

The economic performance of England's regions

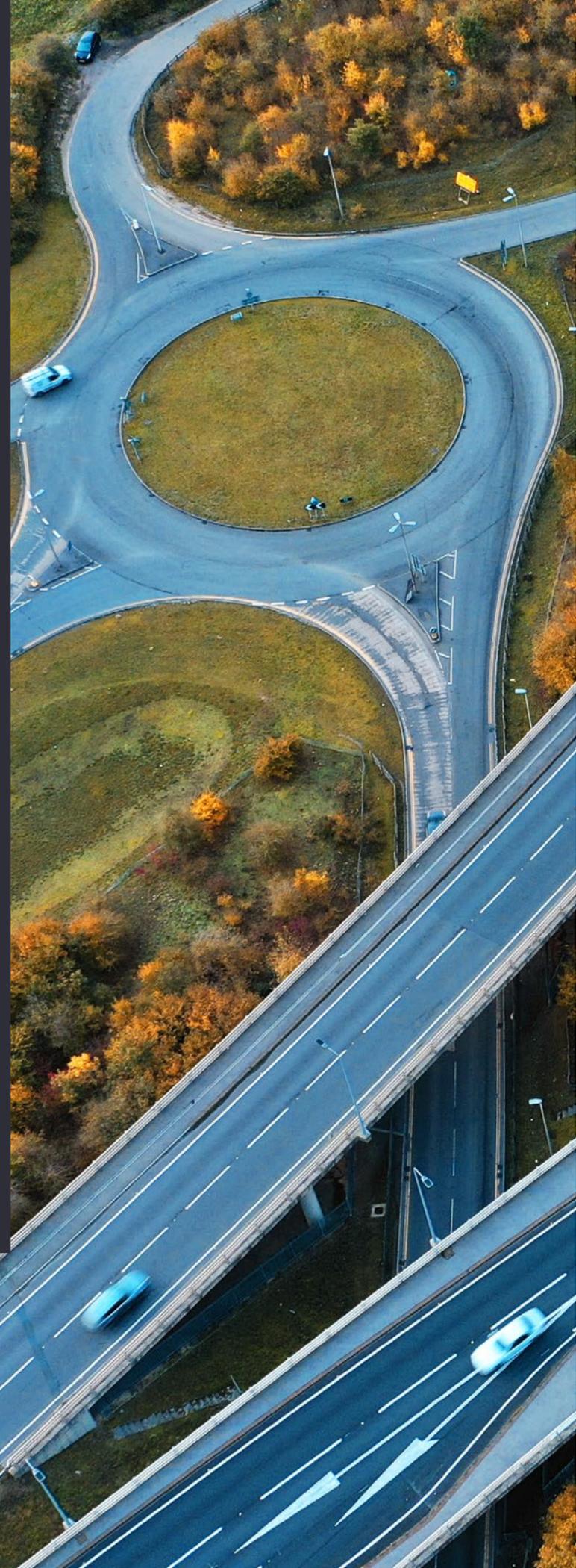
UK Regional Economic Forecast
December 2020



Building a better working world

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Introduction

We are very pleased to share our sixth economic forecast for England's regions, cities and towns. As a nationwide employer, committed to supporting efforts to rebalance the country's economic geography, our forecasts are designed to help broaden understanding and to advance the debate. We will be working with our colleagues across the country to share the detailed findings with local stakeholders.

As we reach the end of 2020, the launch of a vaccination programme points to light at the end of the tunnel. This is reflected in our economic forecast, with the EY ITEM Club projecting a return to growth in 2021. However, the consequences of the shock delivered by COVID-19 will remain with us for some time. This is particularly true in respect of the Government's ambition to level up the economy, and our forecast suggests that on current trends, the gap between the North and South of the country is likely to widen over the next three years, and cities are expected to pull further away from towns.

Despite the challenging outlook, there is opportunity. Although COVID-19 delivered a huge economic and health cost, the response to the pandemic showed us that there are alternative ways to organise our economic and social activities. With our research showing that both businesses and consumers are aware of the opportunities which change offers, and are keen to explore them, we believe there is a unique opportunity to transform England's economy and move to the **Next Level** – a more prosperous and balanced economy. This document is intended to give details of the regional performance. Click here to download the forecast in full where, we identify the key steps required to make this vision a reality.

We firmly believe in the potential of 'levelling up' and are committed to supporting attempts to maximise the opportunities and performance in all parts of the country. We look forward to the opportunity to share and develop our ideas with you.



