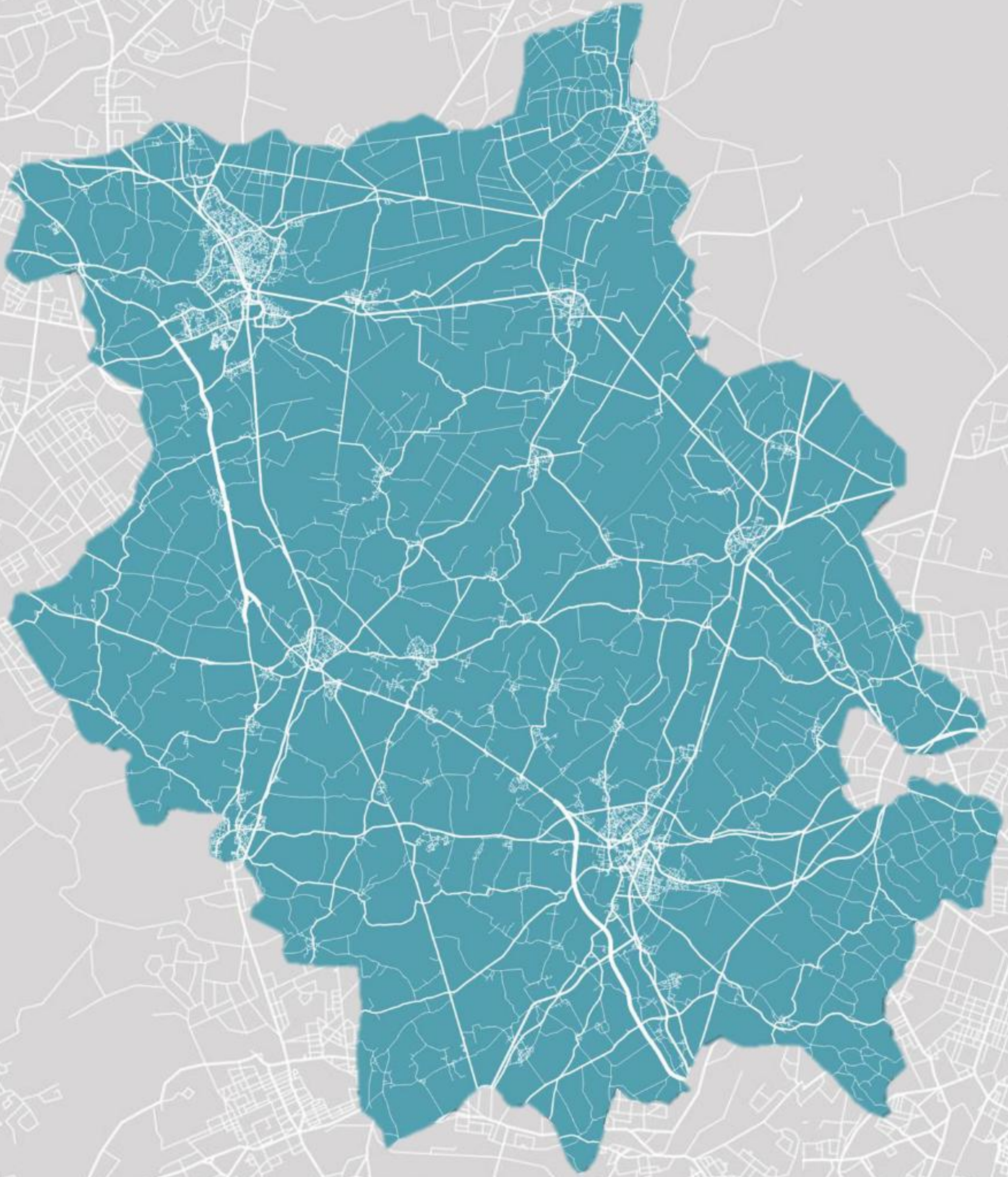
Cambridgeshire and Peterborough

State of the Economy Report

June 2022



Inflation is the dominant economic issue…

- **Inflation expectations continue to rise.** In February 2021, the Bank of England expected inflation in this quarter (Q2 2022) to be 2.2%. This has been revised upwards five times – with an expected inflation rate of 9.5% now pencilled in.
- **Cost of living is being driven up by energy and transport.** Housing and utilities costs form the largest category of consumer expenditure (31%) and this has grown by 8.6% already over the last year. ONS public opinion data shows that increasing electricity and gas bills are the major concern for those worried about cost of living (58%). The next biggest category of spending, transport, has grown by 13.7%, with costs set to rise further, if the situation in Ukraine is still leading to fuel price pressures over the coming winter.
- **These costs fall disproportionately on the poorer in society.** Work by the IFS has shown that the lowest income tenth in society have seen an effective inflation rate of 10.9%, versus 9.0% for the highest income tenth. In 2020, some areas of Cambridgeshire and Peterborough (C&P) already had over a quarter of the population in fuel poverty – in pockets of Peterborough, Wisbech, and Cambridge. This will have increased since then.
- **A tight labour market is pushing up wages, though not as fast as prices.** The number of payrolled employees in C&P is very close to the estimated economically active population, showing just how little slack there is. Nationwide, the number of unemployed people per job vacancy has fallen to 1, the lowest since records began in 2001. Wages for the median payrolled employee in C&P have grown by around 6%, which is still lower than total inflation.
- **Manufacturers are struggling with the cost challenge.** All of C&P’s six largest manufacturing sub-sectors are mostly dependent on natural gas for fuel, whose price has trebled over the last year. C&P’s largest manufacturing sub-sector by employment – Food and drink – has seen some of the highest input inflation over the last six months, with the conflict in Ukraine impacting prices for many foods. Of the 12% increase in food input prices in the last year, approximately 4% is being borne by manufacturers, 2% by retailers and wholesalers, and 6% by consumers.
- **Inflation in the services sector** is more muted – though this may be a matter of time. Food and beverage serving (CPCA’s largest service sector by employment after education) has seen inflation of 3.2%, but businesses in this sector are the most likely to anticipate staffing cost rises, with 51% anticipating this.

