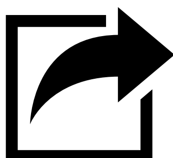
Dorset LEP - Monthly Economic Commentary – January 2023

Moors Economics Limited – January 2023

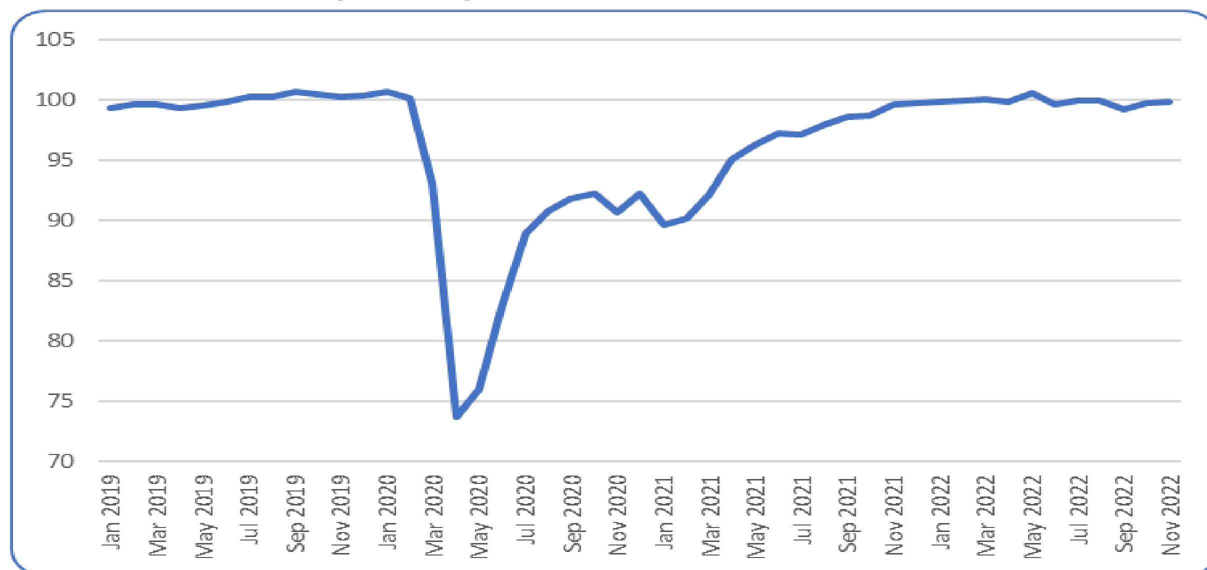
This short paper highlights some key economic developments over the past month – both nationally and relevant to the local Dorset and Bournemouth, Christchurch and Poole (BCP) economy.

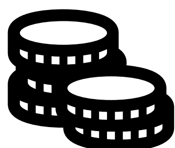
1. Context – national and international growth



The latest GDP figures released by the ONS have surprised economic commentators (although noting this dataset is often subject to revisions). It indicates that the UK economy unexpectedly grew in November, helped by a boost from the World Cup. The ONS said that pubs and restaurants boosted growth. Output in consumer facing services grew by 0.4% in November. Whilst these initial estimates did not indicate a decline in output (which many had expected), it was still a slower rate of growth seen in the previous month - October (0.5%), itself reflecting some bounce back from businesses that had shut in September due to the Queen's funeral. Production output decreased by 0.2% in November and manufacturing was the main driver of negative production growth. The construction sector was flat. The initial reaction to the November figures suggests that it makes it a little less clear that the UK entered recession at the end of 2022.

