

West of England Economic Briefing

June 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">▪ The Bank of England Base Rate has been increased to 4.5%▪ Economic growth has remained slow	3-4
B: Cost of living	<ul style="list-style-type: none">▪ Inflation in the 12 months to April 2023 was 8.7%▪ Energy prices have fallen below the point of government subsidy, reducing the cost to government, with electricity falling to ~30p/kwh and gas to ~8p/kwh▪ Food prices are still increasing rapidly	5
C: Business and consumer activity	<ul style="list-style-type: none">▪ The FSB South West Small Business Index reports that business confidence in the South West has increased in the last quarter, but from a very low base - and it remains lower than the national figures▪ Small businesses' reporting of revenue suggests continuing reductions in revenue, with overall revenue well below the pre-Covid average	6
D: Labour market	<ul style="list-style-type: none">▪ Unemployment and inactivity remain slightly lower than the national average▪ The Bank of England's unemployment predictions are now very broad and suggest that the unemployment prognosis is uncertain	7-9

A. National context: the Bank of England's Monetary Policy Report

- On 11 May the Bank of England increased the interest rate to 4.5%.
- The Bank expects a maximum interest rate of 4.75%, reducing by 2023Q4 to 3.5%
- GDP is expected to remain flat, though indicators for overall output are positive
- The Bank predicts inflation will fall to 1% within two years, but 'material uncertainty' remains around when the 2% inflation target will be reliably held to
- Inflation in general has been higher than previous Policy Reports have expected, with food and other goods representing the main upward pressure on inflation

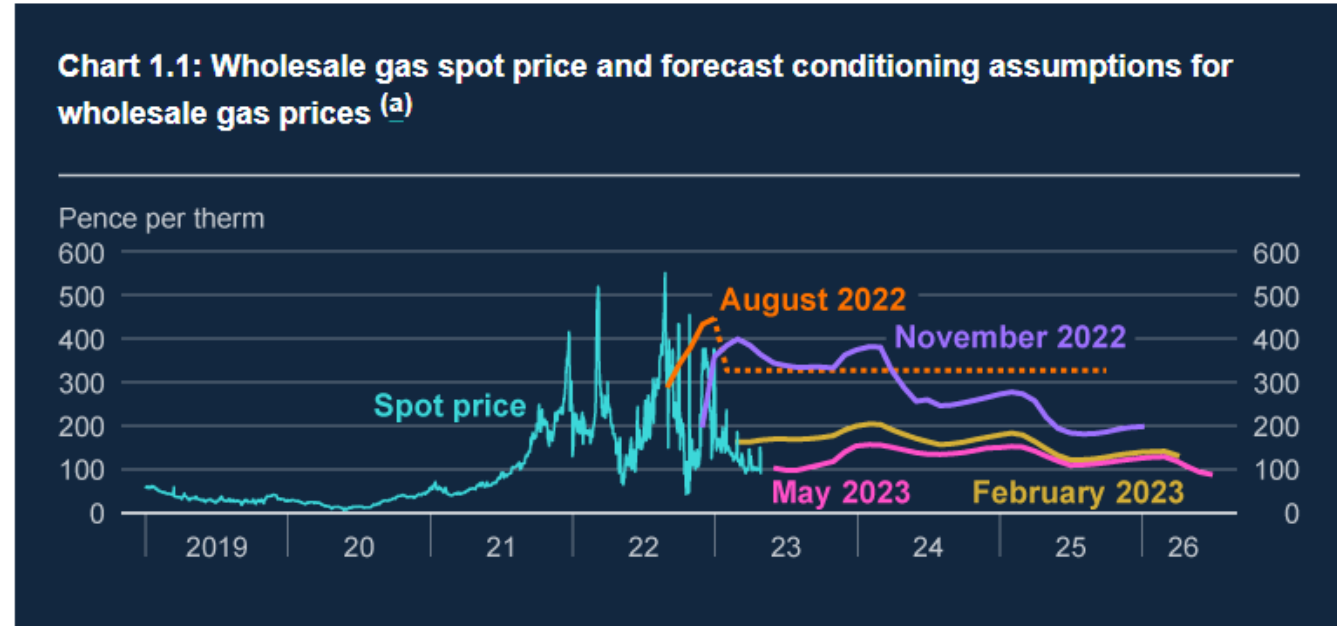
A. National context: predictions for slow growth