… and threatens to overshadow Covid recovery

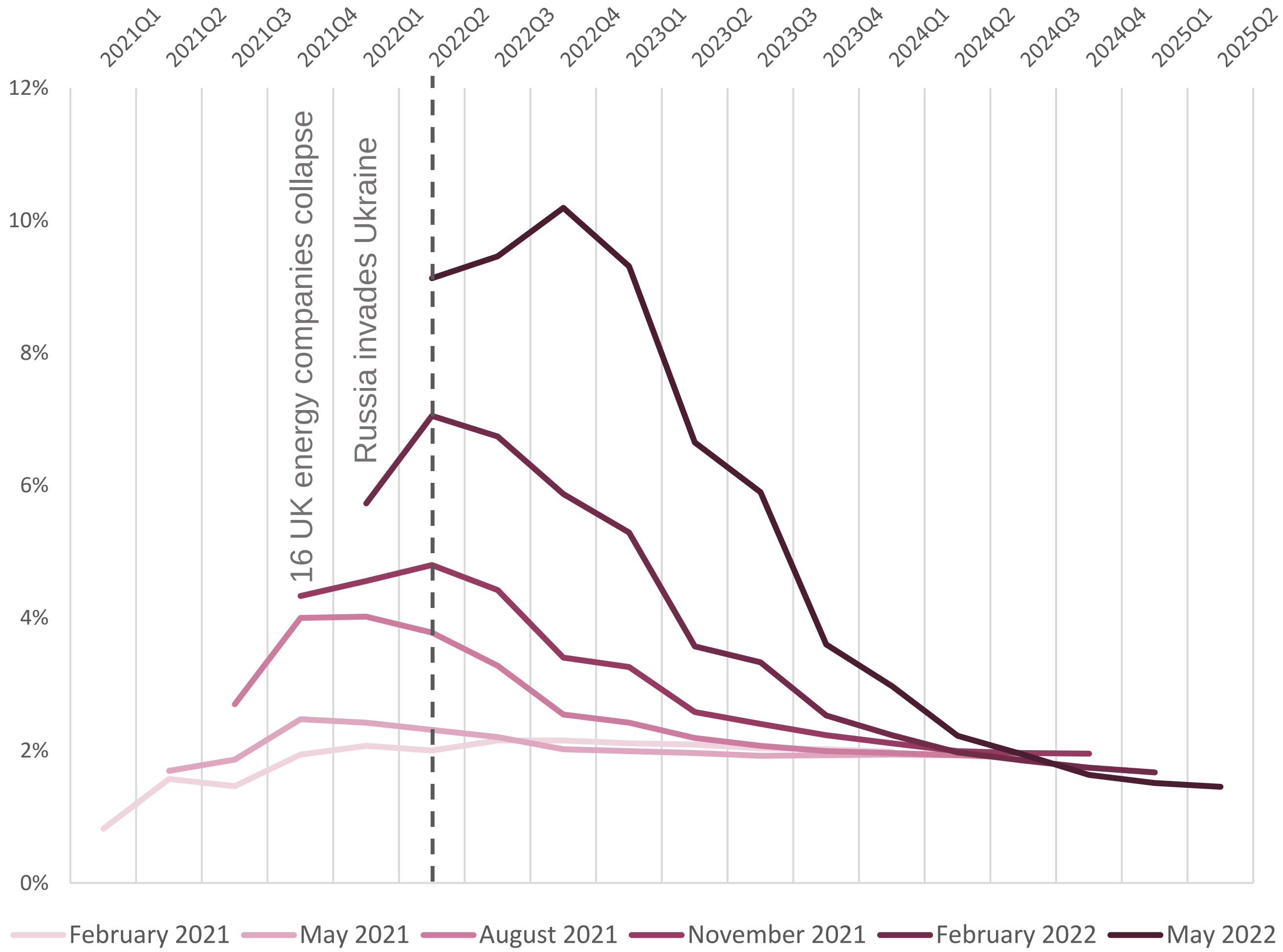
- **While Covid hasn't gone away, the total numbers of those dying with it has fallen**. C&P is averaging 12.5 deaths per week from Covid-19, a reduction compared to 2021 (17) and 2020 (16.5). However, the long-term impacts of long Covid on the labour market are not yet fully understood. There is also evidence that economic inactivity is growing among the over 50s in C&P, which corresponds to anecdotal evidence of the pandemic having pushed some to retire early.
- **Workspace use remains depressed as the switch to hybrid working appears permanent.** Across most of the Combined Authority workspace usage has stabilised around 15% below the pre-Covid average. Office vacancy rates have ticked up slightly.
- **However, demand for logistics space remains extremely strong.** This is most notable in Peterborough, which now has the 4th highest proportion of business units being used for transportation and storage in the country – up from 155th in 2011, as proximity to the Strategic Road Network and major rail has become more important in this sector than proximity to ports and airports.
- **Retail footfall has largely recovered in more rural areas,** and is actually much stronger in South Cambridgeshire than it was before the pandemic. In the more urban districts of Cambridge and Peterborough, however, retail footfall remains 15-20% below pre-Covid levels.
- **But the cost of living crisis is likely to threaten this recovery.** Demand for unessential goods is likely to fall as consumers tighten belts. This is likely to accentuate the challenges already being faced by some high streets across C&P.

The impact of inflation on residents and businesses

Future inflation expectations continue to rise

- In February 2021, the expectation for CPI inflation in the second quarter of 2022 was 2.0%. By November 2021 the energy price shock had already begun, with dozens of energy company collapses, leading to the projection for this period more than doubling, to 4.8%.
- Since then, changes in energy prices and goods prices, in significant part due to the Russian invasion of Ukraine, has caused expectations for this quarter to almost double again to 9.8%. This is forecast to start falling steeply from the start of 2023, falling below 4% by the end of 2023 – as the bank anticipates energy prices stabilising and an easing of global supply bottlenecks. However, the Bank acknowledges “considerable uncertainty” over the future outlook.

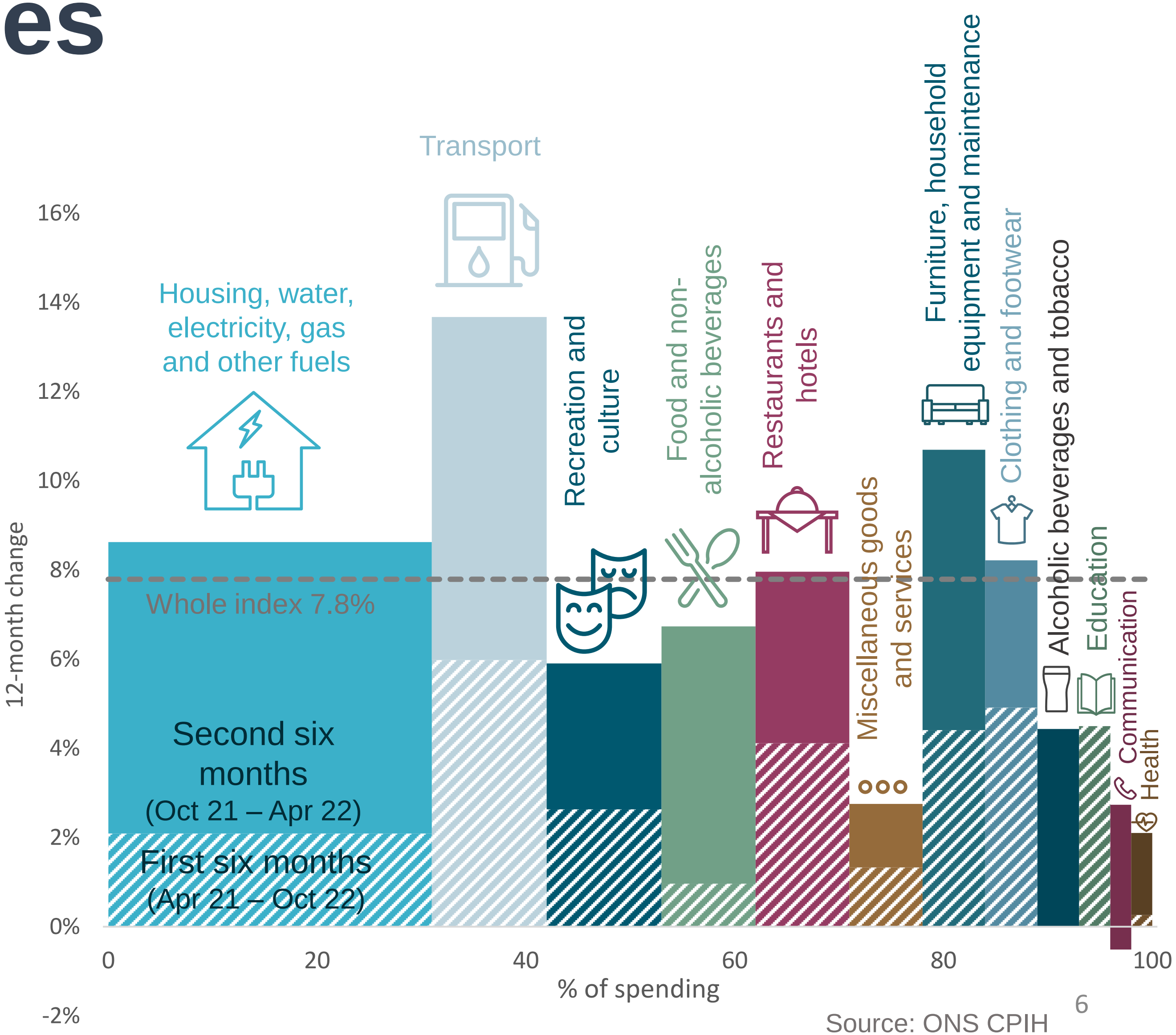
Bank of England Monetary Policy Committee evolving CPI forecasts