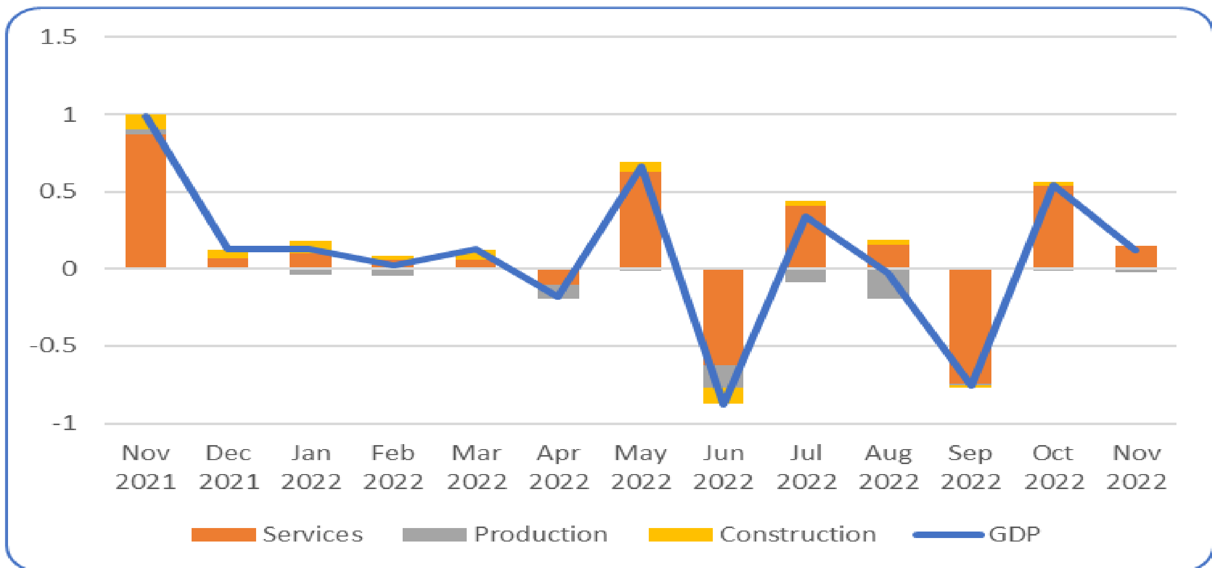
Chart 1: Monthly UK GDP (2019=100)





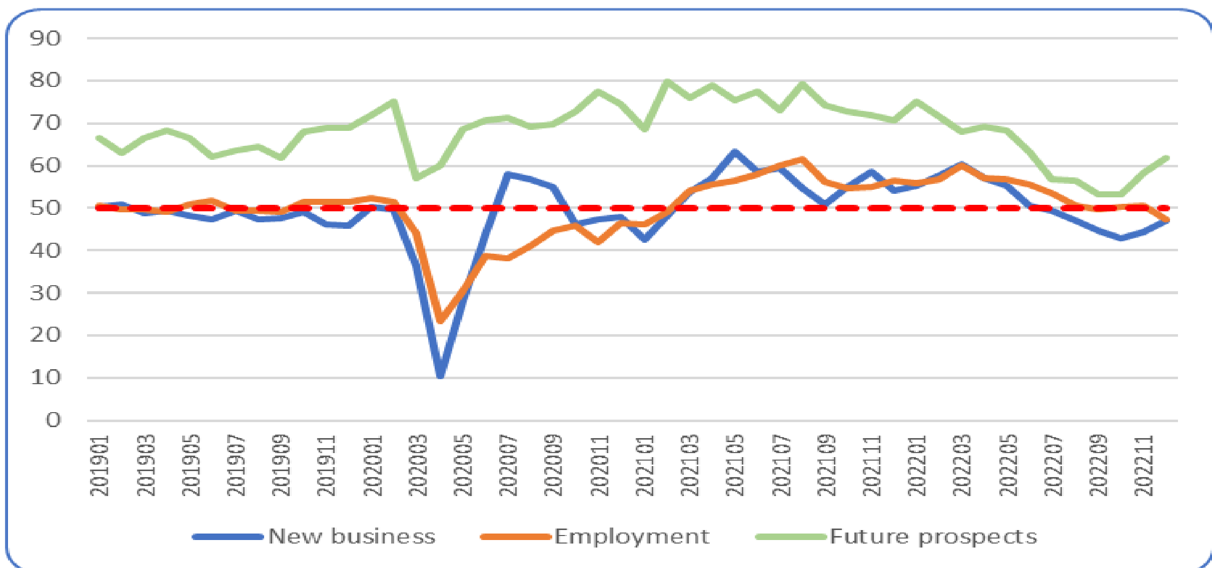
The latest inflation data for November 22 showed that price increases remained high, although easing slightly from previous highs experienced. The Consumer Price Index in November was 9.3%, down from 9.6% in October. The easing of inflation in November primarily reflected a softening of price rises in transport – both pump prices as well as second-hand cards. The strongest price increases came from alcohol in hospitality.