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Regional focus

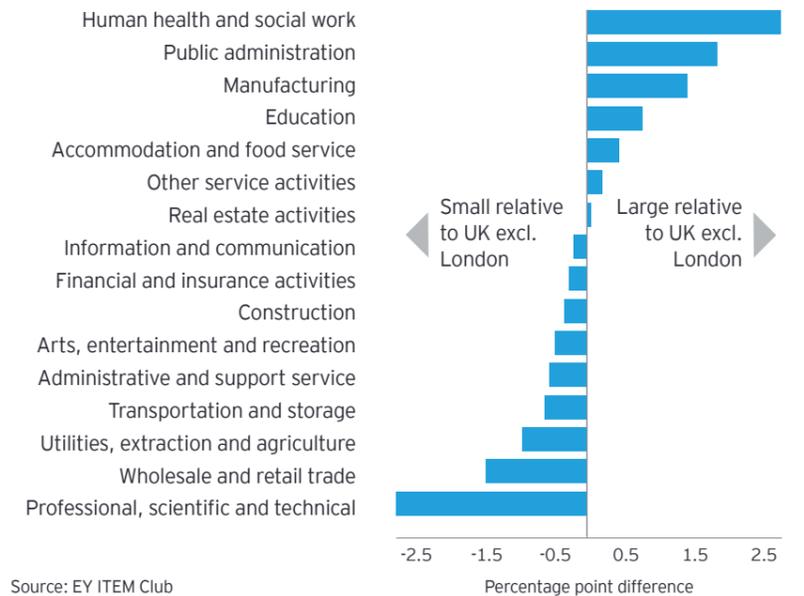


1 North East

- ▶ According to the latest Purchasing Managers' Index (PMI), output in the North East increased for the fourth consecutive month in October 2020. However, like the rest of the UK, the pace of this growth has slowed since August.
- ▶ Labour market data has been fairly mixed for the North East. The total number of workforce jobs rose by 0.9% over the year to June 2020, despite a 0.7% contraction nationally. However, the more timely Labour Force Survey (LFS) reports that employment fell by 0.8% in the quarter to September 2020 compared with the same period a year earlier – this contraction was broadly in line with that of the UK. The region also recorded a rise in the unemployment rate over the same period, up to 6.7% of the population aged 16 and above from 5.9%.
- ▶ The North East recorded the weakest growth house prices in the 12 months to August 2020, growing by 0.2% compared to 2.5% nationally.
- ▶ The North East will be among the weakest performing regions over the period 2020-23, with GVA contracting by 0.3% on average each year. Employment is expected to decline by 0.4% each year as job losses in the region's manufacturing sector hinder overall employment growth.

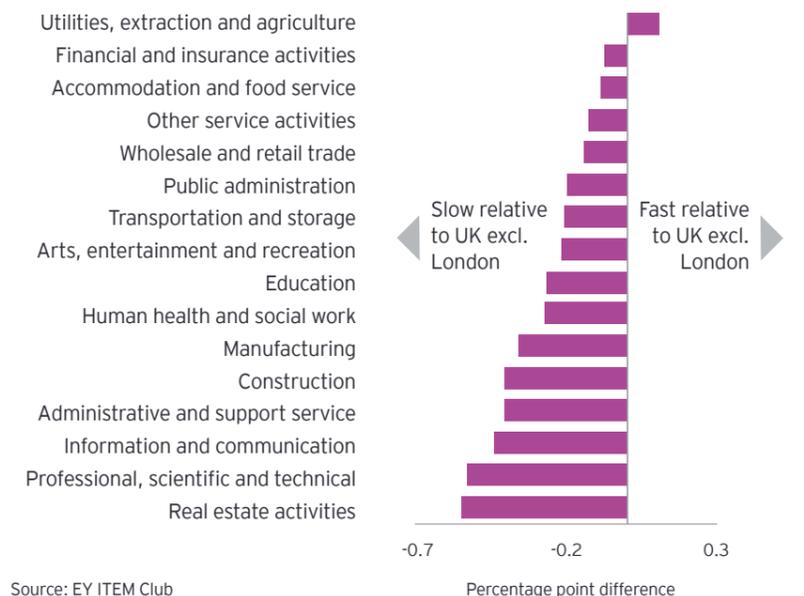
The North East will be among the weakest performing regions over the period 2020-23

Employment structure: North East vs UK (excl. London), 2019



Source: EY ITEM Club

GVA growth: North East vs UK (excl. London), 2020-23



Source: EY ITEM Club

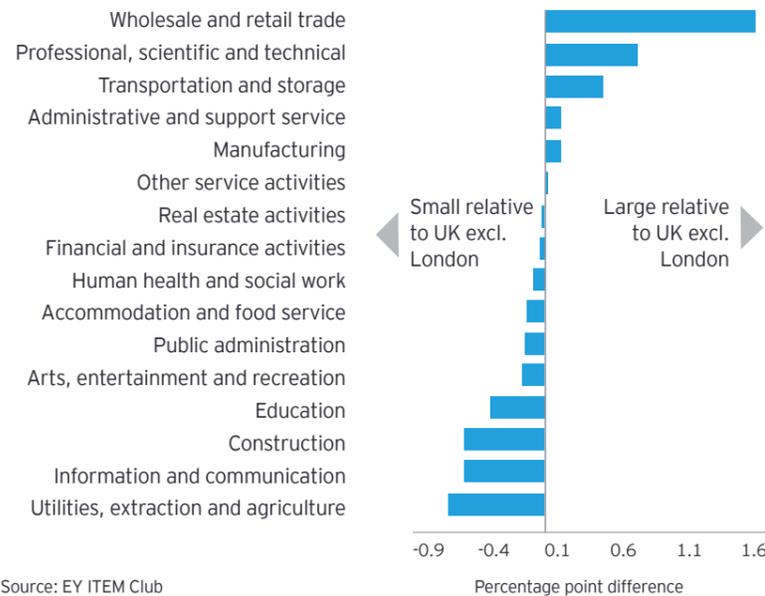
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North West

- ▶ The latest survey data from the PMI suggests that the North West's economy continued to grow in October 2020, although the rate of growth has started to slow.
- ▶ Recent labour market data has been relatively weak. Total workforce jobs in the North West fell by 1.5% over the year to June 2020, more than twice the rate of contraction reported across the UK. The more timely LFS indicates further decline in the quarter to September 2020 compared with the previous year, with employment declining by 6,000, coinciding with a 0.4 percentage point rise in the unemployment rate to 5.9% of the population aged 16 and above.
- ▶ Despite the poor performance of the labour market, house price growth in the North West has been among the highest across the UK regions in the 12 months to August 2020, rising by 3.5% compared to 2.5% nationally.
- ▶ Our GVA and employment growth forecasts for the North West match the UK over the 2020-23 period, growing at an average of 0.1% and -0.1% per year respectively. The professional, scientific and technical and wholesale and retail sectors will be the most dynamic in the region – the latter benefitting in the near-term from pent-up demand.

