



Greater Lincolnshire

Local Enterprise Partnership



Annual State of the Economy Report

Local Headlines

- **Latest economic growth figures are encouraging, despite a recent drop, with growth forecast in the short, medium and longer term.**
- **Business numbers are yet to show strong signs of recovery though it is expected.**
- **Unemployment and employment rates are moving in the right direction with the labour market as a whole performing better than national averages.**
- **At least 200,000 jobs will need filling over the next ten years as a result of new jobs created and retirements. This needs to be achieved against a current backdrop of low house building rates, affordability issues, and a working age population that is projected to fall, along with low growth in the numbers of young people.**
- **Skills profile improving and set to improve further but will still lag behind national averages.**

The National Outlook

Many economic indicators point to the fact that the UK is recovering and moving in the right direction. Unemployment is at a five year low whilst the UK economy is currently one of the fastest growing in the western world.

Based on history and the fact that the UK economy over the last 60 years has grown by on average 2-3 per cent per year despite numerous recessionary periods we can confidently predict that the medium and longer term forecast is one of growth. Latest medium term forecasts from the Office for Budget Responsibility (OBR) have been revised up slightly to 2.7 per cent in 2014 and 2.3 per cent in 2015.

So the economic future looks as positive as it has done at any point in recent history. However the same could have been said back in 2007. As such the GLLEP needs

Revised figures show the UK economy surpassed its pre-recession peak in the third quarter of 2013, earlier than the previous estimate of the second quarter of 2014.

Source: Office for National Statistics

to be mindful of this fact and that any local development will be achieved against, and probably in spite of, the background noise of economic, social, political, and environmental uncertainty.

The future is therefore uncertain but there are many challenges ahead the GLLEP can be certain of both in the short and longer term.

In the short term and closest to home is the pressure on interest rates from an over-heating housing market. Any increase in rates will undoubtedly put pressure on consumers in terms of the debt that they hold. Consumer debt, which includes mortgages, hit a record level of over £1.4 trillion at the end of 2013. Reassuringly perhaps, the Bank of England has recently stated that any future rises in the interest rate will be small and gradual.

Right on our doorstep is the issue of the EU and its stagnating economy. The European Central Bank (ECB) recently resorted to lowering its benchmark interest rate to 0.05% as a means to kick-start the flagging economy. The EU is our biggest trading partner and therefore any woes across the channel invariably feedback into businesses here.

Longer term there is the quest to rebalance the UK economy with less reliance on the public sector to provide employment as well as the calls for a less London centric national economy. Developments in superfast

broadband and its subsequent roll out to the more rural and sparsely populated areas of the country (including Greater Lincolnshire) should in theory help with this but it is not yet clear what the enduring impact will be on the economic landscape. The same can also be said for HS2 which has the potential to better link economies in the North with London but it will be some time before the effects from this development will tell.

86% of employers in Greater Lincolnshire agree that having access to superfast broadband is important for their business

Source: GLLEP 2014 Employer Survey

The list of challenges (and opportunities) invariably goes on and there are many unknowns. As such the GLLEP needs to be prepared to be flexible and responsive in an age which is likely to pose many questions, but at the same time concentrate on the local challenges concerning the intertwined issues of job creation, house building and population growth.

Economic Growth

The Greater Lincolnshire economy is currently worth over £16bn, comparable in size to the economies of Tyneside or Greater Manchester North. Despite lagging some way behind the national economy in terms of economic output per head (around 75 per cent of the national figure), since 2005 local economic growth trends have been broadly in line with that of nationally, including the recessionary dip. On this basis we would assume that the local economy will continue to track the national trend and recover at approximately the same rate. However, the latest official statistics for economic growth suggest that the Greater Lincolnshire economy actually shrank in value by around £100m whereas the vast majority of other areas across the UK continued to grow.

At this stage this should not be a cause for concern. These figures which relate back to 2012 are provisional and will most likely be revised when the next set of figures are released (though admittedly they could be revised down as well as up). Furthermore, other important and more up-to-date measures of an economy's performance point

to continued improvements locally such as unemployment levels, and business performance and confidence figures from our own quarterly survey.