Source: Bank of England Monetary Policy Committee

Inflation is most acute in transport, housing, and utilities

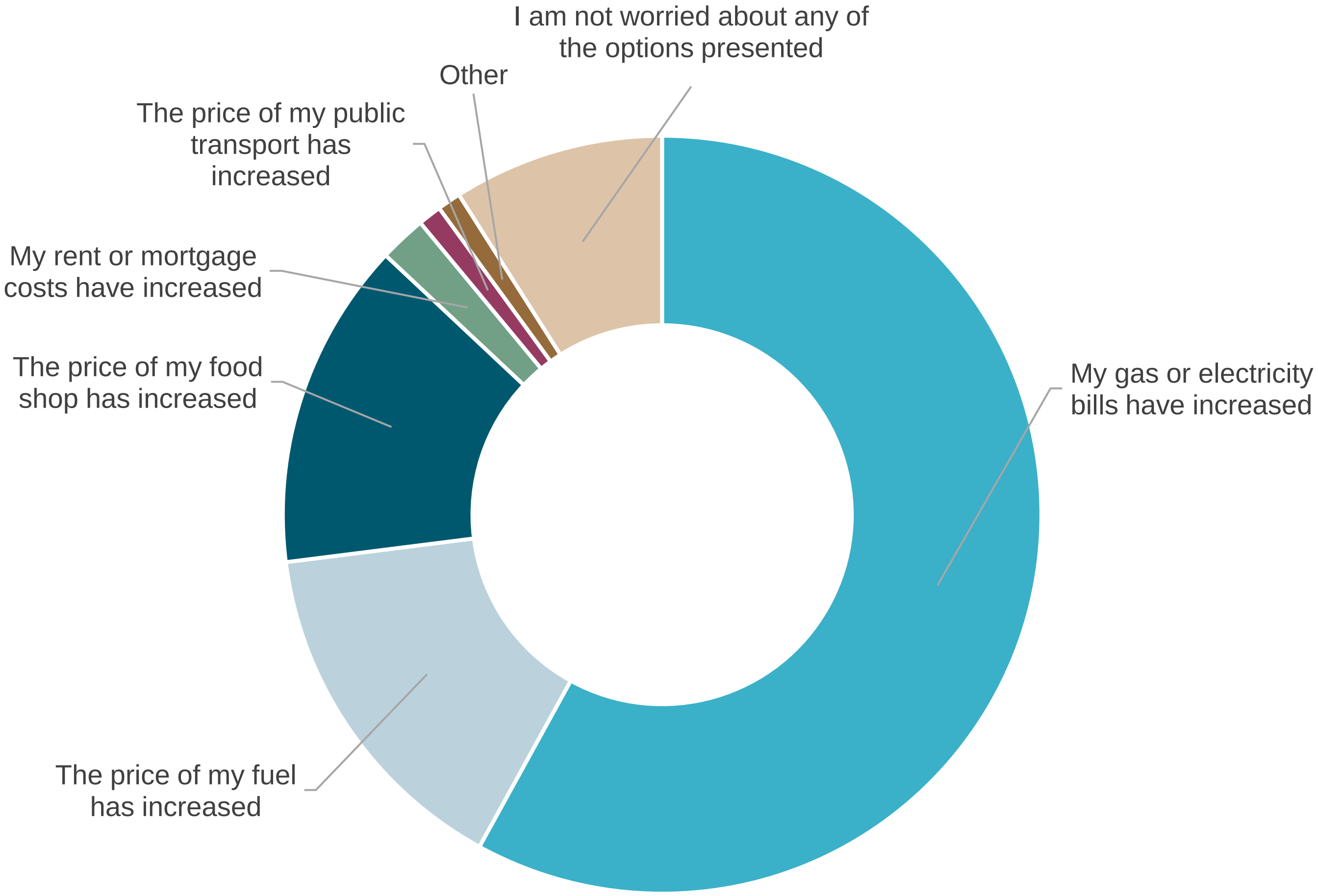
- What is driving higher inflation? This chart shows the proportions of the typical consumers basket of goods from the biggest category (housing and utilities) to the smallest (health). For each of these categories, the overall 12 month change is shown, with the hatched areas showing the amount of that increase accounted for by the first six months.
- Across the whole index, inflation has been 7.8%. Every category has seen growth higher than the Bank of England's 2% target. Transport has surged by 13.7%, and as this is the second largest category of consumer spending this is causing real economic pain to individuals. Housing and utilities costs have also grown strongly, most in the more recent six month period as energy prices have rocketed, and both oil and gas supplies being impacted by the Ukraine conflict. The rising prices for raw materials for the construction industry has caused the prices for household maintenance to spike as well. Food is another category where almost all the growth has been seen in the last six months – with wheat, oil, and other staples heavily affected by blockades and embargoes.



Source: ONS CPIH

Which is reflected in people's concerns

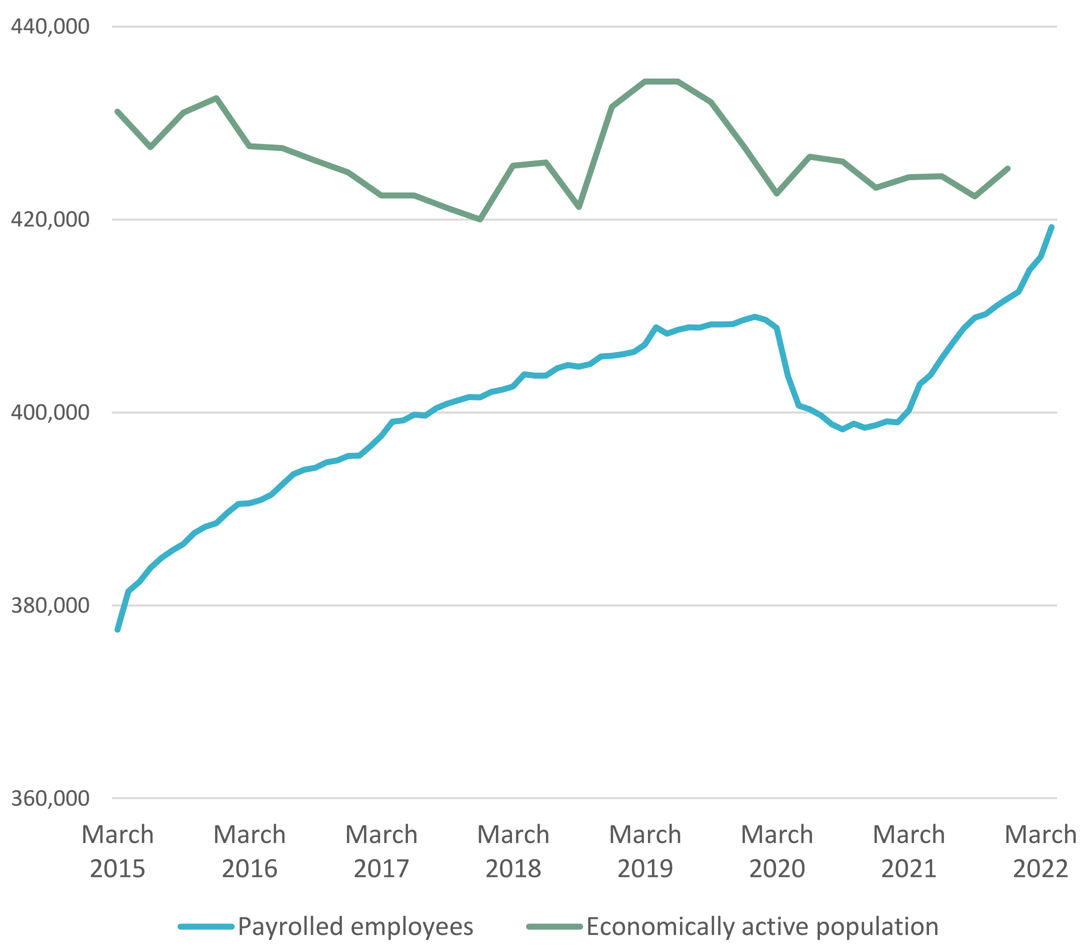
- The increase in the cost of bills has become the dominant worry for those experiencing increasing cost of living, with 58% citing this as their biggest worry. This is followed by fuel and food. Only 9% of those who had experienced a recent cost of living increase were unworried, indicating the mental health toll the crisis is having.
- The detrimental effect on personal finances can also be seen in saving intentions. At the start of the year, 31% of people surveyed didn't expect to save any money over the next twelve months. In the most recent survey this has sharply increased to 43%. At the same time, 3 in 10 adults report that they would be unable to pay an unexpected but necessary expense of £850.