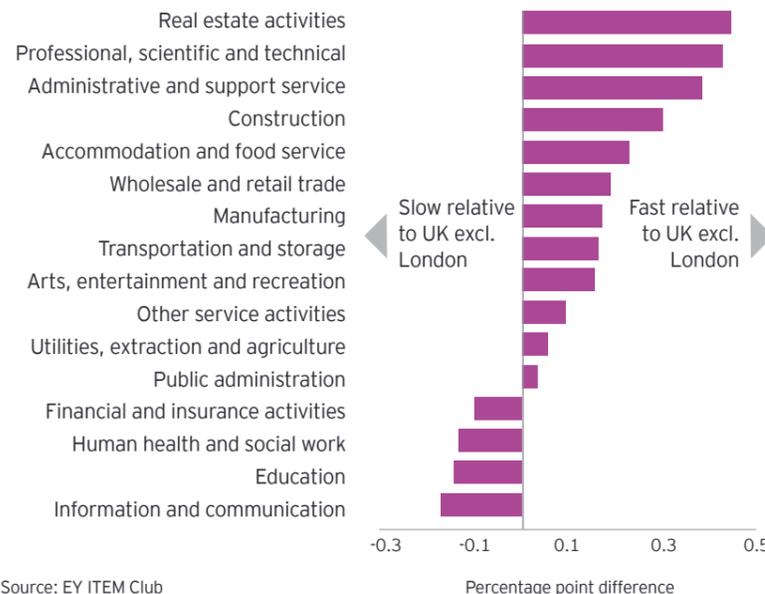
Total workforce jobs in the North West fell by 1.5% over the year to June 2020

Employment structure: North West vs UK (excl. London), 2019



Source: EY ITEM Club

GVA growth: North West vs UK (excl. London), 2020-23



Source: EY ITEM Club

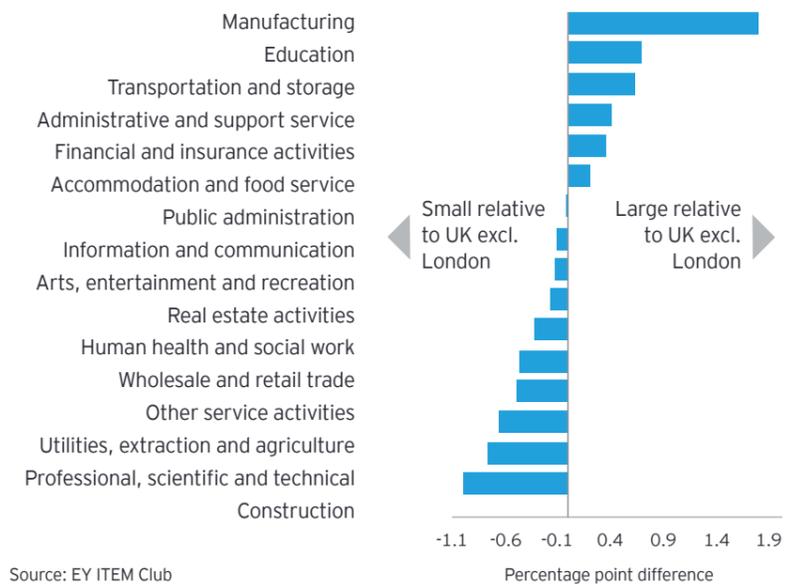
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Yorkshire and the Humber

- ▶ The latest PMI data shows that growth in Yorkshire and the Humber's economy slowed in October 2020 however, the region still experienced growth above UK average.
- ▶ Recent employment data has been positive for Yorkshire and the Humber. Workforce jobs reports a 0.9% rise in the 12 months to June 2020, the strongest performance observed across the regions. The more timely LFS data records that employment also grew in the quarter to September 2020 compared with a year previous, rising by an additional 0.5%. Despite increasing employment, a rise in the unemployment rate was also recorded over the same period.
- ▶ The region's strong employment performance helped to support house prices, with prices increasing by 2.7% in the 12 months to August 2020 and outpacing the UK (2.5%).
- ▶ GVA growth in Yorkshire and the Humber is forecast to lag the UK between 2020 and 2023, contracting by 0.2% annually compared with 0.1% average growth nationally. Despite the overall contraction, human health and social work and information and communication are forecast to be the most dynamic over this period.

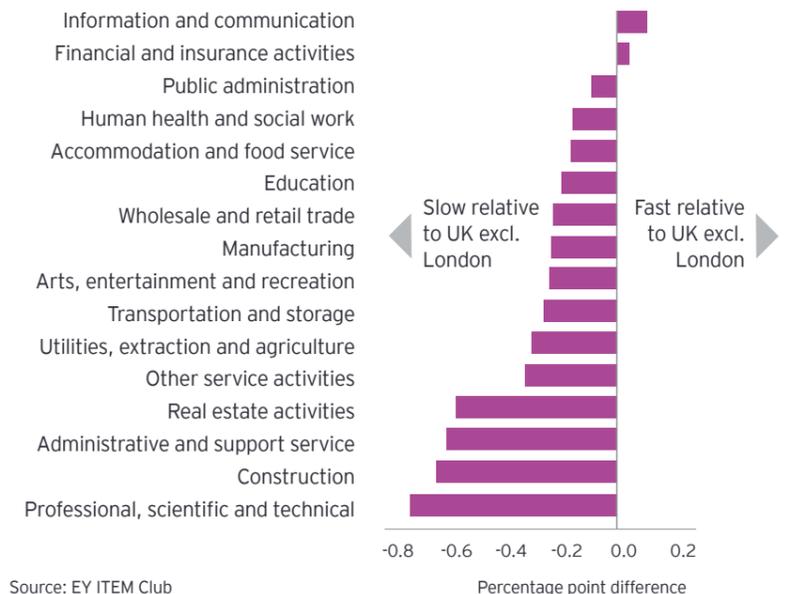
Recent employment data has been positive for Yorkshire and the Humber

