

ECONOMIC DEVELOPMENT SPOTLIGHT October/ November 2017

Welcome to the first edition of **Economic Development Spotlight**. This bi-monthly bulletin draws attention to recent key publications which should be of particular interest to economic development practitioners and policy makers here in Nottingham. We present a short summary of key findings from each publication, their source and a link to the key documents.

If you have any suggestions as to other publications you think we should highlight in future editions of Spotlight, then please do contact me:

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Bank of England

The BoE Quarterly Inflation Report, August 2017

http://www.bankofengland.co.uk/publications/Pages/inflationreport/2017/aug.aspx

The Inflation Report is produced quarterly by Bank staff under the guidance of the members of the Monetary Policy Committee. It serves two purposes. First, its preparation provides a comprehensive and forward-looking framework for discussion among MPC members as an aid to our decision-making. Second, its publication allows us to share our thinking and explain the reasons for our decisions to those whom they affect.

Key messages:

- The outlook for the global economy has improved in recent quarters, as growth has picked up and its composition has rotated towards investment.
- Output growth slowed in the first half of 2017. Much of that slowing appears to have been driven by weaker growth in household spending, as sterling's depreciation weighed on real income growth.
- Net trade has been volatile, but the depreciation and the strength in global demand are expected to provide support. Business investment growth has picked up a little.
- Despite a further fall in unemployment, wage growth remains subdued, probably in part due to continued weak productivity growth.
- Although CPI inflation has been volatile, it has risen over 2017 and was 2.6% in June. It is expected to remain around 2¾% in the near term, boosted by higher import prices as a result of the depreciation in sterling, before easing back towards the 2% target during 2018.

CBI

Helping the UK Thrive: CBI/Pearson Education and Skills Survey 2017

http://www.cbi.org.uk/insight-and-analysis

This is the tenth CBI education and skills survey, run in partnership with Pearson, to give an authoritative picture of trends in business opinion, practice and future plans across a wide range of education and skills issues. The survey was conducted during the period February to April 2017, with responses received from more than 340 organisations. Participants ranged in size from firms with fewer than 50 employees to those with more than 5,000; SMEs accounted for nearly a third of respondents (30%).

Key Findings:

- By far the most important factor employers consider when recruiting school and college leavers is their attitude to work (86%), followed by their aptitude for work (63%) and general academic ability (43%).
- In the time up to age 11 businesses believe the focus in schools should be on developing pupils' core skills such as literacy and numeracy (67%), self-management (41%) and communication skills (34%).
- Employers would also welcome primary schools increasing their engagement with business (27%) to fire pupils' interest in subjects like science and technology and help inspire them about possible future careers.
- Links between businesses and schools are mostly forged at local level (70% for primary schools and 63% for secondary schools) but almost two thirds of firms with links to colleges build them at either regional (31%) or national level (30%).
- Expanding business engagement with schools can best be achieved by tackling the barriers reported by nearly three quarters of respondents (72%). Among businesses perceiving barriers nearly half (47%) report that local schools or their pupils do not appear to be interested and more than a third (35%) cite too little guidance and support on how to make work experience placements worthwhile for young people.
- Well over half of businesses (61%) are not confident there will be enough people available in the future with the necessary skills to fill their high-skilled jobs.
- While business are committed to investing in Apprenticeship schemes, many struggle to fill places: almost half (49%) of respondents have experienced difficulty in recruiting apprentices or expect to do so in the next three years.
- Over the past 12 months more than eight in ten businesses (85%) have maintained or increased their levels of graduate recruitment.
- Areas where graduate job seekers are often seen as having weaknesses are in their international cultural awareness and business and customer awareness (with 39% and 40% of recruiters reporting dissatisfaction with these respectively) and a third (32%) dissatisfied with graduates' attitudes and behaviours of self-management and resilience.