One explanation for this slight dip could be the important role that agriculture plays in the local economy. 2012 was a year of extreme weather that started with drought, followed by the second wettest summer since records began, and ended with weeks of snow at the end of the year. The weather had a severe impact on agriculture with arable, fruit and vegetable yields and quality of crops badly affected. Potatoes yields for example were down 25% and the NFU in October 2012 reported wheat yields at 1980 levels. Livestock farmers, particularly pig and poultry farmers, were also affected by higher feed prices pushed up by world markets off the back of poor harvests in Russia and the USA. It is likely therefore that the severe weather may have had a disproportionate impact on Greater Lincolnshire because of its strong agricultural and Agri-Food sector.

This most recent dip aside, and barring economic crises, latest forecasts suggest that growth over the next decade is likely to be in the region of 2 per cent per year. Projecting this forward would put the Greater Lincolnshire economy at around £19bn in 2025.

Two thirds of employers in Greater Lincolnshire anticipate an increase in turnover and/or profitability over the next 12 months

Source: GLLEP 2014 Employer Survey

However, national government through the GLLEP are investing in the local economy and the aim is to push this growth up to somewhere in the region of £22bn. How are we going to achieve this extra growth? By concentrating on those sectors which we already have a competitive advantage in or the opportunity to grow and lead in nationally, or even internationally.

Business

Greater Lincolnshire is home to just less than 41,000 businesses. Of these 33,300 are enterprises (i.e. an enterprise can run across a number of business premises or units). Much like the rest of the country, Greater Lincolnshire is dominated by small businesses with 82 per cent of all businesses being micro businesses i.e. with 0-9 employees. This increases to 98 per cent if we consider those businesses with 10-49 employees.

Up and down the country (and across the world) businesses have found it tough recently. The recession and ensuing economic downturn meant that some businesses found it difficult and even impossible to survive. Greater Lincolnshire's enterprise business base fell by around five per cent between 2008 and 2011. Since then figures for business births and deaths have been a mixed bag.

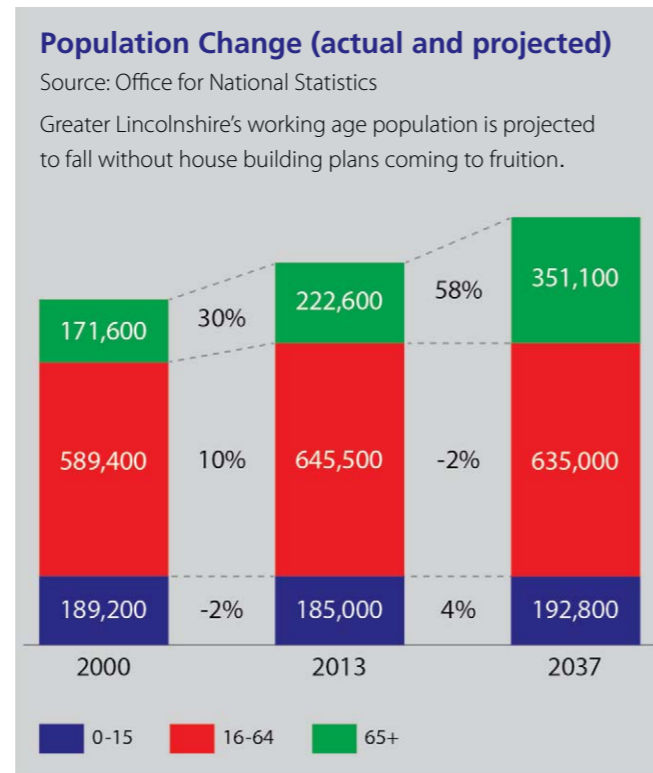
30% of employers in Greater Lincolnshire cite poor transport infrastructure as an obstacle to growth, closely followed by poor or lack of finance (25%)

Source: GLLEP 2014 Employer Survey

2011 was a turning point being the first year that there were more business births than deaths but these figures reversed again in 2012.

Business number figures are a lagging indicator so on a positive note, the return to economic growth should translate into business growth (both in terms of enterprises and business premises). Referring back to that sustained period of economic growth during 1998 to 2008, there was growth in the number of businesses in Greater Lincolnshire by on average 2.4 per cent per year.