Employment structure: Yorkshire and the Humber vs UK (excl. London), 2019



Source: EY ITEM Club

GVA growth: Yorkshire and the Humber vs UK (excl. London), 2020-23



Source: EY ITEM Club

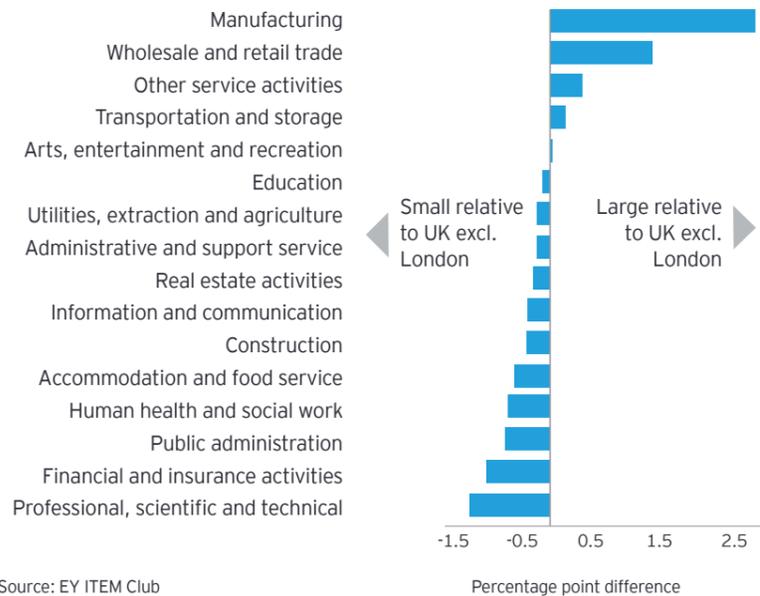
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East Midlands

- ▶ Following record growth in September 2020, output growth in the East Midlands slowed significantly in October according to the latest PMI data.
- ▶ The latest labour market data has been relatively weak for the East Midlands. Whilst total workforce jobs remained broadly flat in the 12 months to June 2020, the more timely LFS suggests a weakening picture for the region, with a 1.8% contraction reported in the quarter to September 2020 compared with a year earlier. This was accompanied by a rise in the unemployment rate to 4.9% of the population aged 16 and above.
- ▶ House prices in the East Midlands reported the fastest rate of growth in the 12 months to August 2020, rising by 3.6% and outpacing the UK (2.5%).
- ▶ GVA in the East Midlands is expected to remain broadly flat over the next four years, lagging marginally behind the 0.1% growth forecast nationally. The outlook for employment is slightly weaker, with a 0.1% contraction expected, in line with the UK. Job losses in the region's sizeable manufacturing sector will offset growth in other sectors.

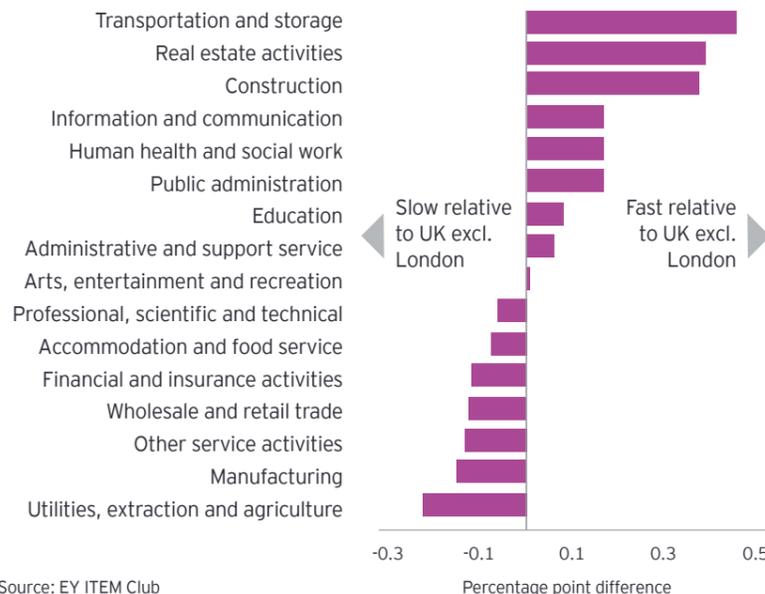
GVA in the East Midlands is expected to remain broadly flat over the next four years

Employment structure: East Midlands vs UK (excl. London), 2019



Source: EY ITEM Club

GVA growth: East Midlands vs UK (excl. London), 2020-23



Source: EY ITEM Club

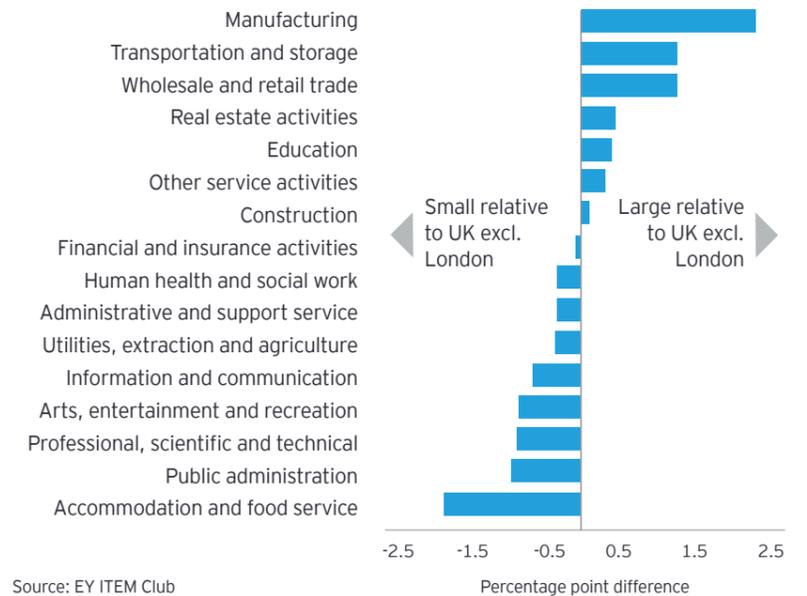
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West Midlands