Source: ONS Public opinions and social trends, Great Britain: 27 April to 8 May 2022

A tight local labour market may add to inflationary pressure

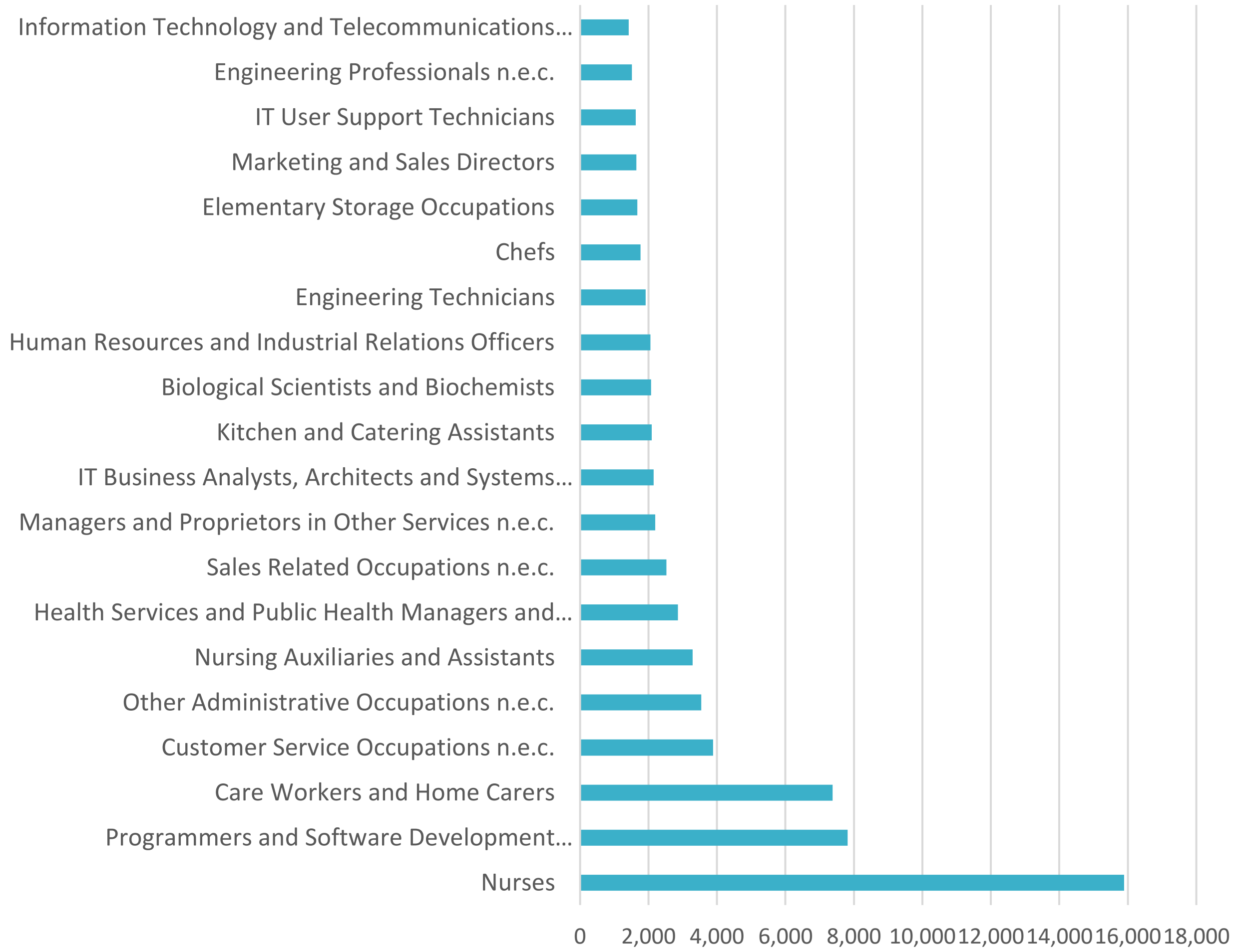
- Our most up-to-date local employee numbers come from PAYE data (and therefore exclude the self-employed). After falling during the pandemic, this has continued to grow and in April reached its highest value yet of 419,207 payrolled employees in the CPCA economy. The total economically active population at the end of December 2021 was reckoned to be 425,300. While these measures can't be exactly compared due to the self-employed, those who are employed by more than one organisation, and those who live in CPCA but work outside it (or vice versa), this nonetheless indicates a very tight labour market with extremely little slack. This is likely to add to inflationary pressure as wage demands push up business cost bases.
- Nationwide, the number of unemployed people per job vacancy has fallen to 1, the lowest since records began in 2001. This briefly spiked at 4.3 during the height of the pandemic, but has fallen sharply since then.



Sources: ONS Annual Population Survey, ONS Real-Time information from PAYE records, ONS series JPC5

With particular demand for nurses, carers, and programmers

Occupations by total online job postings in CPCA, May 2022



- Nurses are, by some margin, the most in demand occupation, with over 15,000 jobs postings in May. Other health and care roles were common too – care workers, nursing assistants, and health directors were all in the top ten – revealing the workforce pressures facing the health service
- Programmers and software were another group in high demand, with almost 8,000 postings, as well as related roles in IT – IT architects, systems designers, and support technicians featuring in the top twenty
- Other sectors that feature highly include hospitality (catering assistants, chefs), sales, and engineering
- These roles are those most likely to see wage rises as businesses compete for labour (see next slide)

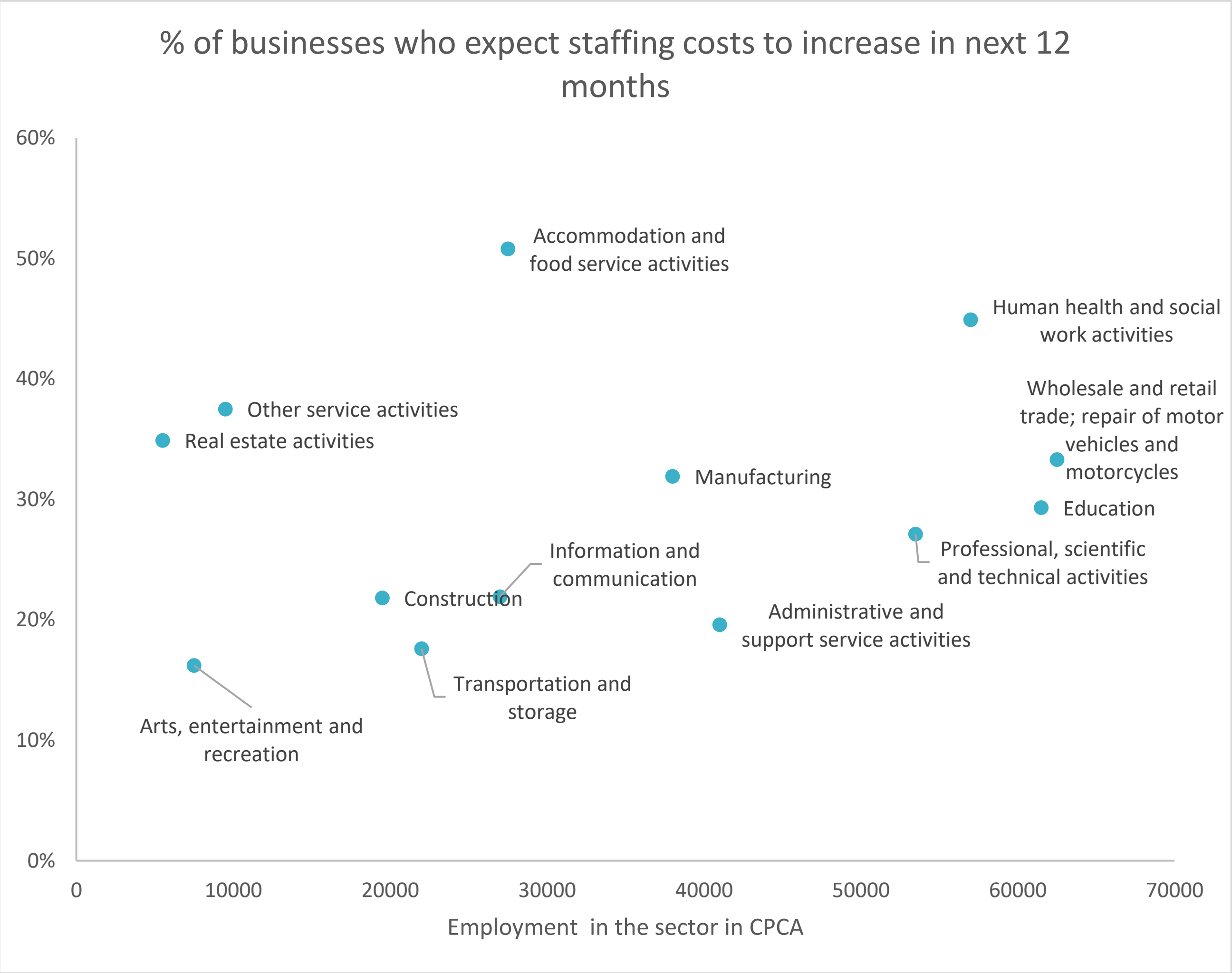
Sources: Emsi

Hospitality and health driving up staffing costs

The ONS Business Insights and Conditions Survey gives a real time understanding of how economic conditions are impacting businesses.