Just as important as business birth rates is the chances that these businesses have to survive. Business survival rates in Greater Lincolnshire are good, particularly in Lincolnshire and North Lincolnshire, with higher rates than the national average. North East Lincolnshire is the anomaly here as it has both a much higher birth and death rate of businesses than local comparators and nationally resulting in survival rates being much lower.



People & Housing

Greater Lincolnshire is currently home to approximately 1,050,000 people. This is an increase of around 11 per cent since the turn of the century according to official estimates. This rate of growth was higher than the national rate 9 per cent. However this growth has not been uniform across all age groups. Over this period **the 0-15 age group actually fell by 2 per cent**, the working age group grew by 10 per cent, with **the 65 plus age group showing growth of 30 per cent**.

Looking ahead the population of Greater Lincolnshire is projected to reach 1,179,000 by 2037. This is a rate of growth of around 12 per cent, lower than the national projected rate of growth of 15 per cent. What is concerning is the fact that **the working age population in Greater Lincolnshire is projected to stagnate and reduce over the next two decades**.

However official statistics on projected populations only tell part of the story. This is because they do not attempt to take into account local plans for building, or future policy changes which could impact on migration, and ultimately levels of population in any given area.

So for instance, a good local example of this is they do not take into account the fact that Gainsborough and Grantham (and near neighbour Newark) all have growth point status with plans to build over 20,000 houses over the next 10-20 years. These plans will clearly have a significant impact on population in and around these areas but would not be taken into account in any official statistics.

Housing completions

2014 has seen a lot of coverage and media speculation around the housing market, of possible "over heating" and its effects on the wider economy. Mark Carney, Governor of the Bank of England, has raised the concern that rising property prices and the subsequent increase in large-value mortgages could lead to a 'debt overhang' which could destabilise the economy.

Since the turn of the century, the average house price in England has more than doubled (119 per cent) and this is certainly at least the case across Greater Lincolnshire if not more. House prices in North East Lincolnshire for example increased by 140 per cent over the same period.

However looking specifically at the period post recession then nationally, whilst house prices have increased by 18 per cent, the same cannot be said for house prices in Greater Lincolnshire. Both North and North East Lincolnshire experienced falls in house prices between 2009 and 2012 (-4 per cent and -6 per cent respectively) whilst Lincolnshire had a modest increase of 4 per cent over the same period.

Only 23% of employers score Greater Lincolnshire highly in terms of the profile of the area in attracting people to move here to work

Source: GLLEP 2014 Employer Survey

Clearly the effect of London property prices is playing a part in fuelling increases nationally. Even taking this into account the Bank of England is still concerned with the national property market and is putting these recent rising

property prices largely down to the fact that not enough houses are being built in the UK.

The GLLEP, wishing to play its part in tackling this issue, has identified with its partners through local plans that up to 100,000 houses will be built in Greater Lincolnshire over the next 15 years. However if this target is to be reached then housing completions need to pick up to somewhere in the region of 6,500 a year. **At present housing completions per year are approximately 4,000 short of this target, and falling.**

This fall in house building is yet to impact on affordability though this is already an issue in the area despite house prices being on average lower than the national average by some distance. The average house price in Lincolnshire at £154k is around two thirds of the national average, whilst in North and North East Lincolnshire the price is around half the national average at £128k and £119k respectively.

However along with lower house prices, Greater Lincolnshire residents also have on average lower wages. The national average (median) annual wage is £27,400 whereas in Lincolnshire and North East Lincolnshire it is around £24,500. The exception to this is North Lincolnshire where the average annual wage is equal to the national average.