- ▶ The latest survey evidence from the PMI shows that output growth in the West Midlands has begun to slow, with growth falling below the UK average in October 2020.
- ▶ The latest labour market data is also less favourable. Workforce jobs fell by 2.5% in the year to June 2020, the joint largest regional contraction reported alongside the South East. The more timely LFS supports this story of weak performance, with a contraction of 1.4% in the quarter to September 2020 compared with a year earlier. Over the same period, unemployment rose by 24,000, bringing the unemployment rate up to 4.9% of the population aged 16 and above, marginally above the UK (4.8%).
- ▶ While house prices in the West Midlands rose in the year to August 2020, their pace of growth (2.3%) lagged marginally behind that of the UK (2.5%).
- ▶ The GVA outlook for the West Midlands is among the weakest across the UK, with a 0.3% contraction expected between 2020 and 2023. The region's high reliance on manufacturing leaves its economy particularly exposed to Brexit related trade frictions.

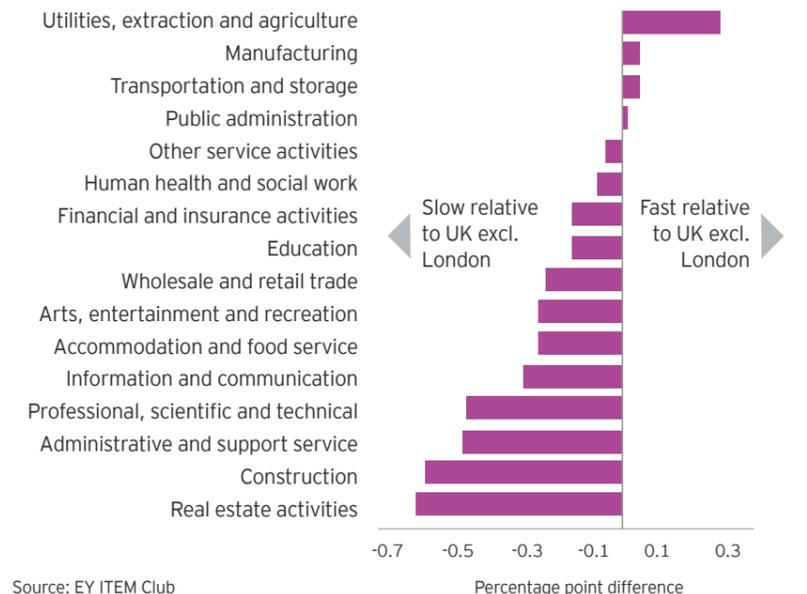
The GVA outlook for the West Midlands is among the weakest across the UK

Employment structure: West Midlands vs UK (excl. London), 2019



Source: EY ITEM Club

GVA growth: West Midlands vs UK (excl. London), 2020-23



Source: EY ITEM Club

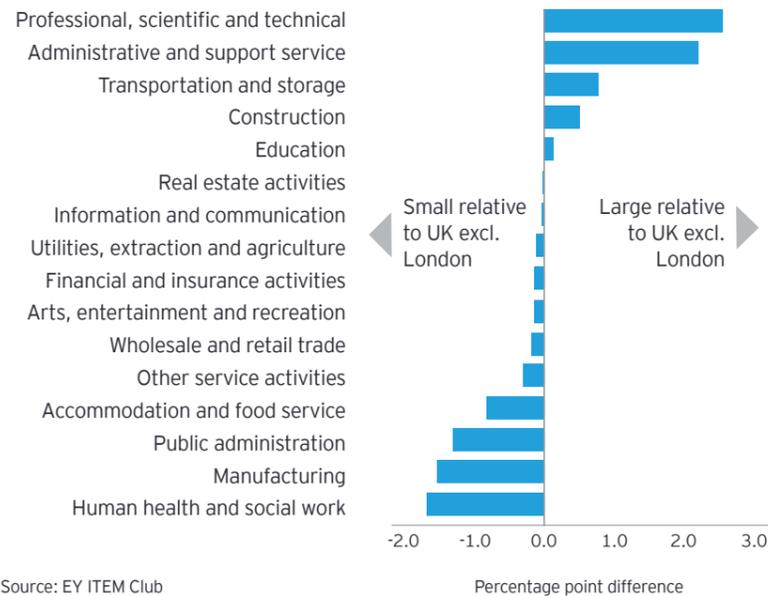
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East of England

- ▶ The East of England experienced the second fastest increase in economic activity in September 2020 according to the latest PMI survey results.
- ▶ However, the latest labour market data for the region suggests weakening conditions. Over the year to June 2020, workforce jobs contracted by 0.8%, equating to around 25,000 job losses. Furthermore the more timely LFS data reports a 0.6% decline over the quarter to September 2020 against a year previous. This contraction in employment was accompanied by a 1.1 percentage point rise in the unemployment rate to 4.3% of the population aged 16 and above.
- ▶ House prices in the East of England have grown by 2.0% over the year to August 2020, lagging marginally behind that of the UK (2.5%).
- ▶ Employment and output in the East of England are forecast to mirror the national average over the next four years. GVA is expected to expand at an average annual rate of 0.1%, whilst employment is forecast to contract by 0.1% per year.

