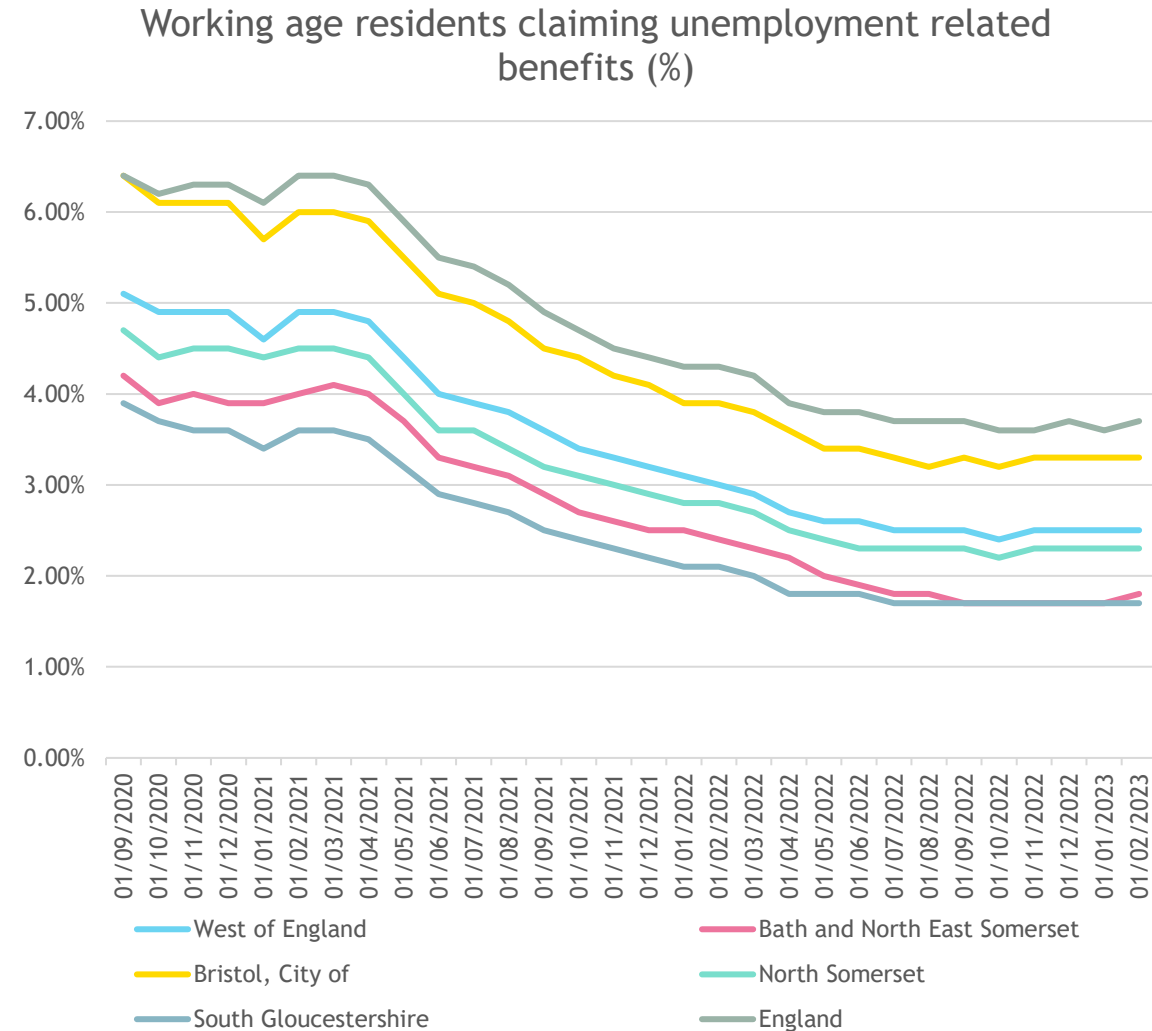


C. Business and consumer activity: Nationally, businesses continue to report increases in prices, with an impact on both businesses and consumers

- Retail sales volumes are estimated to have increased by 0.5% in January 2023, following a fall of 1.2% in December 2022
- The proportion of retail sales online fell to 25.0% in January 2023 from 25.7% in December 2022; despite this fall, it remains significantly above pre-coronavirus levels (19.8% in February 2020)
- The FSB Small Business Index (South West) reports that less than 7% of small businesses have taken on staff in the previous quarter
- The same source reports that net business confidence stands at -62%, a significant worsening since last quarter (-47%) based on a question asking about ‘business prospects over the next three months’
- In February 2023, a quarter (25%) of trading businesses nationally reported their turnover was lower compared with January 2023, while 16% reported their turnover was higher; therefore, a net 9% of businesses reported their turnover decreased, this is up from a negative net position of 13% in January 2023.
- Just over half (54%) of trading businesses expect the prices of goods or services they sell to stay the same in April 2023, while nearly a quarter (24%) of trading businesses expect to raise their prices.