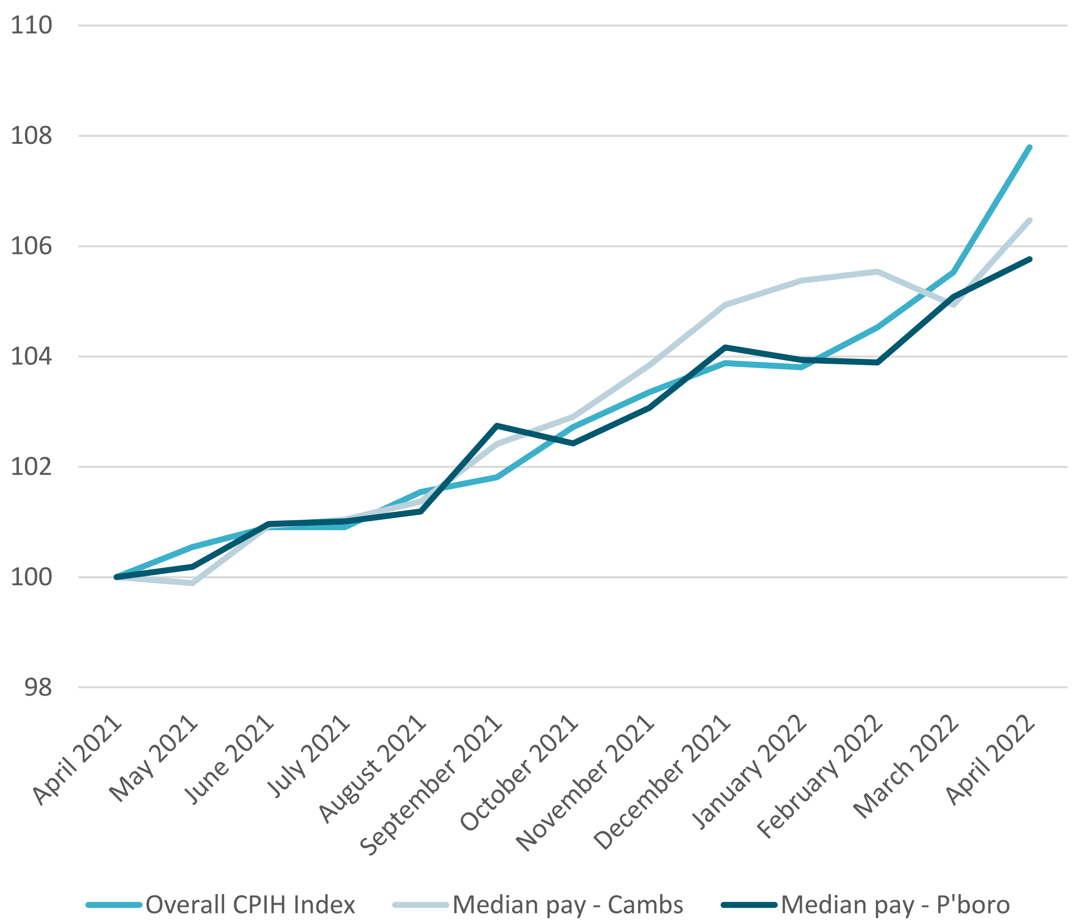
It is a national survey but gives up to date information on sentiment across different sectors, data included here released on the 5th of May 2022.

The figure on the right shows the percentage of businesses in each sector who expect their staffing costs to rise in the next year. Businesses in sectors employing more people in CPCA are, on average, more likely to expect staffing costs to increase. Most noticeably, hospitality and health, two sectors with huge demand for work, are most likely to expect rises.



Source: ONS Business Insights and Conditions Survey

The average employee's real income has been mostly protected until recently

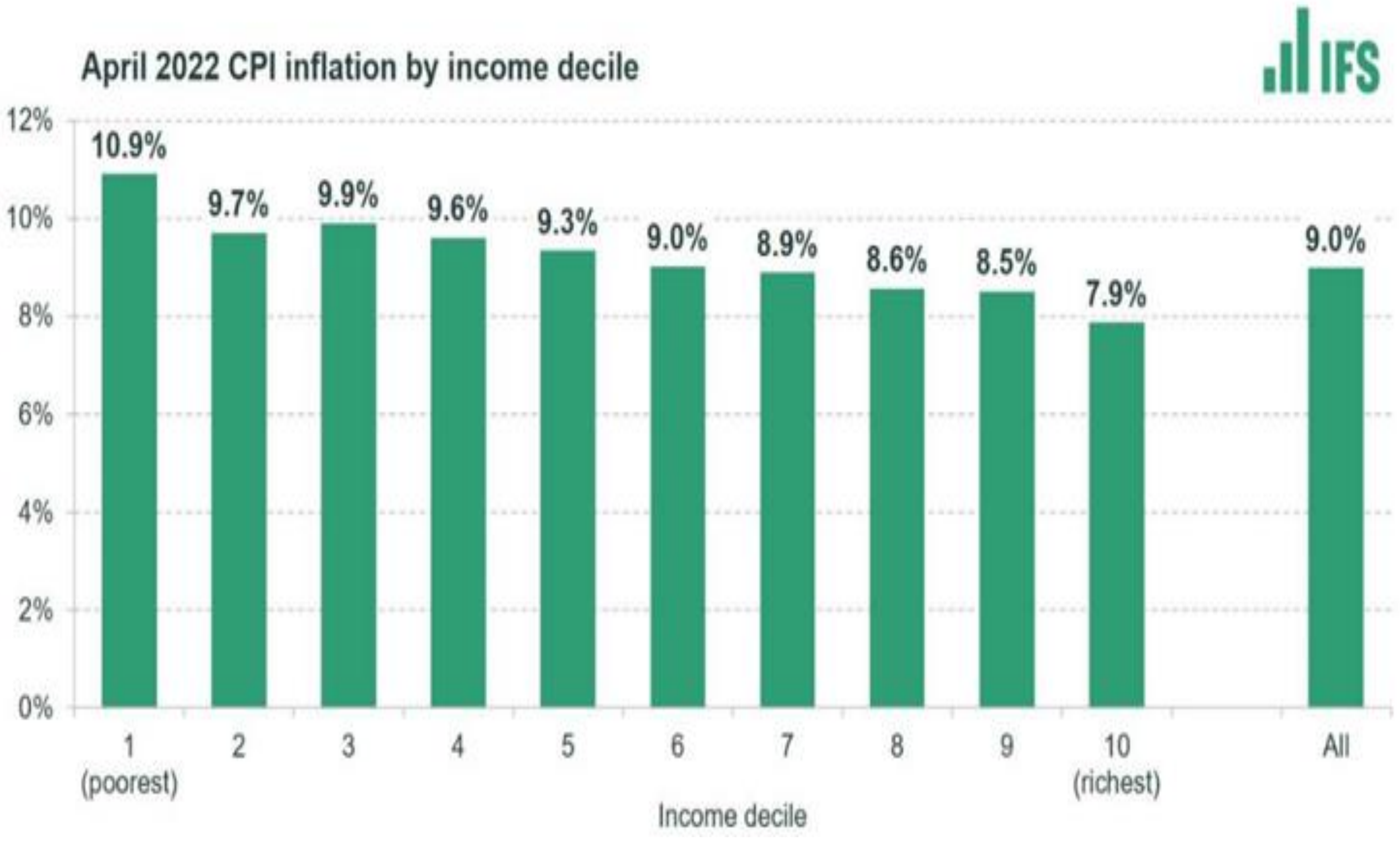


- Data from HMRC's PAYE records suggests that median pay has also climbed steeply in Cambridgeshire and Peterborough. For most of the last year it appears this has kept up with prices (though note, this data only includes payrolled employees, not the self-employed)
- In the most recent month of data, prices have begun to pull away, however. Policymakers are also concerned about the possibility of a wage-price spiral, with higher labour costs and higher prices becoming self-reinforcing

Source: ONS CPIH, HMRC PAYE

But those at the bottom end of the spectrum are being hardest hit

- The Institute for Fiscal Studies (IFS) calculated the inflation rates for each income decile in April 2022. The top income decile is faced with an inflation rate 3 percentage points lower than those in the bottom income decile.
- Rising energy, fuel and food costs have a greater impact on low income households because these goods account for a greater share of their expenditure. In the financial year ending 2020 households in the lowest income decile spent 54% of weekly income on essentials (housing food and transport), for households in the top decile essentials made up 42%.
- The difference in inflation rates is largely accounted for by rising energy prices: according to IFS estimates, the poorest households spend 11% of their budget on gas and electricity, the richest households spend 4%.