- Nationally, GDP grew slowly, by 0.1%, in the first quarter of the year.
- Predictions are for GDP growth to be essentially flat, but the Bank of England notes that external forecasters are broadly more positive
- Projections for unemployment are very broad, with the central case suggesting a slight increase in unemployment
- However, this is much less pronounced than in previous Monetary Policy Reports



B. Cost of living: energy prices falling

- Inflation was 8.7% in the 12 months to April 2023 (CPI), higher than expected by forecasters but a significant drop on the previous few months
- Slower inflation was partly due to moderating energy prices, as the large increases in April 2022 fell out of annual comparisons and costs have fallen in recent months
- Energy prices have now fallen below the Energy Price Guarantee level, reducing the cost of government subsidy - this fall was much greater than the Bank of England's original expectations
- As the Energy Price Guarantee has been limiting the impact to consumers, the reduction in energy prices thus far has primarily benefited the government's spending, rather than consumer spending
- Food and drink prices continue to increase rapidly, with inflation of 19.1% in the year to April 2023



Sources: Bloomberg Finance L.P. and Bank calculations.

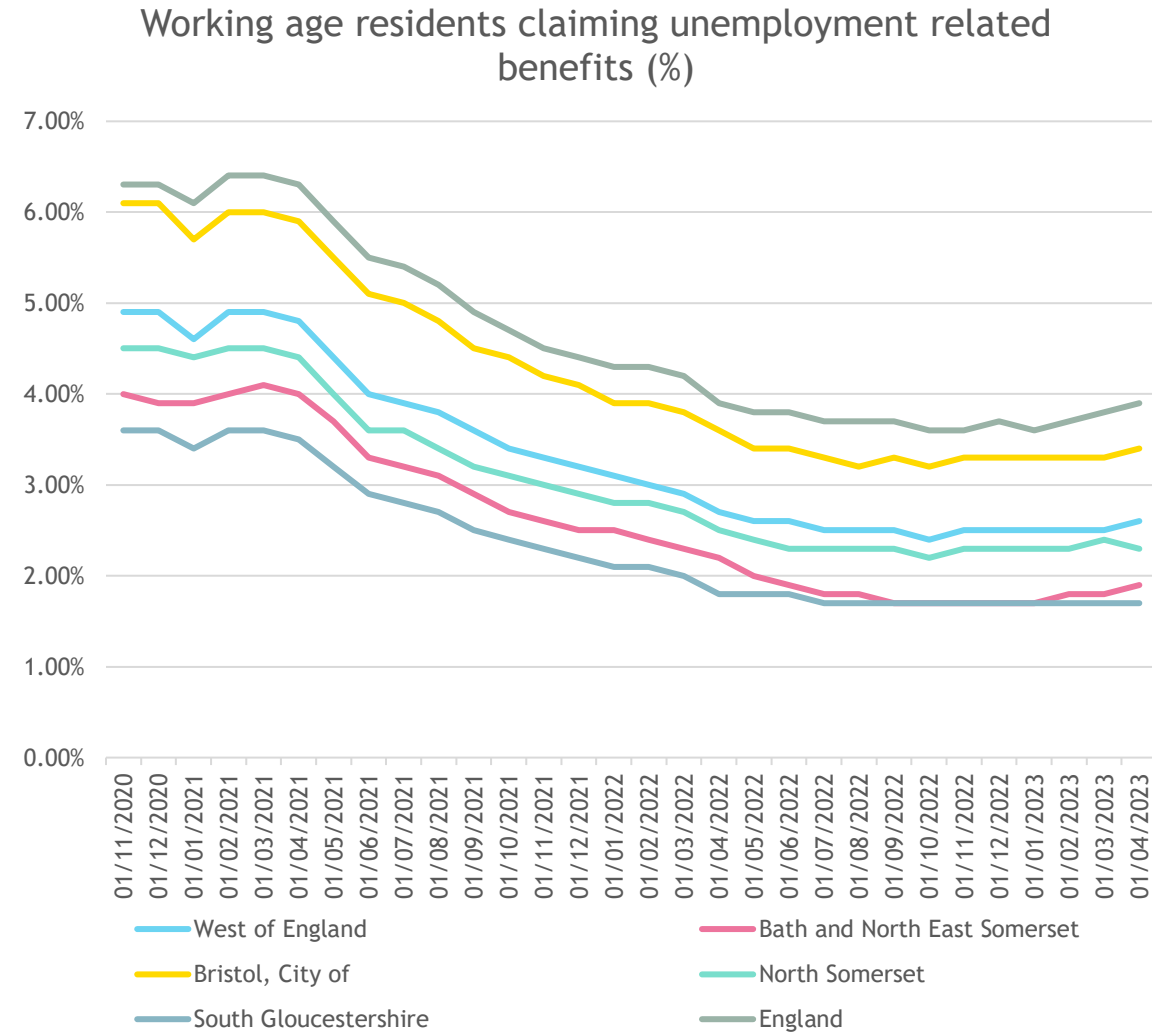
(a) Spot price is the one-day forward price of UK natural gas. The projections in May 2023, February 2023 and November 2022 are conditioned on wholesale gas prices following futures curves. These futures curves are the 15 working day averages to 28 April 2023 and 24 January respectively for May and February 2023 and the seven working day average to 25 October 2022 for November 2022. The projections in August 2022 were conditioned on wholesale gas prices following the futures curve in the 15 working days to 26 July for the first six months and then remaining constant.