Chart 2: Contributions to monthly GDP growth (percentage points)



The latest survey data from the monthly [NatWest South West Purchasing Managers Index (PMI)]() also indicated a contraction in activity across the region in December. However, this data suggests a slowdown in contraction – with December's responses indicating the slowest rate of decrease in five-month sequence of contraction, amid a softer reduction in new orders. There was a slight increase in confidence amongst PMI panel businesses, with anecdotal evidence suggesting that plans for investment and hopes for a revival in demand underpinning this slightly more optimistic mood. However, December was still the sixth month running where businesses reported a fall in new business. The PMI indicates that businesses were cutting back on staffing levels for the first time since September. Therefore the latest update from this useful dataset provided some mixed messages.

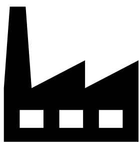
Chart 3: NatWest Purchasing Managers Index – South West – December 22 (>50 increasing confidence, <50 decreasing confidence)



At a macro level, the World Bank's latest forecast is that the global economy is falling 'perilously close to recession'. It expects the world economy to grow by just 1.7% this year – a sharp decrease from the 3% predicted in June. The effects of higher interest rates across most countries has been highlighted as a key challenge. The 1.7% growth figure would be the lowest since 1991, with the exception of the recessions of 2009 (financial crisis) and 2020 (pandemic). The World Bank said the US, the Eurozone and China - the three most influential parts of the world for economic growth - were 'all undergoing a period of pronounced weakness'. The latest World Bank forecasts include a 'zero growth' scenario in the Euro area.

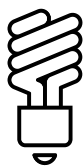
Despite these gloomy forecasts, jobs growth in the US remained strong, even as the economy wrestled with the impact of fast-rising prices. Some commentators have cited that the tight labour market conditions will mean that the Federal Reserve will find it difficult to achieve its 2% inflation target – inflation in the US currently standing at over 7%.

Housebuilders are beginning to report a slowdown in the housing market. Recently large housebuilders such as Barratt have indicated that political and economic uncertainty and rising mortgage costs are now impacting on potential buyers, with increased rates making new homes less affordable. This follows on from similar warnings by other large housebuilders – with Persimmon highlighting an increase in cancellation rates and a decline in sales, particularly in the aftermath of the political and economic uncertainty.



In its latest regional Manufacturing Barometer SWMAS have highlighted some of the benefits and difficulties faced by manufacturers who have 'reshored' activities. Whilst a quarter have said that their orders have increased as a result of production being brought back to the UK, 18% of those businesses are unable to meet this demand due to a variety of challenges including increasing lead times, lack of staff, problems sourcing raw materials, already operating at full capacity or lack of available cashflow.

2. Energy cost crisis



There are signs that there is an easing of the energy cost crisis. Average forecourt prices of petrol have fallen – with average petrol prices below 150p a litre for the first time since Russia invaded Ukraine – driven by falling global oil prices. However, petrol prices were still above historical trends and there is a planned temporary cut in fuel duty in March which may affect prices again.

However, it was perhaps very insightful that the boss of Norwegian energy giant Equinor has recently publicly aired his view that, whilst there has been some recent easing in wholesale gas and electricity prices, he does not expect energy bills to return back to pre-Covid levels. One of the reasons cited was the cost of shifting from fossil fuels to renewables.

The news of marginally easing energy prices in homes also counters evidence around the cost of charging electric vehicles. The RAC has estimated that the cost of using publicly accessible rapid and ultra-rapid chargers has risen by 50% since May. It now costs an average of 70.32p per kilowatt to rapid charge on a pay-as-you go basis, up from 44.55p (58%) since May and from 63.29p (11%) since last September. The rises have been driven by further increases in the wholesale cost of electricity. This is more than twice the cost of charging the same car at home, with the price of such a charge coming in at £17.87 – despite the record high domestic energy prices.