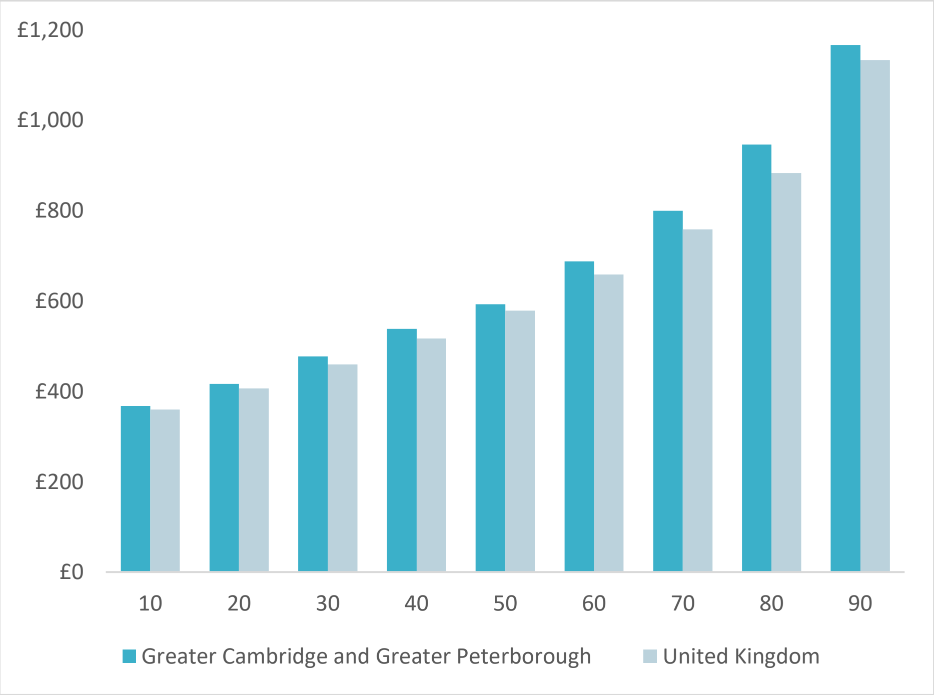


Sources: Institute for Fiscal Studies

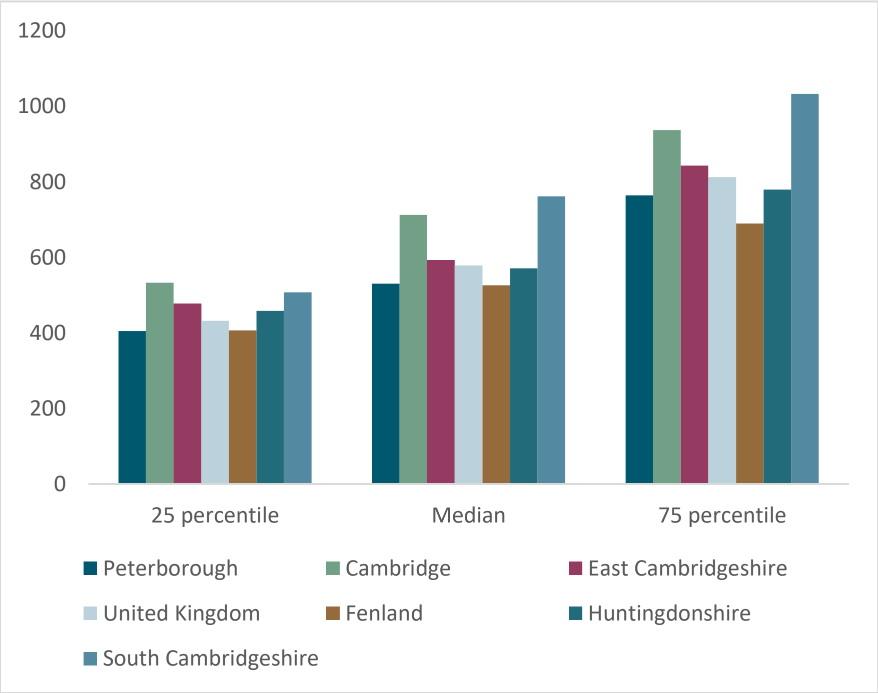
Earnings in CPCA are higher than nationally but there are inequalities across districts

Across CPCA weekly basic pay for each decile is above national levels. However there are significant inequalities within CPCA; in 2021 median weekly pay was over £200 higher in South Cambridgeshire than in Fenland. Peterborough and Fenland have lower basic weekly pay than nationally and 25 percentile weekly wage than nationally at every pay quantile.

Weekly basic pay deciles (2021)



Weekly basic pay quantiles (2021)

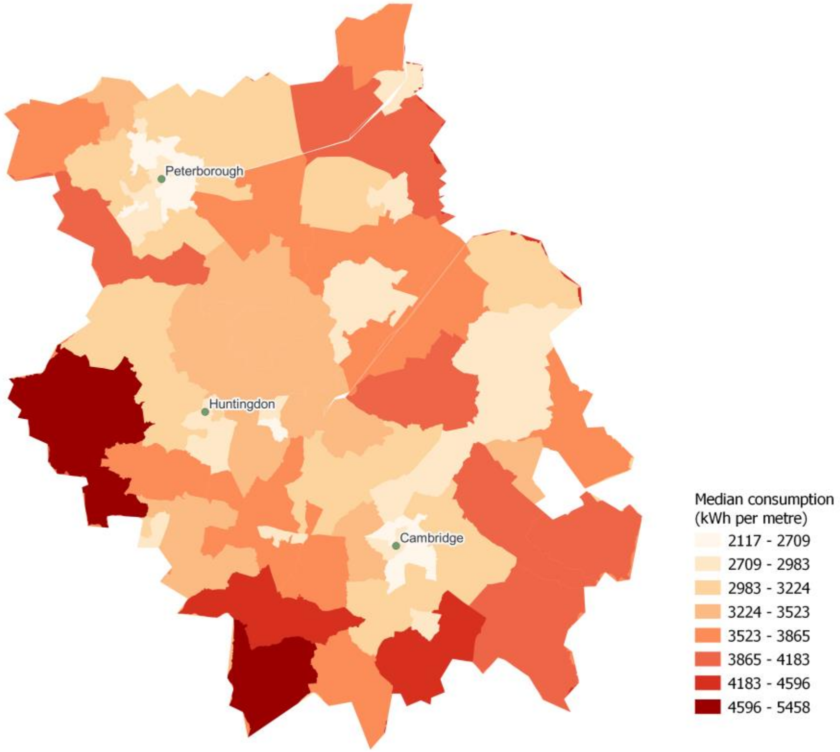


Sources: ONS Annual Survey of Hours and Earnings, resident analysis

Levels of domestic electricity and gas use vary considerably across CPCA

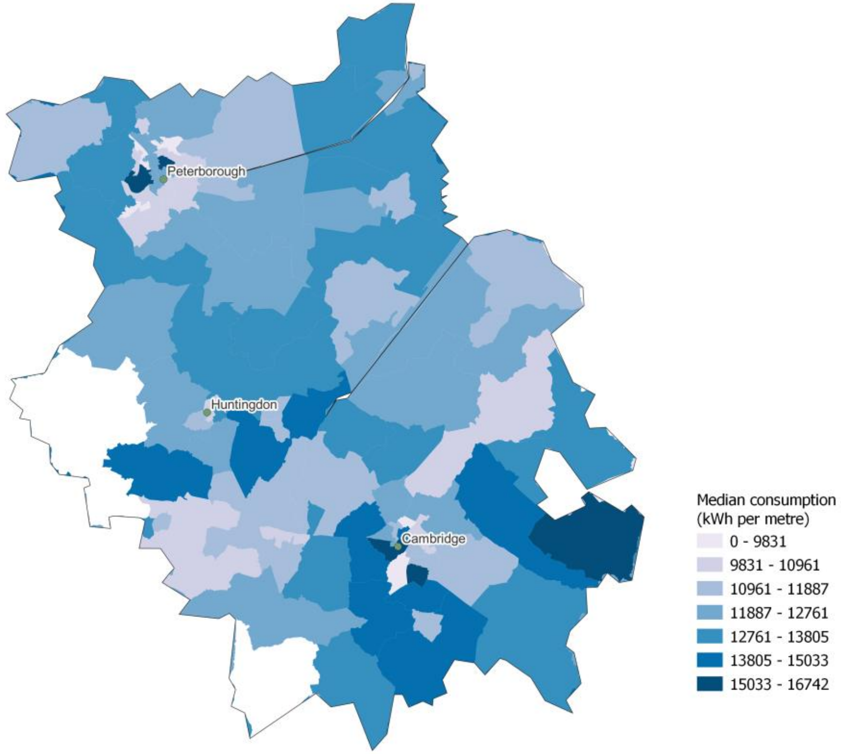
The below maps show the parts of CPCA where household electricity and gas consumption were highest in 2020, these high consumption areas will be the areas most impacted by prices.