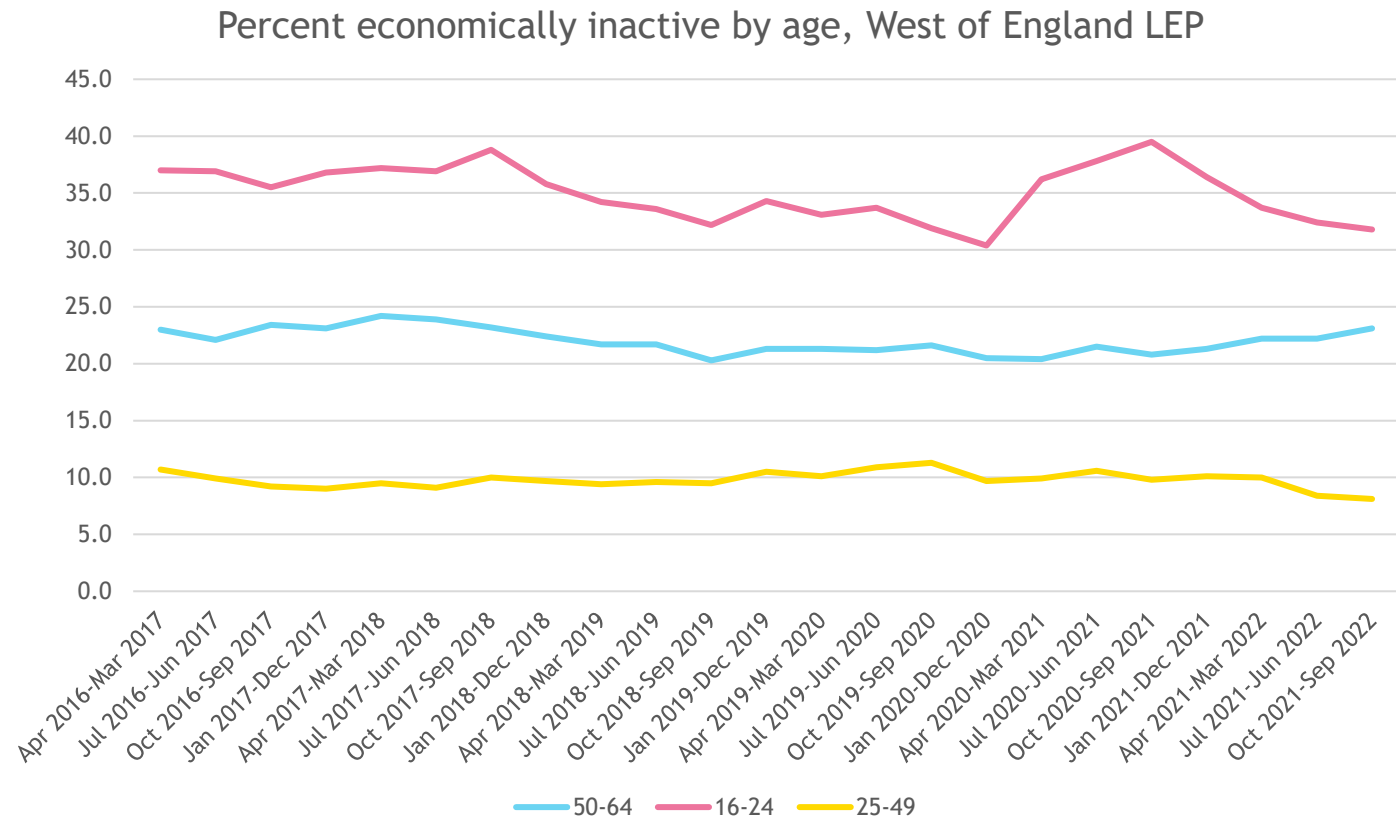
D. Labour market: unemployment benefit claims remain steady in the region

- 2.5% of the region's workforce claimed unemployment benefits in February, remaining steady across the last six months
- Individual areas of the West of England had small variances, but with no major trends beyond continued steadiness.
- However, there are no longer any significant reductions in unemployment as there have been throughout 2022
- The claimant count for England for February was 3.7%, a slight uptick from the previous month