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 April 2023, following a fall of 1.2% in March 2023
- 26% of businesses reported lower turnover in April 2023 compared to March 2023, compared to 16% reporting an increase
- 18% of businesses plan to raise prices in June 2023 - this represents a fall from 23% intending to raise prices in May, but is still significantly higher than usual
- The FSB report that businesses are (slowly) increasing their confidence, but from very low levels comparable to the height of Covid
- ‘General economic conditions’ are the perceived largest barrier to businesses in the UK, a change from previous quarters where energy prices have dominated; energy prices are now the third-largest barrier, after ‘consumer demand’.

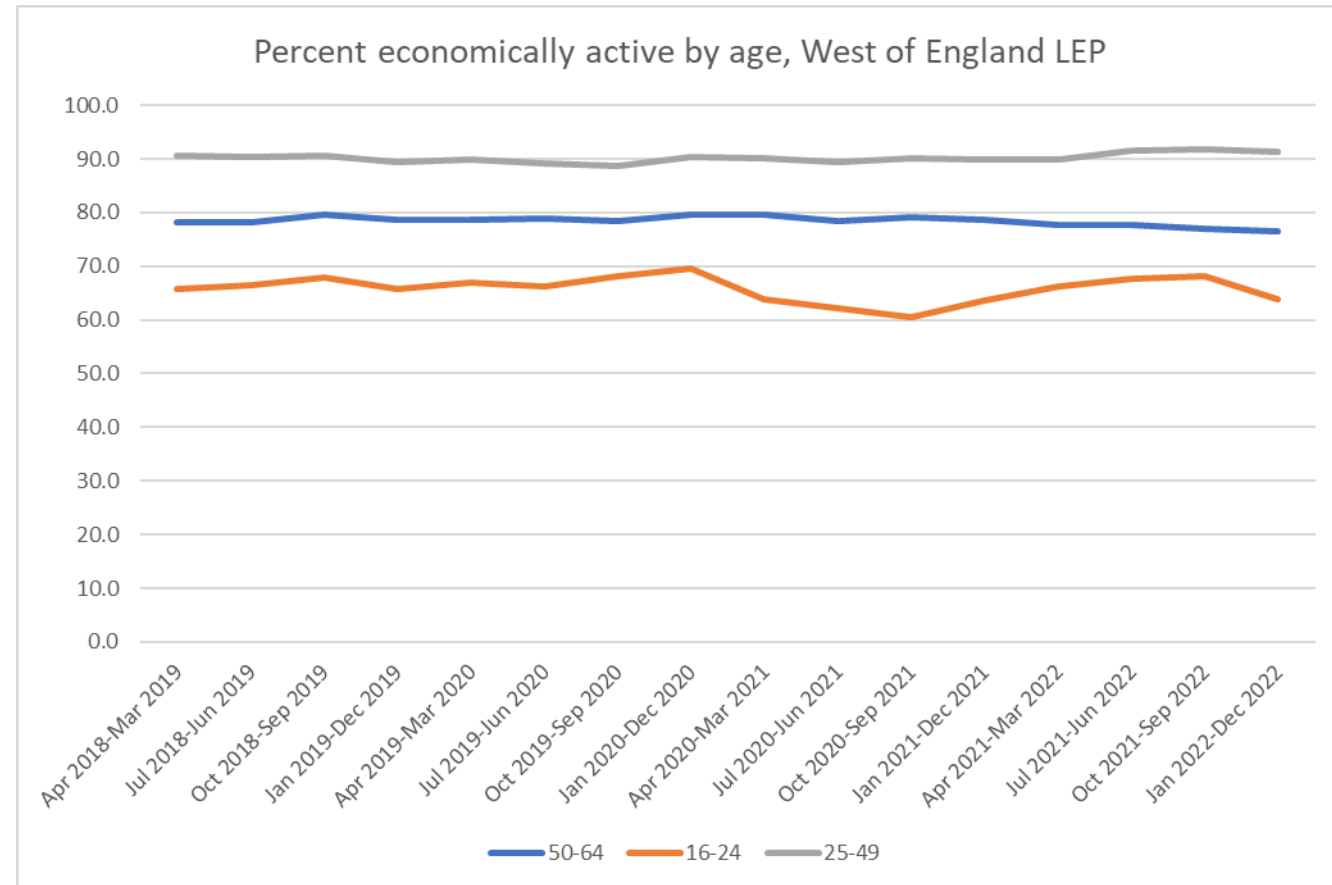
D. Labour market: unemployment benefit claims remain steady in the region