Median household electricity use 2020



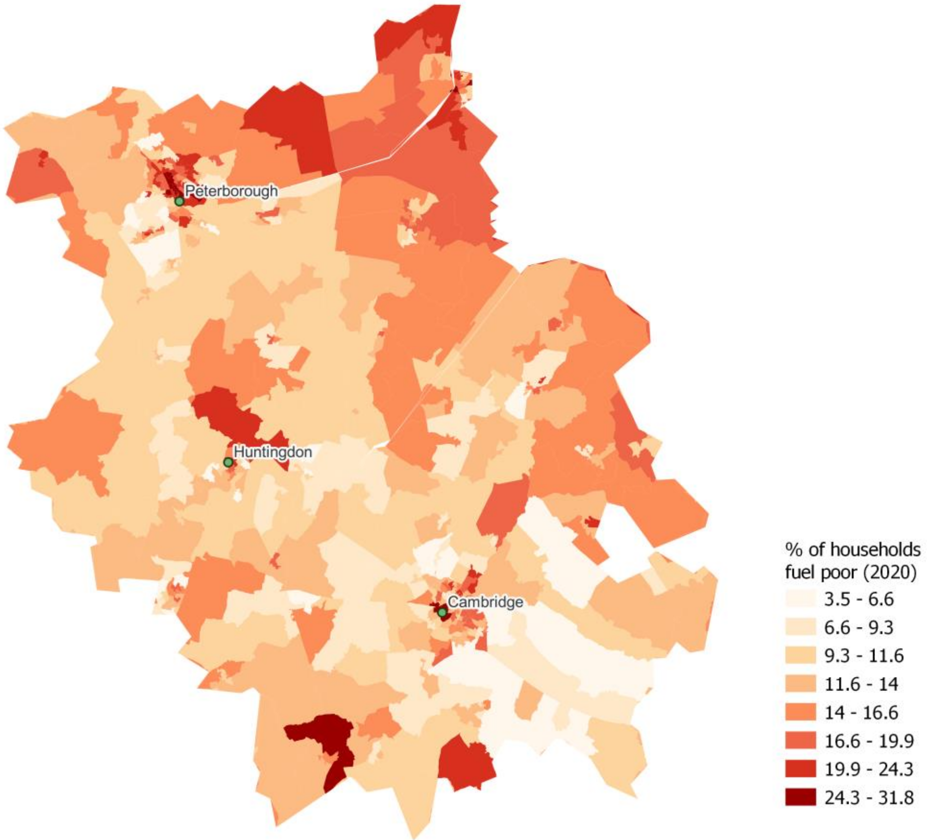
Source: BEIS; Domestic electricity consumption by Middle Layer Super Output Area (MSOA)

Median household gas use 2020



Source: BEIS; Domestic gas consumption by Middle Layer Super Output Area (MSOA)

There are pockets of high fuel poverty rates across CPCA



Across CPCA, 13% of households were experiencing fuel poverty in 2020.

The map on the left shows the % of households in each LSOA who were experiencing fuel poverty in 2020.

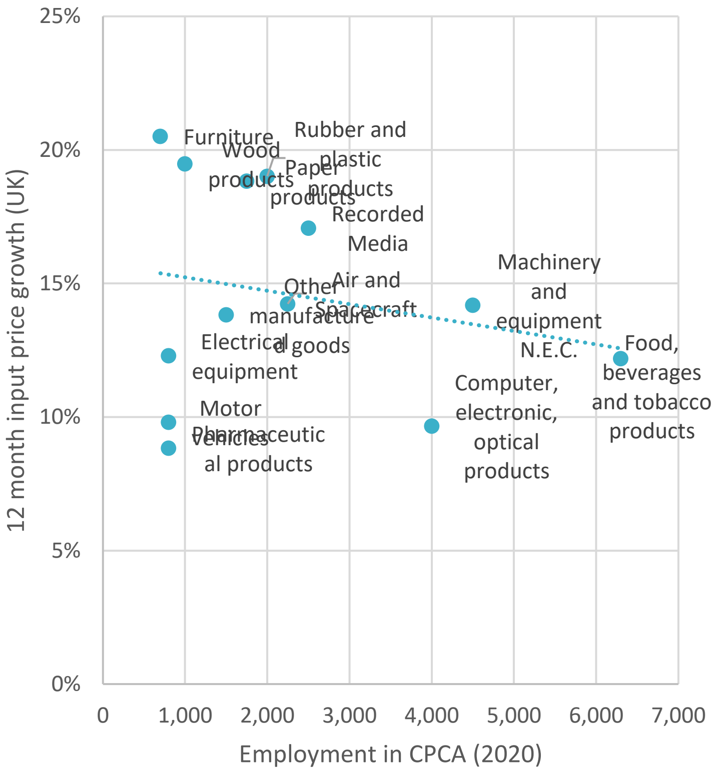
A household is deemed to be in fuel poverty if they meet two conditions:

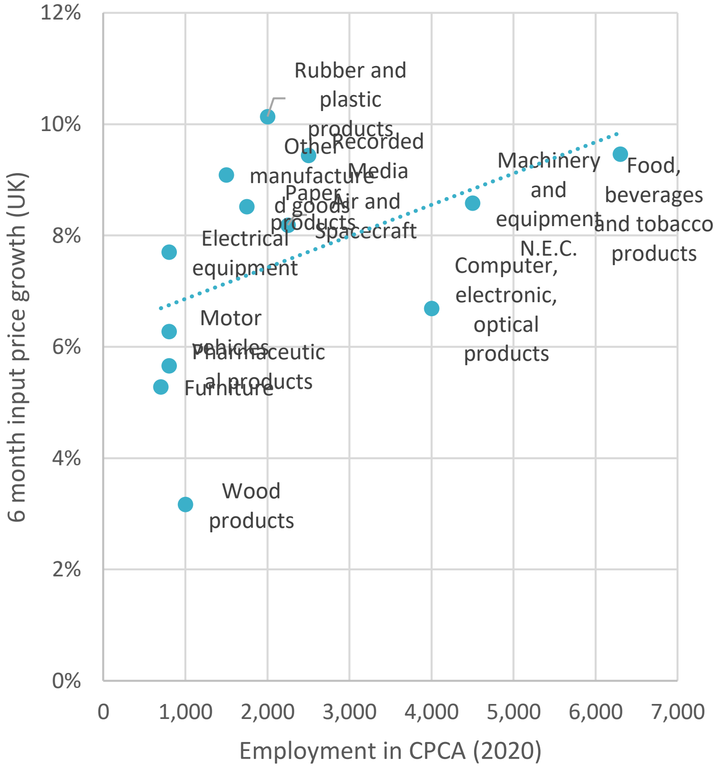
- living in a property with a fuel poverty energy efficiency rating of band D or below
- after heating their home, they are left with a residual income below the poverty line

Source: BEIS; Fuel Poverty sub-regional tables

Impact of input price growth on manufacturing

- The charts, right, show the impact of input price inflation on manufacturing subsectors, with the scale of the sector in terms of employment in CPCA. All subsectors have seen input growth of over 8% over twelve months, and there is a weak negative correlation with CPCA's larger subsectors being slightly more protected. However, over a six month period this correlation reverses, with larger subsectors seeing bigger increases. Most notably, the manufacture of food, beverage and tobacco, which is CPCA's largest manufacturing subsector, has seen input prices increase by 9.5% in just six months.