Centre for Cities

What investors want: a guide for cities. How should cities engage investors and developers? July 2017

http://www.centreforcities.org/publication/investors-want-guide-cities

Attracting private sector investment into a city is essential for stimulating and maintaining economic growth. Cities themselves have an important role to play in this process – by making investors aware of opportunities, building relationships with them and, where necessary, stepping in to facilitate investment. But it is not always clear what investors are looking for when making an investment, and how cities can make themselves more attractive for investment.

This report, supported by Capita, provides cities with an insight into the mind of an investor, exploring what is considered attractive in a city. Secondly, it provides practical recommendations to support cities to develop their approach to attracting investment.

The city traits that investors value the highest are:

- A strong city economy with growth potential, a highly-skilled workforce, and resilient to economic downturns and external shocks.
- Excellent transport connections, both within the city and beyond the city (nationally and internationally), as well as a transport system that can keep up with an expanding economy.
- Pro-investment city leadership, which prioritises investment, has consistent policies and attitudes, is high profile, and has bargaining power with central government.
- A focus on delivery, with a responsive, pro-investment planning system, a team with investment expertise, and willingness to step in where necessary to facilitate investment.

As well as developing investible opportunities, a city also requires a strong profile among investors. Cities should, therefore, focus on the following steps:

- Use expert resources – To attract private sector investors, a city must seek investment expert advice to ensure they understand how investors think and behave. Doing this in conjunction with neighbouring areas or cities can strengthen the proposition that is put to investors.
- Know the city's offer and audience – Understanding a city's strengths and weaknesses in the eyes of an investor is crucial, allowing the city to focus on promoting what it is good at and improving where it is weaker. Designing a city vision setting out its ambitions gives investors clarity about the investments required by the city, and an accompanying development plan should provide the information they need to consider each one.
- Build networks to sell the city – The investment industry is built on relationships and who you know is important. Rather than wait for investors to come to them, cities should proactively reach out and develop long-term relationships. Make it easy for investors to consider opportunities by providing detailed information about each one.
- Close the deal – Be willing to step in and take a more active role, such as by using city assets where necessary to facilitate investment.

Brexit, Trade and the Economic Impact on UK Cities, 2017

http://www.centreforcities.org/publication/brexit-trade-economic-impacts-uk-cities/?utm_source=Brexit%20CEP%20report

This paper summarises new analysis by the LSE's Centre for Economic Performance (CEP) and Centre for Cities, which examines for the first time the potential impact of both a 'hard' and 'soft' Brexit on British cities in the ten years following the implementation of new trade arrangements with the EU.

All British cities are set to be negatively affected as a result of higher trade costs between the UK and EU, and this impact will be greater in the scenario of a 'hard Brexit'.

Economic output in cities (as measured by Gross Value Added, GVA) is predicted to be 1.2 per cent lower on average under a 'soft Brexit' and 2.3 per cent lower under a 'hard Brexit' than if the UK remained in the EU.

Cities with large shares of employment in private-sector knowledge-intensive services (KIBS), predominantly in the South, are predicted to be most negatively affected due to the increase trade costs linked to Brexit.1
Cities that are predicted to be most negatively affected by Brexit were more likely to vote remain in the 2016 referendum.

Cities predicted to be most negatively affected tend to be more productive and have highly skilled workforces, which means they may find it easier to adapt in the longer term.

National government needs to consider the spatial implications of deals negotiated and support cities to adapt to changes in the UK's international trading relationships. Cities should combine this insight with local knowledge to consider how approaches to local economic development should be restructured.

It models the impact of hard and soft brexit on the various sectors of the economy then maps these across using employment shares to give a local proxy figure. Unlike other studies it suggests that those areas that voted remain are more likely to be negatively impacted by Brexit than those that voted leave (but acknowledges that many of those knowledge rich economies will have the greater ability to adapt).

Nottingham is the 22nd (of 62) Cities most impacted by a 'hard' Brexit at -2.4% GVA (-1.2% for soft). This is the loss to GVA after 10 years compared to what continuing membership would have delivered, so equivalent to a -0.24% annual reduction in trend GVA for hard Brexit for Nottm and -0.12% annual reduction to trend growth for 'soft'.