- The region is largely maintaining very low levels of unemployment, at 2.6%, with only very slight increases over the last few months
- Nationally, unemployment has started to increase slowly (to 3.9%)
- Bristol has the highest level of unemployment in the region, at 3.4%
- As detailed previously, unemployment predictions are now very variable, with the Bank of England's main prediction suggesting a slight increase is likely



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

- Overall economic inactivity in the West of England is slightly lower than average, at 22.9% compared with 26.3% across England
- 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
- There was an decrease in economic activity 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 currently around pre-pandemic levels - these changes correspond to big increases in the percentage of students, which is considered 'economically inactive'
- Economic activity levels for the 25-49 age group are now slightly above pre-pandemic levels
- The data in the graph is updated quarterly, but represents a year's worth of interviews



D. Labour market: Vacancies continue at a high level

- Job postings continue to be elevated compared to pre-Covid, but the numbers are continuing to slowly trend downwards nationally
- There were 1,083,000 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

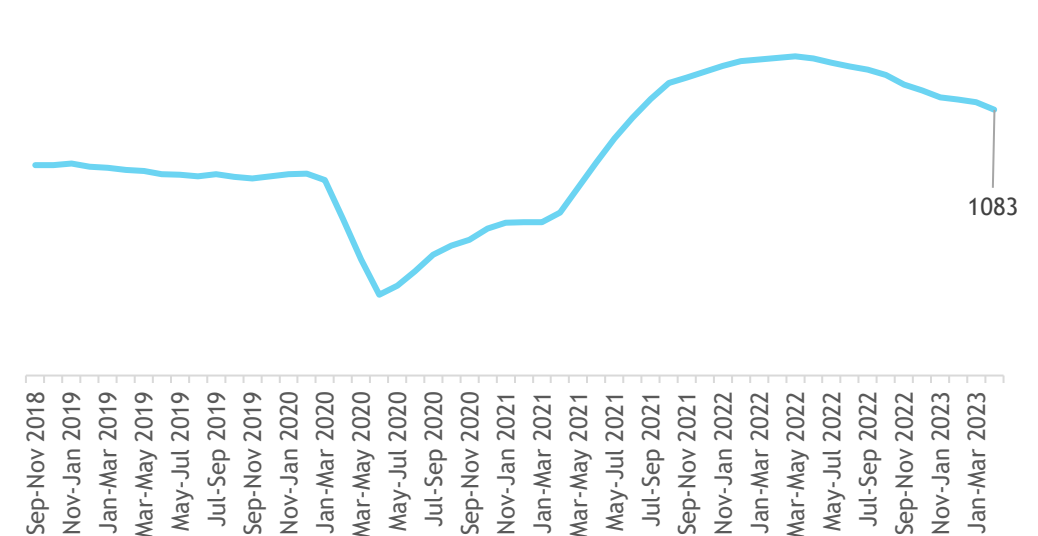
Note: Job postings levels and associated analytics are highly sensitive. Analysing trends rather than totals is therefore advised.

Regional (WoE LEP) vacancy trend

Unique Postings Trend



Seasonally adjusted vacancies (ONS Vacancy Survey) UK



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