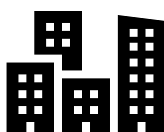
The RAC's analysis shows that drivers who use the rapid public charging network – typically because they need to recharge on a longer journey or are trying to charge up time-efficiently as they can't do so at home or work – currently pay a huge premium over those using slower chargers. Indeed, it can be more expensive for an EV driver to recharge quickly on a longer journey than it is for a petrol and diesel drivers to refuel. These costs are higher than the equivalent per-mile rate for a petrol car that achieves an economy of 40 miles to the gallon (17p per mile) and are on a par with a

Table 1: Average cost to charge per kilowatt hour, by charger speed

	'Rapid' 23-99kW	'Ultra-rapid' 100kW+
Sept 21	36.74p	34.21p
May 22	44.55p	50.97p
Sept 22	63.29p	63.94p
Jan 23	70.32p	74.79p
Change Sept-22 to Jan 23	+7.03p (+11%)	+10.85p (+17%)

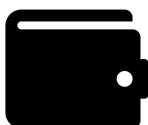
Despite these cost increases for charging the demand for electric cars continued to grow – set in the context of overall car sales falling to their lowest level for three years. Sales of electric cars, continued to grow. They rose from 190,700 to 267,000 - with their market share climbing from 11.6% to 16.6%. The lion's share of fully electric vehicles were bought by businesses and fleet customers which made up 66.7% of all registrations of this type of car in 2022.

However, charging infrastructure is not being built quickly enough to cope with growing demand, as warned by the Society of Motor Manufacturers and Traders (SMMT). A Zero Emission Vehicle (ZEV) mandate is due to come into force in 2024. It will compel manufacturers to ensure that a proportion of the cars they sell are fully electric. The SMMT is also warning that the number of public charging points is not increasing quickly enough to reach the government's target of having 300,000 by 2030 – estimated to require 100 new charging points to be installed per day compared to the current rates of c23. The danger highlighted by the SMMT is that this will result in a worsening experience for users. Electric cars will also no longer be exempt from vehicle excise duty from April 2025 as part of a UK Government plan to make the motoring tax system 'fairer'.



In other energy related news, the UK Government announced that it will scale back support for businesses with their energy bills – a reflection that the previous support system was proving too expensive. The energy support scheme is mainly used by businesses, but is also for charities, and public sector organisations such as schools and hospitals. In its announcement, the UK Government said it was scaling back the energy subsidies for the next financial year to £5.5bn. The current scheme had been described as 'unsustainably expensive' by the chancellor and was predicted to cost about £18.4bn in just six months. Bills will automatically be discounted by up to £6.97 per megawatt hour (MWh) for gas bills and up to £19.61 per MWh for electricity bills. More energy intensive businesses will still receive higher forms of support, but lower than previously announced.

3. Impact on living standards



The Resolution Foundation produced its latest Living Standards Outlook (2023) which did not make for positive reading. It noted that, whilst nominal pay has increased at the fastest rate since 1991, the high rate of inflation has meant that real pay has continued to fall. As a result, it is estimated that average (median) household incomes fell by 3% in 2022/23. Just over three-quarter of all adults reported that they had cut back spending at the end of 2022, with working adults in low-income households tightening their belts in particular and more likely to say that their financial situation was worse than since the start of the year.

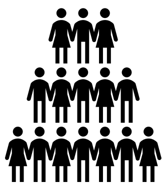
While cutting back is widespread, there is a worryingly large minority of families at the sharper end of the cost-of-living crisis. There are large increases in people unable to afford essentials compared to the pre-pandemic period: the proportion of adults unable to replace electrical goods when needed has increased markedly from 8% in 2019-20 (pre-pandemic) to 23% in 2022 (equivalent to 12 million adults), and the proportion unable to save £10 or more a month has risen from 6% to 27% over the same period (or 14 million adults). The proportion of adults reporting being unable to afford to switch the heating on when needed (given cost of energy increases) has risen from 5% to 27%. Social renters were almost twice as likely as those living in other tenures to say that they could not afford to switch the heating on when needed this winter (45% compared with 19% for those who own their home outright).

Unsurprisingly, rises in the price of essentials are making some families' budgets unsustainable, and debts are starting to accumulate particularly among low-income households. People are twice as likely to be increasing their debts now compared with the pandemic. In November, 11% of adults said that their debts had increased moderately or substantially in the past three months, rising to 20% amongst workers in low-income families.