Why Should Skills be the Primary Focus of Any Industrial Strategy?

http://www.centreforcities.org/publication/skills-primary-focus-industrial-strategy/?utm_source=Newsletter&utm_campaign=Skills%20Industrial%20Strategy&utm_source=Centre+for+Cities+Newsletter&utm_campaign=d84c1716b1-EMAIL_CAMPAIGN_2017_09_06&utm_medium=email&utm_term=0_2a9c9d5ef9-d84c1716b1-45032321&mc_cid=d84c1716b1&mc_eid=345bf64169

Skills is one of the best economic predictors of economic performance as high-skilled business invest where they can recruit the workforce they need. Cities that are struggling need to enlarge the skilled labour pool that they offer to businesses, which can be achieved through both skills and transport policy. This briefing forms part of a series on the industrial strategy and shows how it is predominantly skills levels, which can support and determine the economic performance of cities around the country.

East Midlands Chamber

Quarterly Economic (Business) Survey, June 2017

http://www.emc-dnl.co.uk/information/28/quarterly-economic-survey

This quarterly survey asks businesses a series of questions on key economic indicators. The latest Q2 survey ran from 22 May to 12 June 2017. Key findings include:

- 43% of respondents reported growth in domestic performance in the second three months of the year and 40% expected improvements in the third quarter. A further 37% said performance had remained constant and 45% expected consistency over the next three months.
- A similar picture emerged for performance in overseas markets where the significant growth recorded in the post-referendum period of 2016 continued unabated in both the first and second quarters of 2017.
- With continuing political uncertainty, almost two-thirds of respondents (63%) said they expected prices to remain about the same over the coming three months but a third (32%) said they expected prices to rise in the short term, suggesting continued upward pressure on inflation as the year progresses.
- The volatility of exchange rates continues to inhibit the ability of exporters to plan ahead, the survey showed. Although advantageous for companies manufacturing in the UK and exporting, the relatively weak pound creates challenges for importers.
- As a result of the weakened pound, inflation has risen to 2.9%, a rate not seen since Q2 2013. With inflation expected to continue through the latter stages of 2017, evidence suggests companies will eventually pass cost increases on to customers.
- Business confidence in respect of both profitability and turnover remained relatively robust in Q2 2017. Two-thirds (67%) of respondents said they anticipated turnover would increase in the coming three months, with 57% expecting profitability to increase in the short-term.
- Almost two-thirds of companies (64%) said they expected their labour force to remain constant. Respondents said they continued to have difficulty recruiting suitably-skilled staff, particularly to professional and managerial roles.

Enterprise Research Centre

Benchmarking local innovation – the innovation geography of England, 2017

https://www.enterpriseresearch.ac.uk/benchmarking-innovation

Firms' ability to innovate successfully plays an important role in their ability to sustain growth and competitiveness. For local areas this means that the more innovative are local companies the stronger the prospects for growth. In this report we provide a series of benchmarks which profile the level of innovative activity for local economic areas across England. The benchmarks cover 39 Local Economic Areas, defined by individual LEPs in England.

Reflecting the results of our earlier analysis of the 2013 UK Innovation Survey, we find a concentration of relatively high levels of product and service innovation and new-to-the market innovation in an arc of local economic areas in the South and East Midlands and along the M4 corridor. Albeit with some variation, these areas are characterised by high proportions of innovating firms, a high incidence of new-to-the-market innovation, and relatively high levels of revenue from innovation. D2N2's relative performance is not especially outstanding, in fact it is fairly mediocre to poor. Of the ten key innovation benchmarks it performs reasonably well in relation to just two:

- Introduction of new business practices (ranked 17th).
- Firms undertaking R&D (13th).