The East of England experienced the second fastest increase in economic activity in September 2020 according to the latest PMI survey results

Employment structure: East of England vs UK (excl. London), 2019



Source: EY ITEM Club

GVA growth: East of England vs UK (excl. London), 2020-23



Source: EY ITEM Club

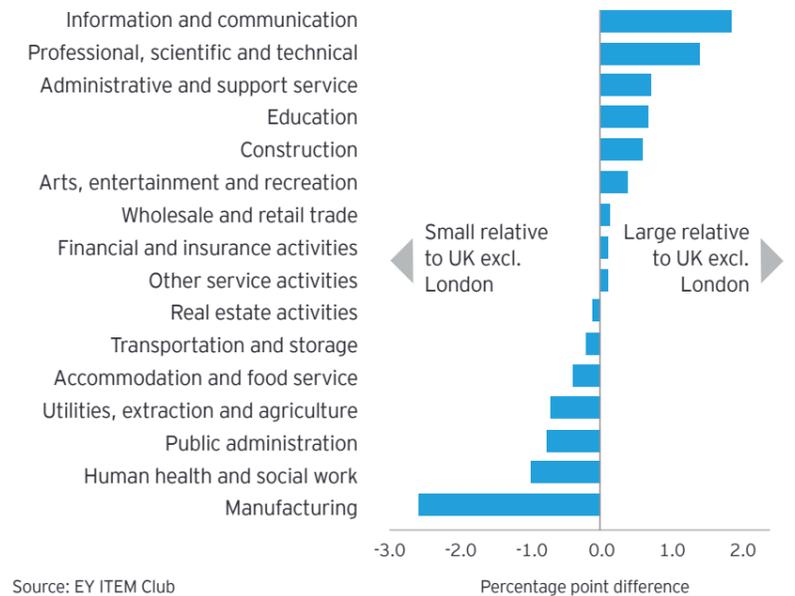
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South East

- ▶ Despite growth slowing marginally between September and October, the South East experienced the strongest growth in economic activity in October 2020 according to the latest PMI.
- ▶ The latest labour market data has been particularly weak. Workforce jobs contracted by 2.6% over the year to June 2020, the weakest regional performance alongside the West Midlands. The more recent LFS data shows a 1.5% contraction in the quarter to September 2020 compared with a year previous, almost twice the rate of decline reported nationally. The unemployment rate has risen 1 percentage point over this period but one remains one of the lowest at 4.1% of the population aged 16 and above.
- ▶ Despite the poor performance of the labour market, house prices have risen 2.9% in the year to August 2020, outpacing national growth (2.5%).
- ▶ Growth within the South East is forecast to outpace the national average. Employment in the region is forecast to expand by an annual average of 0.1% between 2020 and 2023. Solid performances in the information and communications and professional sectors are expected to support GVA growth of 0.4% per year.

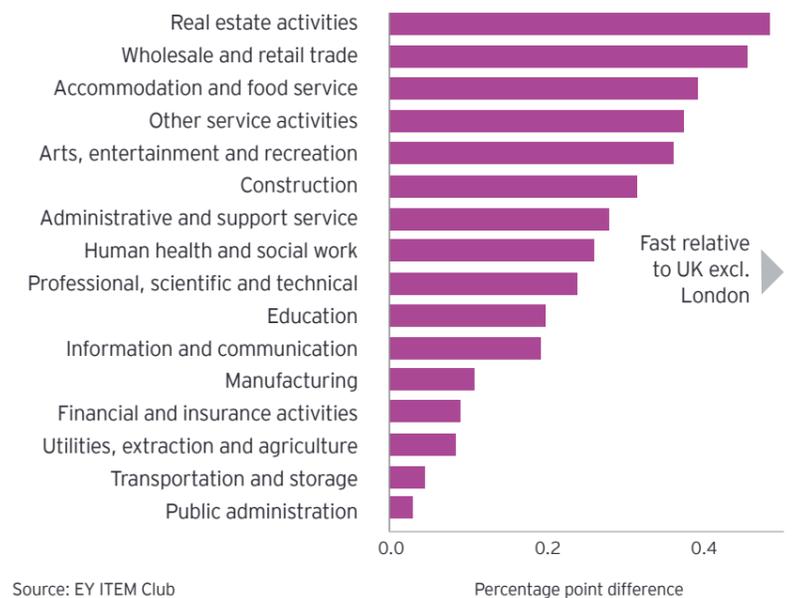
Growth within the South East is forecast to outpace the national average

Employment structure: South East vs UK (excl. London), 2019



Source: EY ITEM Club

GVA growth: South East vs UK (excl. London), 2020-23



Source: EY ITEM Club

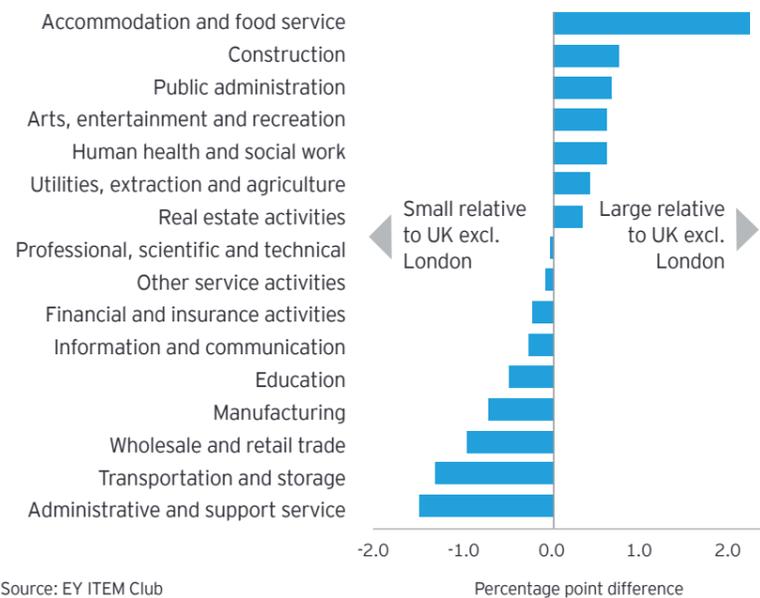
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South West