Even though the rate of inflation is expected to ease through 2023 real wages are expected to keep falling until the second half of 2023 as inflation continues to outstrip wage growth. Over the course of the forecast two-year squeeze in living standards, real incomes among the poorest fifth of households will fall by 4%, compared to 9% for the richest households. This largely reflects UK Government decisions to protect benefit income from high inflation, with Cost of Living Payments over the next two years being worth more to lower-income households than those on higher incomes, and benefits being uprated by 10.1% in April 2023.

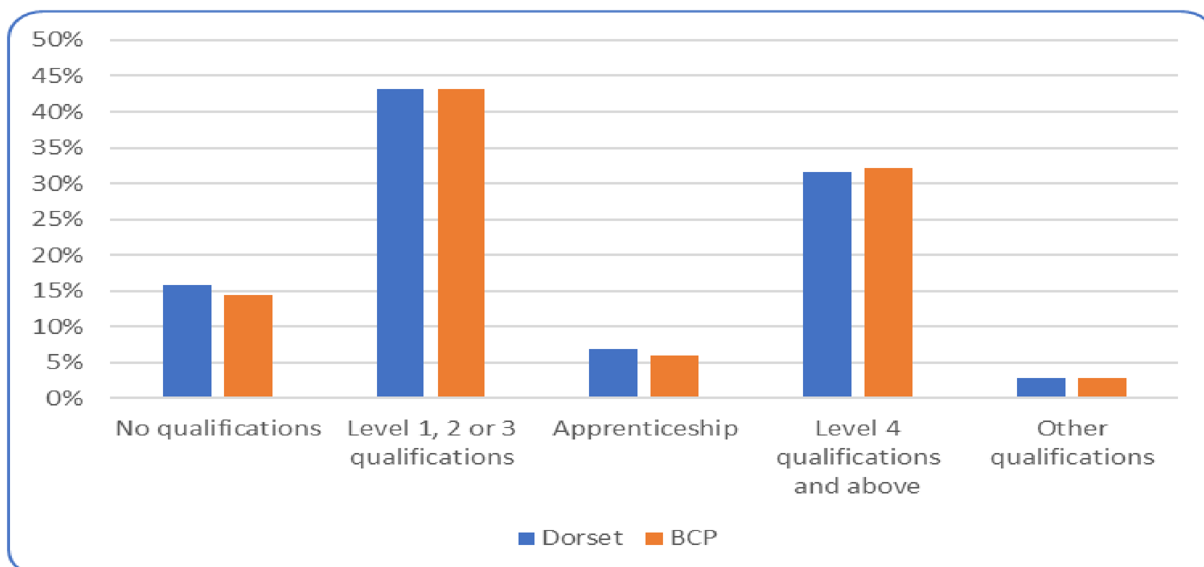
Due to the fall in living standards (actual and forecast) absolute poverty is expected to increase, with a particular impact on the extent of child poverty. The Resolution Foundation forecasts that an additional 400,000 children across the UK could be living in households experiencing absolute poverty by 2023-24.

4. Census – high level initial release



Results from the 2021 Census are now gradually being released by the ONS, encompassing a range of socioeconomic data. Whilst more detailed data will follow in phased releases it is useful to highlight a sample of census data that is now available. In terms of qualifications (which tends to be estimated through a smaller survey sample between Census periods) it shows that c15% of the population across the Dorset LEP area hold no formal qualifications. Just under one-third hold Level 4 qualifications or above, with c40% holding either Level 1, 2 or 3 qualifications. The profile is broadly similar across Dorset and BCP local authority areas – as shown below.

Chart 3: Highest level of qualifications (aged 16 and over)



The Census also asked about the extent of deprivation experienced by individuals/households. The Census reveals that c50% of households were experiencing at least one 'dimension' of deprivation – education (a household where no one has (or studying for) at least a Level 2 qualification), employment (a household where a member of the family is either unemployed or economically inactive), health (a household where someone is defined as having 'very bad' or 'bad' general health), or housing (a household that could be described as suffering from overcrowding, a shared dwelling, or has no central heating).

Chart 4: Household deprivation (% of households)