EY Item Club

Special Report on the UK Labour Market, May 2017

http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/ey-item-club-special-report-on-labour

The rate of growth in employment has been slowing in recent months. Pay growth has not accelerated in the light of falling unemployment for the following reasons:

- Lower productivity may have played a part as real wage growth and productivity improvements have historically gone hand-in-hand.
- A decline in the 'equilibrium' unemployment rate as a result of increasing labour market flexibility and the growth of self-employment.
- Increased slack in the labour market with more than twice the number of officially unemployed people wanting more work.
- Growth in labour supply due to a higher number of older people in the workforce and increased migration.
- The impact of austerity reducing public sector pay.
- Shifts in the sector mix and the composition of employment, including a decline in higher paid jobs.

Looking forward, Brexit, technological change (especially increased automation), demographics and Government policy could all potentially disrupt the UK labour market the environment businesses find themselves in.

Overall conclusion: "Our analysis suggests that the UK labour market faces a rockier period than of late over the next few years. Pay growth seems unlikely to break out of the subdued pace seen since 2010. But the compensation to household incomes offered over that period by ever more people in work looks set to fade as the consequences of a slowdown in economic growth bite."

Experian UK and Global Economy Blog

What are the challenges currently facing SMEs?

http://www.experian.co.uk/blogs/latest-thinking/challenges-currently-facing-smes/

In a rapidly changing world and volatile economy, businesses need to be aware of the challenges they are current faced with. They may not have an entourage of consultants to advise them on how to deflect these challenges but at the same time, they have the advantage of being much more flexible to changes than their larger counterparts.

The Blog suggests that the biggest current challenges facing SMEs are: cyber security; National Living Wage; skills gaps; and the falling value of the pound (increasing import prices).

Centre for Local Economic Performance

The Local Economic Effects of Brexit, 2017

http://cep.lse.ac.uk/pubs/download/brexit10.pdf

This research paper studies the local impacts of the increases in trade barriers associated with Brexit. Predictions of the local impact of Brexit are presented under two different scenarios, soft and hard Brexit for all local authorities in Great Britain.

Key findings:

- Average effects are predicted to be negative under both scenarios, and more negative under hard Brexit. The spatial variation in shocks across areas is somewhat higher under hard Brexit because some local areas are particularly specialised in sectors that are predicted to be badly hit by hard Brexit.
- Areas in the South of England, and urban areas, are predicted to be harder hit by Brexit under both scenarios. Again, this pattern is explained by the fact that those areas are specialised in sectors that are predicted to be badly hit by Brexit.
- The areas that were most likely to vote remain are those that are predicted to be most negatively impacted by Brexit.

Local Authorities in the South of England, and those in urban areas, are predicted to be harder hit by Brexit under both (hard and soft Brexit) scenarios. This pattern is largely explained by the fact that those areas are specialised by sectors that are predicted to be badly hit by Brexit.

There are 62 Primary Urban Areas. In terms of the estimated negative impact (% change in GVA) Nottingham ranks 25th with negative values of -1.2% for a soft Brexit and -2.4% for a hard Brexit. This suggests that Nottingham will be amongst those local authorities areas which do experience an above average negative impact from Brexit.

pwc

UK Economic Outlook, July 2017

http://www.pwc.co.uk/services/economics-policy/insights/uk-economic-outlook.html

A thrice-yearly report which reviews key economic trends and provides forecasts based on pwc's econometric forecasting model.

Highlights:

- UK economic growth held up better than expected in the six months following the Brexit vote, particularly as regards consumer spending.
- But growth slowed in the first half of 2017 as inflation rose sharply, squeezing household spending power.
- In our main scenario, we project UK growth to slow from 1.8% in 2016 to around 1.5% in 2017 and 1.4% in 2018. This is due to slower consumer spending growth and the drag on business investment from ongoing political and economic uncertainty relating to the outcome of the Brexit negotiations.
- The weaker pound could also boost net exports, however, which should offer some support for overall GDP growth and reduce the current account deficit relative to 2016. The recent pick-up in the Eurozone economy should also help here.
- Service sector growth will slow but remain positive in 2017-18. Some manufacturing exporters will benefit from the weaker pound, but businesses serving domestic consumers are likely to see some slowdown in growth.
- The Bank of England will probably keep interest rates on hold in the short term, but the case for a rate rise could build later this year or, more likely, in 2018 if growth and inflation evolve broadly as we project.
- The government is under considerable political pressure to ease austerity, but we would not expect any significant tax and spending changes until the Autumn Budget.