- ▶ The latest PMI shows that following three months of growth, economic activity in the South West declined marginally in October 2020.
- ▶ Recent labour market data has also been weak. Workforce jobs in the South West fell by 0.8% in the 12 months to June 2020. The more timely LFS data shows a 4.0% contraction in total employment in the quarter to September 2020 compared with a year previous. This is the largest regional contraction reported. Similarly the unemployment rate experienced the largest regional increase over this period, rising from 2.6% to 4.1% of the population aged 16 and above.
- ▶ Despite the weak labour market, house prices have risen 2.5% in the year to August 2020, matching the national rate of growth.
- ▶ GVA and employment growth in the region is forecast to lag behind the UK average over the next four years. Output in the South West is forecast to contract at an average annual rate of 0.2%, while employment is forecast to fall by 0.4% per year. The region's hospitality sector acts as a significant drag on growth, particularly in the near-term.

Despite the weak labour market, house prices have risen 2.5% in the year to August 2020, matching the national rate of growth

Employment structure: South West vs UK (excl. London), 2019



Source: EY ITEM Club

GVA growth: South West vs UK (excl. London), 2020-23



Source: EY ITEM Club

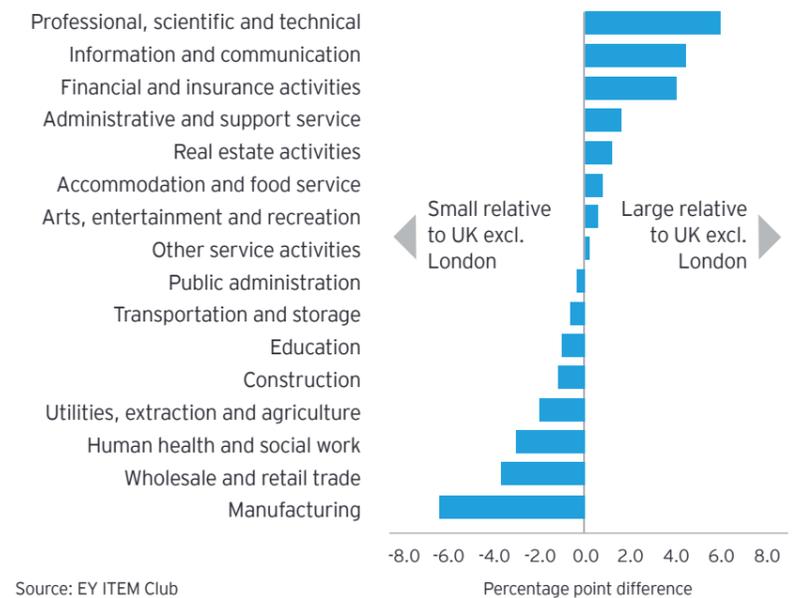
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London

- ▶ According to the PMI, London followed a similar trend to the UK as a whole, with three months of solid output growth from July to September 2020 followed by a slowdown in October 2020.
- ▶ The latest labour market data was mixed. Workforce jobs in London rose by over 13,000 over the year to June 2020, equating to a 0.2% rise against a backdrop of a 0.7% decline nationally. The LFS shows a 2.0% increase in employment for the quarter to September 2020 compared with a year previous – the highest percentage increase across all regions. The unemployment rate rose by 1.4 percentage points to 6.0% of the population aged 16 and above, the second highest regional change.
- ▶ London's house prices increased by 3.5% in the year to August 2020, placing the region as one of the strongest across the UK.
- ▶ London is expected to remain the fastest growing region in the UK in terms of both GVA and employment. Employment in the region is forecast to increase at an average annual rate of 0.3% over the next four years, with GVA forecast to grow by 0.5% per year over the same period.

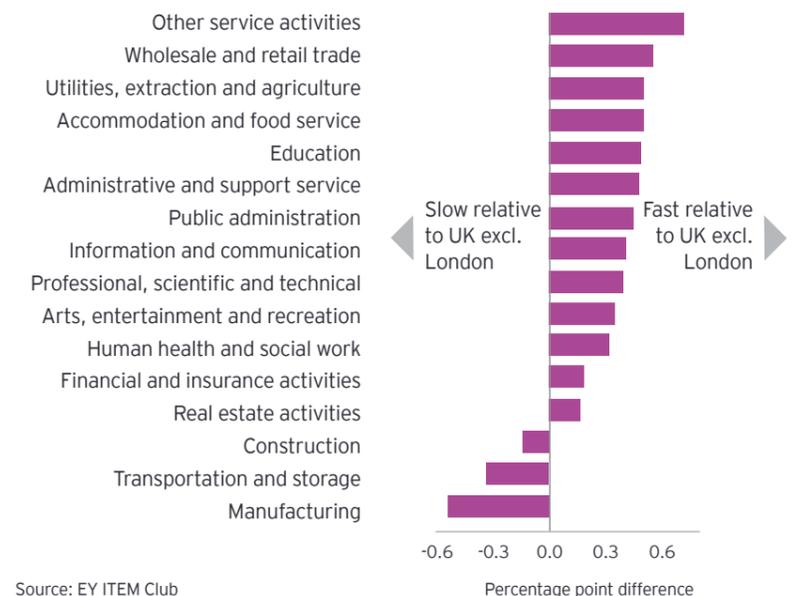
London is expected to remain the fastest growing region in the UK in terms of both GVA and employment

Employment structure: London vs UK (excl. London), 2019



Source: EY ITEM Club

GVA growth: London vs UK (excl. London), 2020-23



Source: EY ITEM Club

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Notes on data and forecast assumptions

The forecasts presented in this report are produced using the Oxford Economics Local Authority District Forecasting Model, but are fully consistent with the *EY ITEM Club Interim Forecast* (November 2020).

