

DERBYSHIRE COUNTY COUNCIL

D2 JOINT COMMITTEE FOR ECONOMIC PROSPERITY

10 October 2022

State of the Nation: An Overview of Economic Conditions in Derby and Derbyshire

(1) Purpose of Report

- 1.1 The purpose of this report is to outline the key economic conditions and issues that will be discussed at the meeting and to explore potential economic priorities going forward.

(2) Discussion / Decision Required by the Derby and Derbyshire Joint Economic Prosperity Committee (D2JC)

2.1 The D2JC is requested to:

- i) **Note the summary of economic conditions outlined below and consider the additional information presented at the Committee meeting**
- ii) **Identify potential economic priorities and interventions to help level up the D2 geography over the coming years, having regard to the opportunities presented by the proposed East Midlands mayoral county combined authority (EM MCCA)**

(3) Background

- 3.1 At the meeting on the 10th October, the Joint Committee is considering a separate item that confirms the outputs of a recent assessment on progress in delivering the Derbyshire COVID Recovery Strategy. In summary, the assessment demonstrates that strong progress has been made against many of the original priorities and interventions; as a result, consideration is being given to whether focus should be maintained on these issues going forward or whether other issues have emerged over recent months, notably the economic shocks resulting from the war in Ukraine and cost of living crisis.
- 3.2 To help set the context for these considerations, this report and accompanying presentation sets out the current economic conditions across the Derby and Derbyshire geography. This information is supported by a further item on the DJC agenda - an update from the East

Midlands Chamber on the impacts of the mini budget for local businesses.

3.3 In summary, the headline 'state of the nation' conditions are:

National context

- UK gross domestic product (GDP) is estimated to have increased by 0.2% in quarter two of 2022. The latest monthly GDP figure (July 2022) was also 0.2%. This means that GDP is now estimated to be 0.2% below where it was pre-pandemic. The UK is the only G7 economy to not have yet recovered to pre-COVID 19 levels.
- UK inflation has risen by 9.9% over the last year. The Bank of England expects the annual increase to peak at 11.0% in October 2022, then remain around 10% for a few months before starting to come down.
- UK interest rates are currently 2.25% and expected to rise to 6.0% next year.
- The UK pound has fallen to its lowest level against the dollar in more than 35 years.

D2 picture

- Prior to the pandemic the D2 economy was worth £24.7bn and had been performing relatively well with improving levels of economic output, productivity, higher value employment opportunities, skills and wages.
- In the five years coming into the pandemic, D2 economic output grew by 6.4%, although less than the 11.0% rise for England. The first year of the pandemic saw a fall of 9.7%, the same as that across England.
- Productivity (output per hour worked) in 2020 was £35.50 per hour worked in D2, 7.2% less than the £38.30 nationally.
- In the five years coming into the pandemic productivity grew by 9.1% across D2, less than the 14.6% nationally. However, the first year of the pandemic saw an above average increase in D2's productivity.
- There were 421,500 employees in D2 firms in 2020 (latest data). The first year of the pandemic saw this level fall by 3.5%, a more significant decline than the 1.9% across England.
- The employment rate in D2 stands at 75.8% (quarter one 2022). This is higher than that nationally (75.4%) although there has been a narrowing of the gap over the last few years.
- One of the major aspects of the D2's economy since the onset of the pandemic has been the increase in people leaving the labour market. This has been seen nationally too, but the increase of 8.1% across D2, equating to 8,100 people who don't want a job, is higher than that nationally (6.3%).

- In September 2022, monthly vacancies in the D2 economy had exceeded their pre-pandemic peak, although the growth was lower than that nationally, at 4.4% compared with 22.5%.

3.4 For Derby and Derbyshire, this means:

- It is a challenging time for the UK economy and although the most recent quarter (quarter two of 2022) has shown growth, albeit modest, the path of GDP over the rest of the year and beyond is not clear. This is likely to create uncertainty for D2's 37,500 businesses.
- UK manufacturing output has fallen in the last two quarters. Manufacturing is the biggest sector in D2 employing 74,000 people so this is a concern.
- The high levels of UK inflation are, and will, be creating significant financial stress for D2's residents and businesses with consumer demand for goods and services likely to decline.
- The falling pound puts upward pressure on import costs but for exporters there could be benefits. D2 is a significant exporter with the value of exports across the area in 2020 being £13.6bn.
- The full extent of the economic impact of COVID-19 is still not clear. Business data released over the Autumn 2022 may indicate the extent to which there has been any delayed impact to business numbers locally.
- However, the positive productivity response of the D2's economy to the pandemic offers some hope and a base to build from.
- Vacancies are running at high levels across the area and many firms are struggling to take on the people they need. The above average rise in economic inactivity is a key factor locally in this.

4. Recommendations

- 4.1 The D2 Joint Committee is asked to note the above summary and details provided in the accompanying presentation and consider the key economic priorities which may drive forward any future interventions and strategy development.