Joseph Rowntree Foundation

Job Creation for Inclusive Growth in Cities, August 2017

https://www.jrf.org.uk/report/job-creation-inclusive-growth-cities

This report identifies the 'more and better jobs' gap in UK cities, explains the role of labour demand in city economies, and sets out the aims, rationales and types of demand-side policies for inclusive growth. A 'whole city' place-based approach is outlined and policy options and priorities identified.

The research focuses on 12 major UK cities because of their economic importance and potential powers to influence the demand side of their labour markets; Nottinghamshire (not Nottingham City or Core City) is included.

The report develops the idea of a 'more and better jobs gap' by which they mean the number of new good-quality jobs needed for everyone who wants to work in a city economy to be in employment which is not low paid or insecure, and where they are not underemployed or working part-time when they want permanent employment.

This report shows:

- There is a significant shortfall in labour demand in 12 major UK cities.
- Local industrial strategies can raise labour demand in cities and can complement supply-side policies.
- Policy interventions should be based on clear and robust aims and rationales, and careful coordination with supply-side initiatives.
- The priorities for demand-side policies are:
  - Identifying and targeting inclusive growth sectors, fostering demand-led skills development, building closer employer engagement and partnership focused on priority sectors.
  - Lobbying for greater devolved powers, and strengthening policy analysis and evaluation frameworks.

Irwin Mitchell

UK Powerhouse Report, July 2017

http://www.irwinmitchell.com/ukpowerhouse

Nottingham ended 2016 with the fastest growing city economy within the East Midlands after it recorded at 2.5% increase in output in the 12 months to Q4 2016, says a new report.

The UK Powerhouse report by Irwin Mitchell and the Centre for Business and Economic Research (Cebr) provides an estimate of GVA and job creation within 38 of the UK's largest cities 12 months ahead of the Government's official figures. The report, which is published this month, found that Nottingham moved up 10 places in the league table of the fastest growing cities after recording 2.5% annual growth. Derby recorded 2.4% increase in output whilst Leicester's economy expanded by just 2% in the 12 months to the end of 2016.

Nottingham also boosted its headcount with a 1.6% rise in employment levels, consolidating its top five position. Nottingham is said in the report to benefit from its position as a retail hotspot and also the large number of people working in banking and management consultancy, which was boosted by a strong performance in the financial and business services sector across the UK.

It added that Nottingham's vibrant city centre is helping fuel job creation and said that in the coming year, further employment opportunities in Nottingham will be created, for example, by Grosvenor Casino's £3.4m revamp and IT firm Octavian's expansion.

The Future of Skills – Employment in 2030

NESTA and the University of Oxford, September 2017

This research paper addresses the following research question: given the likely drivers of change in future labour markets, which occupations will grow or decline in demand by 2030 and what will their skills profile be?

The report starts by reviewing the drivers of change and the interactions that are expected to shape industry structures and labour markets in 2030. These are: environmental sustainability; urbanisation; increasing inequality; political uncertainty; technological change; globalisation; and demographic change. Other key findings include:

- Particular projected growth in health and education sectors driven by an overall rise in the population.
- Public sector employment is expected to be one of the least impacted areas as a result of automation.
- De-occupationalisation of the workforce, where a broad based of knowledge will be more important than specialised occupational skillsets.
- Increased demand for skills relating to cognitive competency and learning strategies including judgement of ideas, fluency of ideas, active learning, learning strategies, originality, and systems evaluation - the combined importance of these skills and interpersonal skills supports the view that the demand for collaborative problem-solving skills may experience higher growth in the future.
- In addition, a number of knowledge fields, such as English Language, Administration and Management, and Biology are associated strongly with occupations predicted to see rising demand – a reminder that the future workforce will have generic knowledge as well as skills requirements.