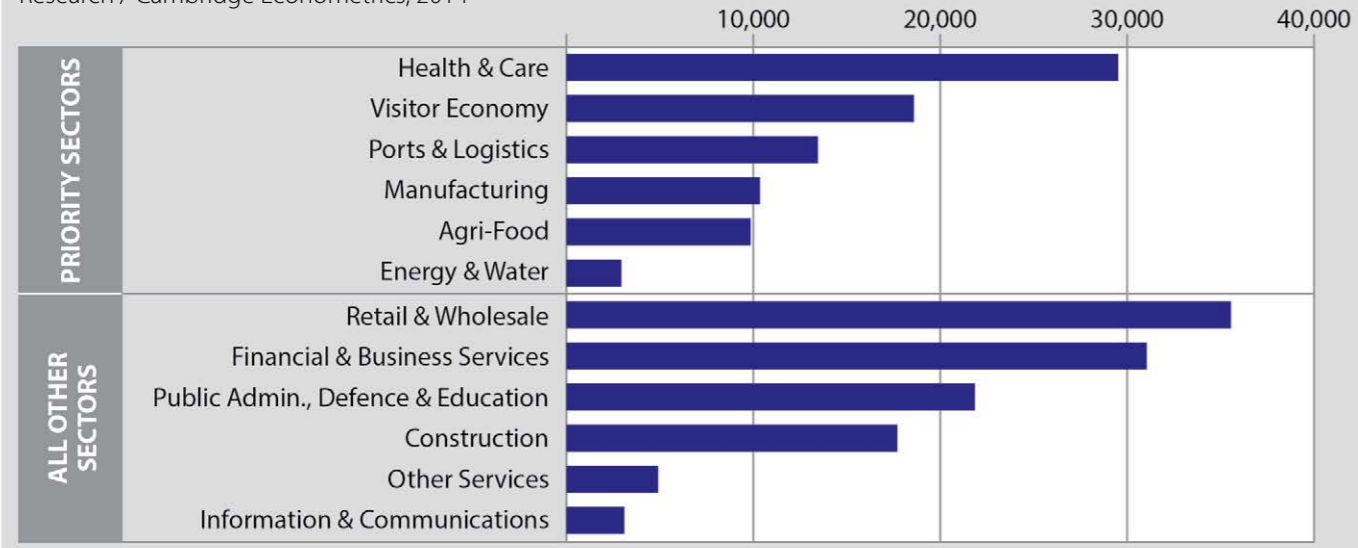
North Lincolnshire aside, lower house prices across the rest of Greater Lincolnshire therefore do not necessarily translate into more affordable homes, certainly not for people who work and live here and particularly those on the lower end of the wage spectrum.

A commonly referred to indicator for calculating affordability is the ratio of lower quartile house prices to lower quartile earnings. Data for this measure shows that the ratio in Lincolnshire is on a par with that nationally with lower quartile house prices over six times the lower quartile wage. However, housing is more affordable in North and North East Lincolnshire where the ratio is just over four times.

Affording your own home then is more of an issue in a large part of Greater Lincolnshire and with this in mind provision for housing classed as 'affordable' within local plans will need to be maintained and may even be strengthened. However, whilst this is a challenge, the GLLEP also needs to see it as an opportunity, and use it

Replacement Demand (jobs)

Source: Working Futures, Warwick Institute for Employment Research / Cambridge Econometrics, 2014



as part of an overall package to attract people to live and work in the area.

Employment

The employment rate in Greater Lincolnshire is currently 73 per cent of all people aged 16-64 from a post recession low of just over 70 per cent. This compares favourably to the current national employment rate of 71.6 per cent.

Unemployment too has moved favourably since the inception of the GLLEP, falling by around two per cent since 2012. Again similar movement can be tracked in the national economy though not as marked. This is all positive but as with business numbers, job numbers are yet to recover to pre-recession levels.

Prior to the recession, job creation had not been an issue

Over the next year, 27% of all Greater Lincolnshire employers expect to increase their number of staff (compared with just 3% who don't)

Source: GLLEP 2014 Employer Survey

for Greater Lincolnshire. Over the period 1998-2008 around 45,000 jobs were created. During that same period the working age population grew by nearly 66,000 and the unemployment rate fell by two per cent to some of its lowest recorded rates. What this tells us is that if people moved here and they wanted or needed to work, Greater Lincolnshire could find a role for them.

However, and as with a lot of areas across the country, job numbers have been hit during and post recession. The number in employment fell from nearly 418,000 to 403,000 between 2009 and 2012. The initial impact was on part time employees but the effects subsequently turned to full time positions. There is positive news in that the latest 2013 figures show employment increased by 1.3 per cent between 2012 and 2013, driven primarily by growth in full time employees (4 per cent compared to 2.3 per cent nationally) whilst part time employee numbers fell.