The forecasts depend essentially upon three factors:

- ▶ National outlooks.
- ▶ Historical trends in an area augmented by local knowledge and understanding of patterns of economic development, built up over decades of expertise.
- ▶ Fundamental economic relationships which interlink the various elements of the outlook.

The forecasts are demand-based, and assume no supply-side constants. They also assume the continuation of existing government policies, and those currently announced. While the UK Government does not have a specific regional policy, some enterprise support is allocated locally, and infrastructure decisions clearly have regional implications. The devolved administrations have their own responsibilities in these areas, which causes some differences in policies and priorities.

Key data definitions used in this report:

- ▶ Total employment is jobs-based, including employees in employment, self-employed, Her Majesty's Forces and government-supported trainees;
- ▶ GVA data is presented in 2018 prices and excludes output from the 'extra region'; i.e., the contribution of North Sea oil and gas extraction, UK embassies, and UK forces stationed overseas. The latter are included in the GDP definition used in the EY macroeconomic forecasts.
- ▶ Labour force unemployment is the official unemployment measure, referring to jobless people who want to work, are available to work and are actively seeking work.
- ▶ Any reference to workforce jobs in the regional focus slides relates to employee jobs rather than total workforce jobs, given the volatility of the regional self-employment data.
- ▶ The forecast period 2020-23 is a four year forecast, including growth in 2020, 2021, 2022 and 2023.
- ▶ The analysis in this report is based on published data available on or before 19 November 2020.

Definitions

Newcastle	Newcastle upon Tyne LA
Liverpool	Liverpool LA
Manchester	Manchester LA
Kingston upon Hull	Kingston upon Hull UA
Leeds	Leeds LA
Birmingham	Birmingham LA
Stoke-on-Trent	Stoke on Trent UA
Cambridge	Cambridge LA
Luton	Luton LA
Reading	Reading UA
Southampton	Southampton UA
South Coast	Bournemouth UA
	Poole UA
	Test Valley LA
	Southampton UA
	New Forest LA
	Eastleigh LA
	Winchester LA
	Fareham LA
	Gosport LA
	East Hampshire LA
	Havant LA
	Portsmouth UA
	Isle of Wight UA
Thames Valley	West Berkshire UA
	Reading UA
	Windsor and Maidenhead UA
	Wokingham UA
	Slough UA
	Bracknell Forest UA
	Basingstoke and Deane LA
	Hart LA
	Rushmoor LA
	Cherwell LA
	West Oxfordshire LA
	Oxford LA
	Vale of White Horse LA
	South Oxfordshire LA

Bristol	Bristol LA
Exeter	Exeter LA
Sheffield City Region Combined Authority	Barnsley LA
	Bassetlaw LA
	Bolsover LA
	Chesterfield LA
	Derbyshire Dales LA
	Doncaster LA
	North East Derbyshire LA
	Rotherham LA
	Sheffield LA
Portsmouth	Portsmouth UA
Oxford	Oxford LA
Liverpool City Region Combined Authority	Halton LA
	Knowsley LA
	Liverpool LA
	Sefton LA
	St Helens LA
	Wirral LA
Milton Keynes	Milton Keynes UA
Sunderland	Sunderland LA
West Midlands Combined Authority	Birmingham LA
	Coventry LA
	Dudley LA
	Sandwell LA
	Solihull LA
	Walsall LA
	Wolverhampton LA
Greater Manchester	Manchester LA
	Stockport LA
	Tameside LA
	Oldham LA
	Rochdale LA
	Bury LA
	Bolton LA

	Wigan LA
	Salford LA
	Trafford LA
Hartlepool	Hartlepool LA
Stockton-on-Tees	Stockton-on-Tees LA
Darlington	Darlington LA
Durham CC	Durham CC LA
Sunderland	Sunderland LA
Blackburn with Darwen	Blackburn with Darwen LA
Blackpool	Blackpool LA
Lancaster	Lancaster LA
Chorley	Chorley LA
Warrington	Warrington LA
Kingston upon Hull, City of	Kingston upon Hull, City of LA
York	York LA
Sheffield	Sheffield LA
Bradford	Bradford LA
Wakefield	Wakefield LA
Derby	Derby LA
Nottingham	Nottingham LA
Leicester	Leicester LA
Telford and Wrekin	Telford and Wrekin LA
Solihull	Solihull LA
Coventry	Coventry LA
Dudley	Dudley LA
Sandwell	Sandwell LA
Walsall	Walsall LA
Wolverhampton	Wolverhampton LA
Peterborough	Peterborough LA
Bedford	Bedford LA
Southend-on-Sea	Southend-on-Sea LA
Brighton and Hove	Brighton and Hove LA
Swindon	Swindon LA
Bournemouth	Bournemouth LA
Poole	Poole LA
Plymouth	Plymouth LA

Torbay	Torbay LA
Windsor and Maidenhead	Windsor and Maidenhead LA
Slough	Slough LA
Basingstoke and Deane	Basingstoke and Deane LA
Boston	Boston LA
Mansfield	Mansfield LA
Worcester	Worcester LA
Lichfield	Lichfield LA
Rugby	Rugby LA
Redditch	Redditch LA
Wigan	Wigan LA
Preston	Preston LA
Rochdale	Rochdale LA
Carlisle	Carlisle LA
Barnsley	Barnsley LA
Doncaster	Doncaster LA
Harrogate	Harrogate LA
Rotherham	Rotherham LA
Guildford	Guildford LA
Winchester	Winchester LA
Taunton Deane	Taunton Deane LA
Stroud	Stroud LA
Middlesbrough	Middlesbrough LA
Norwich	Norwich LA

UA = Unitary Authority
 LA = Local Authority District
 CA = Council Area

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ED None



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