D. Labour market: economic activity rates vary by age group

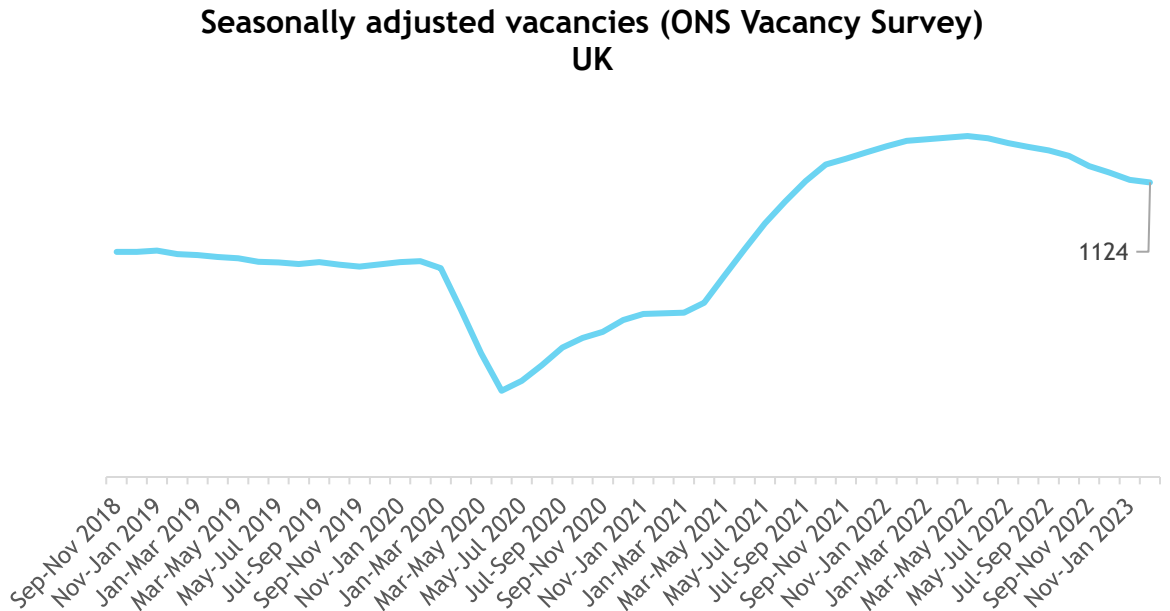
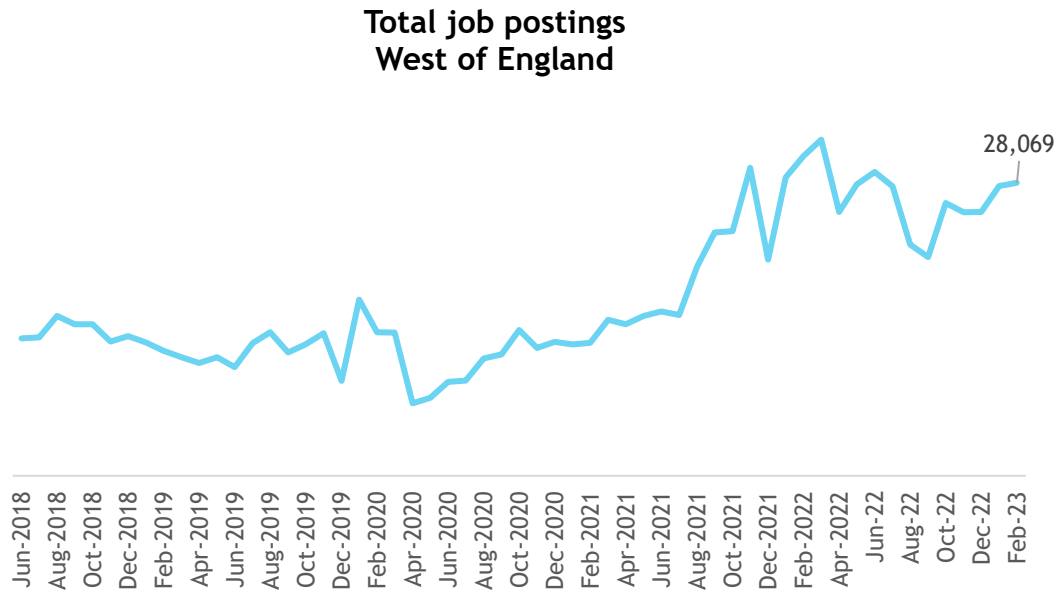
- Economic inactivity refers to people who do not meet the traditional definition of ‘unemployed’, because they have not been seeking work within the last four weeks, and/or they are unable to start work in the next two weeks
- The data in the graph is updated quarterly, but represents a year’s worth of interviews
- There is an increase in economic inactivity in the 50-64 age range during the pandemic, both regionally and nationally
- The 16-24 age group, smaller than the other age groups, shows large changes over the period shown in the graph but is rebounding quickly to pre-pandemic levels - these changes correspond to big increases in the percentage of students, which is considered ‘economically inactive’
- Economic inactivity levels for the 25-49 age group are trending at or below pre-pandemic levels




D. Labour market: Vacancies continue at a high level

- Job postings continue to be elevated, but the Bank of England advises the situation is likely to ease over the coming year
- There were 1,124,000 job vacancies in the UK in October to December 2022. Vacancies continue to trend downwards, in line with the Bank of England’s forecast and the overall slowing of the economy

Note: Job postings levels and associated analytics are highly sensitive to the web-scraping tool used. Analysing trends rather than totals is therefore advised.
 Note: Any differences between the two datasets is likely in part due to different data collection methods and the type of data (total job postings is a “flow” of new job postings, whilst the survey data is a “stocktake” of open vacancies).



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For further information on support available to businesses, visit the West of England Growth Hub: wearegrowth.co.uk