Whilst official statistics tell us that the working age population is set to fall over the next two decades we know that this is unlikely. The amount of house building planned to take place over the next few years, the relatively lower house prices when compared to the rest of the country, along with fast rising house prices across the rest of the country, should all help to ensure that the

Around 2/5 of employers have introduced new or significantly improved products or services to their market in the last year

Source: GLLEP 2014 Employer Survey

Greater Lincolnshire area is an even more attractive place to live.

With this in mind one of the key components of growth has to be the creation of new jobs. Encouragingly, and like economic growth, the forecasts for job creation too are positive. Given a 'Do Nothing' scenario, the number of jobs in the Greater Lincolnshire area is set to increase by over 18,000 over the next ten years. Through investment in the right areas and the right sectors, the GLLEP wants to increase this jobs created number by over 13,000. This intervention is needed as creating jobs for people arriving in the area is not the only challenge faced. Filling jobs left by those workers retiring will also prove a challenge for the foreseeable future.

Forecasts suggest that between 2012 and 2022 there will be 182,000 posts that become open due to retirements in the work force. Even without the GLLEP created posts this creates a replacement demand figure of at least 200,000.

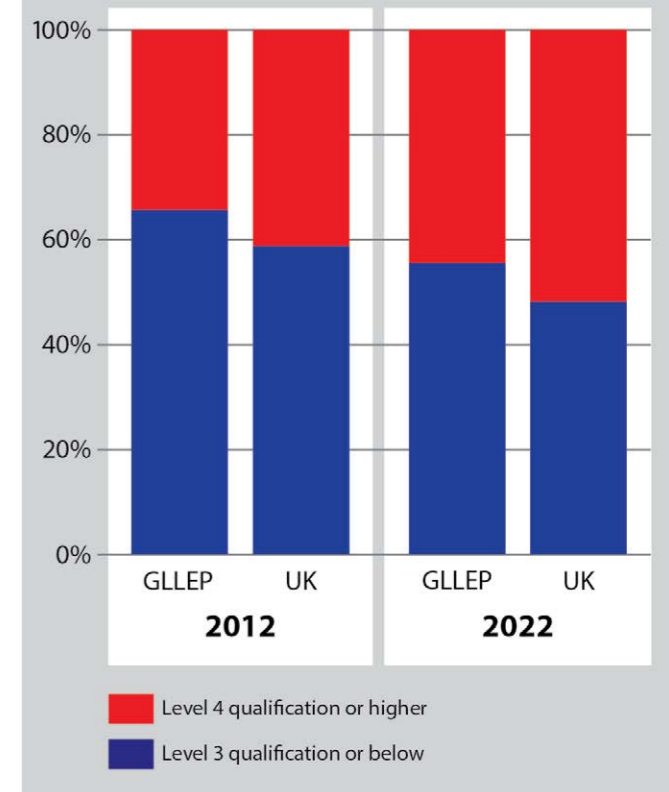
Skills

Greater Lincolnshire is often referred to as a lower skilled area and when compared nationally it is. This is in part due to the presence of 'traditional industries' such as agriculture and manufacturing but by and large this does a disservice to the modernity of these industries now and the area has a whole. However this lower skills legacy remains but it is set to improve as the graphic above shows.

So whilst the skills situation in the area is moving in the right direction it will still lag behind that of the national average without concerted intervention. Perhaps this is why **nearly one in five private sector employers recently cited the 'availability of appropriately skilled staff' as an obstacle to growing their business.** Tackling this issue is a balance of up-skilling, creating the right jobs (and businesses), and attracting the right people (and businesses) to the area.

Skills Levels of All in Employment

Source: Working Futures, Warwick Institute for Employment Research / Cambridge Econometrics, 2014



Conclusion

The local labour market as a whole is performing better than nationally with skills levels improving and set to improve further. The key challenge is likely to be the fact that at least 200,000 jobs will need filling over the next ten years despite projected low and negative growth in the younger and working age populations respectively, and with house building lagging behind the numbers needed to support this. However, latest economic growth figures are encouraging, despite a recent drop, with growth forecast in the short, medium and longer term.