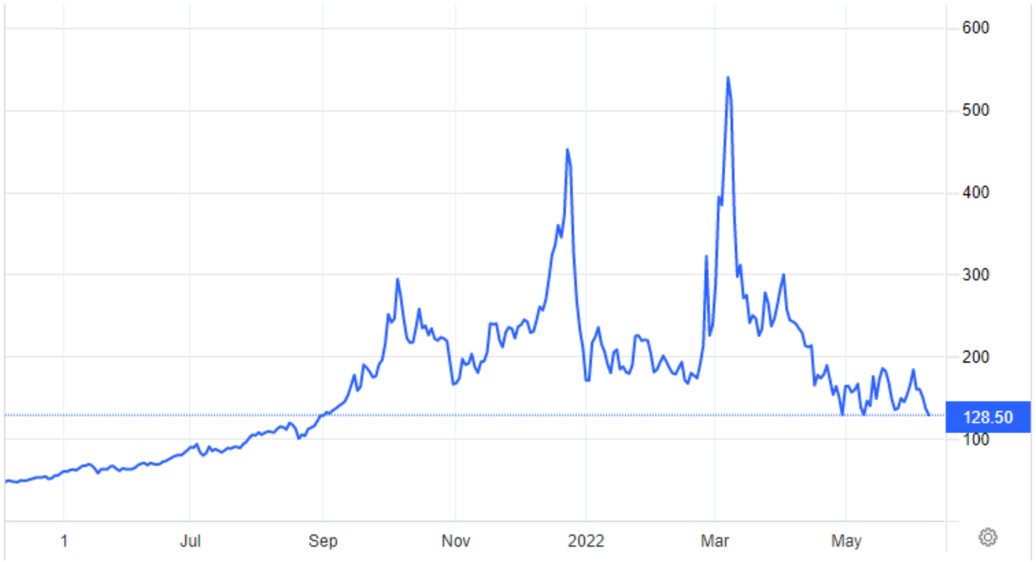


Sources: ONS Producer Price Index, ONS Business Register and Employment Survey. Only subsectors with employment greater than 500 are shown

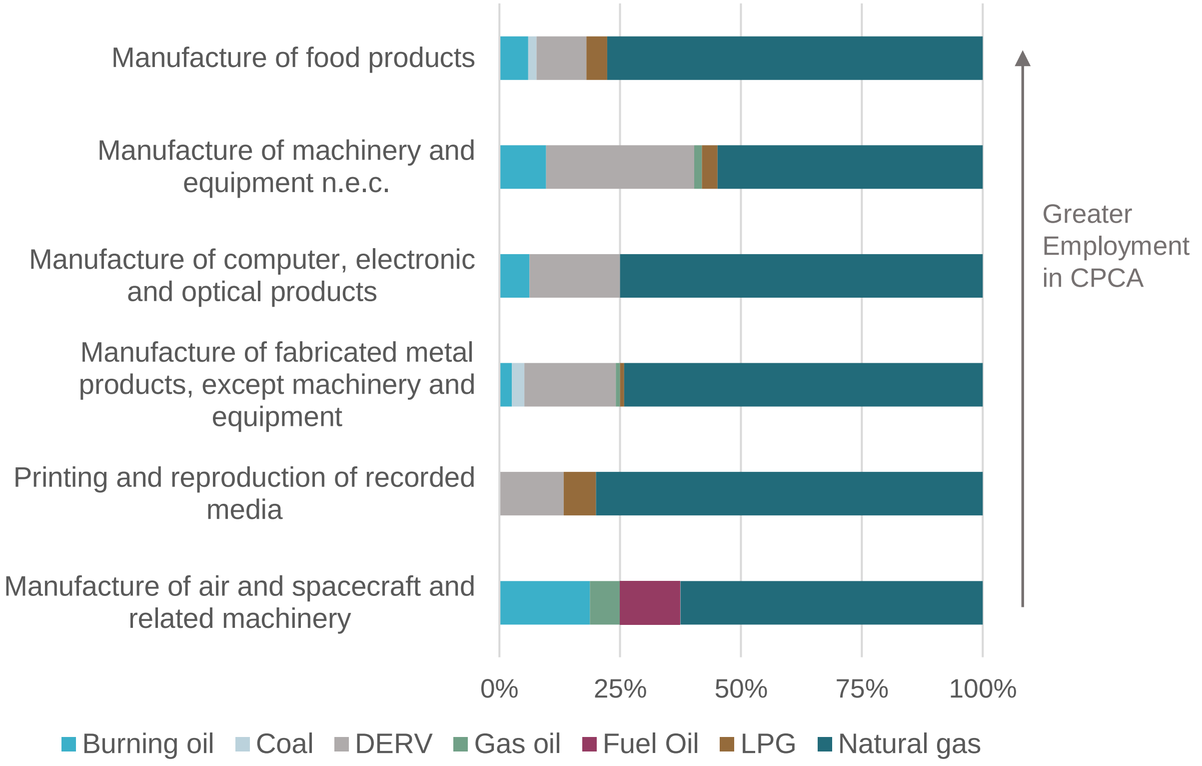
CPCA's major manufacturing sectors are very exposed to gas price hikes

The six largest manufacturing subsectors in CPCA by employment all source over half of their energy from natural gas. Since April 2021 the price of gas has trebled to 128.5p. This is a major cost escalation for these sectors, although prices are well below their Spring peak of over 500p per them.

There are some positive indications price pressures are easing – and the UK is less exposed to Russian gas than other countries. Those sectors with higher reliance on oil – most notably aircraft manufacture – will be most impacted by the planned embargo on Russian Oil.



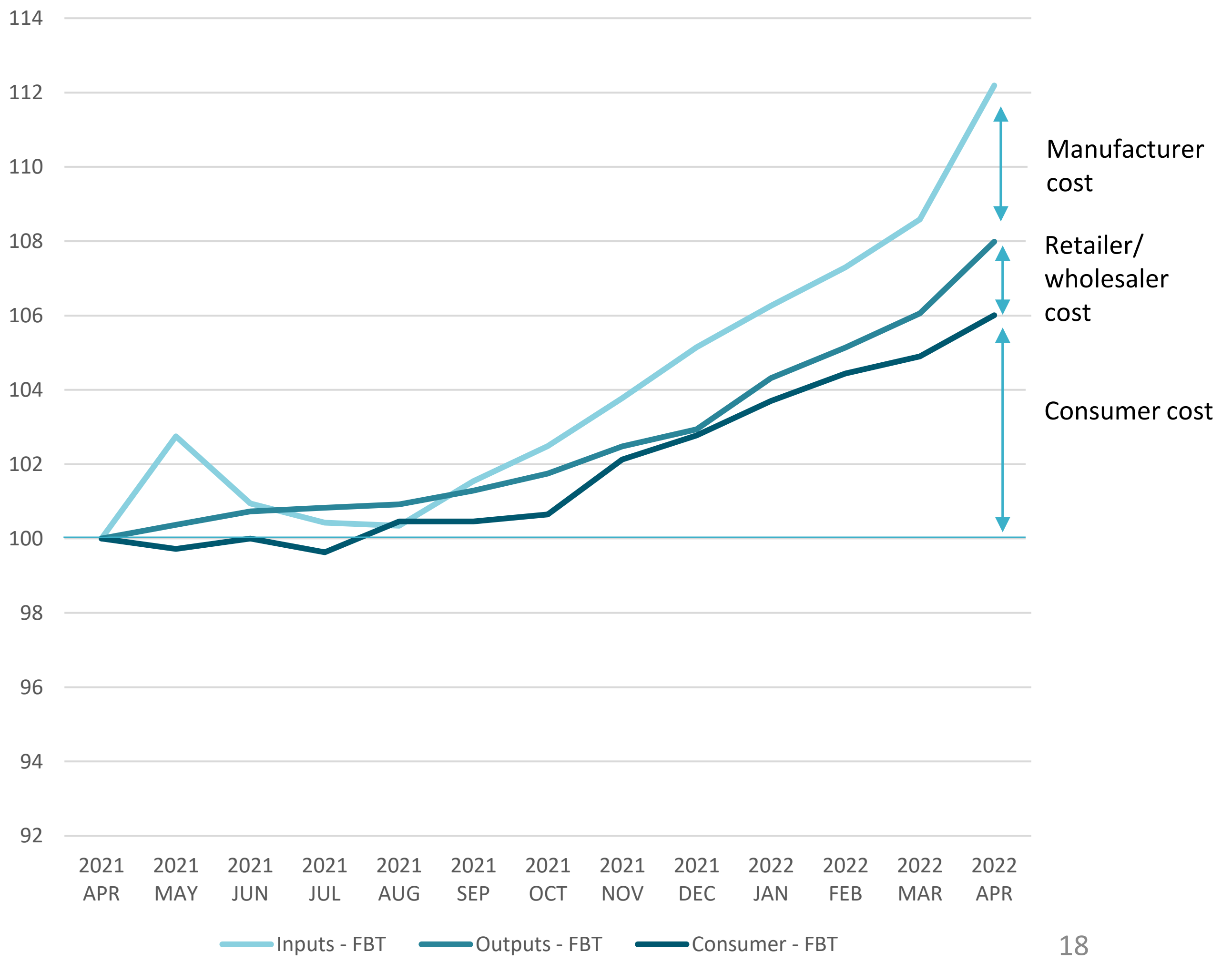
Fuel usage by type, six largest sectors in CPCA



Source: tradingeconomics.com, ONS Business Register and Employment Survey, ONS Energy use by industry, source and fuel, 1990 to 2019

Sector in focus: food, beverage, and tobacco manufacturing

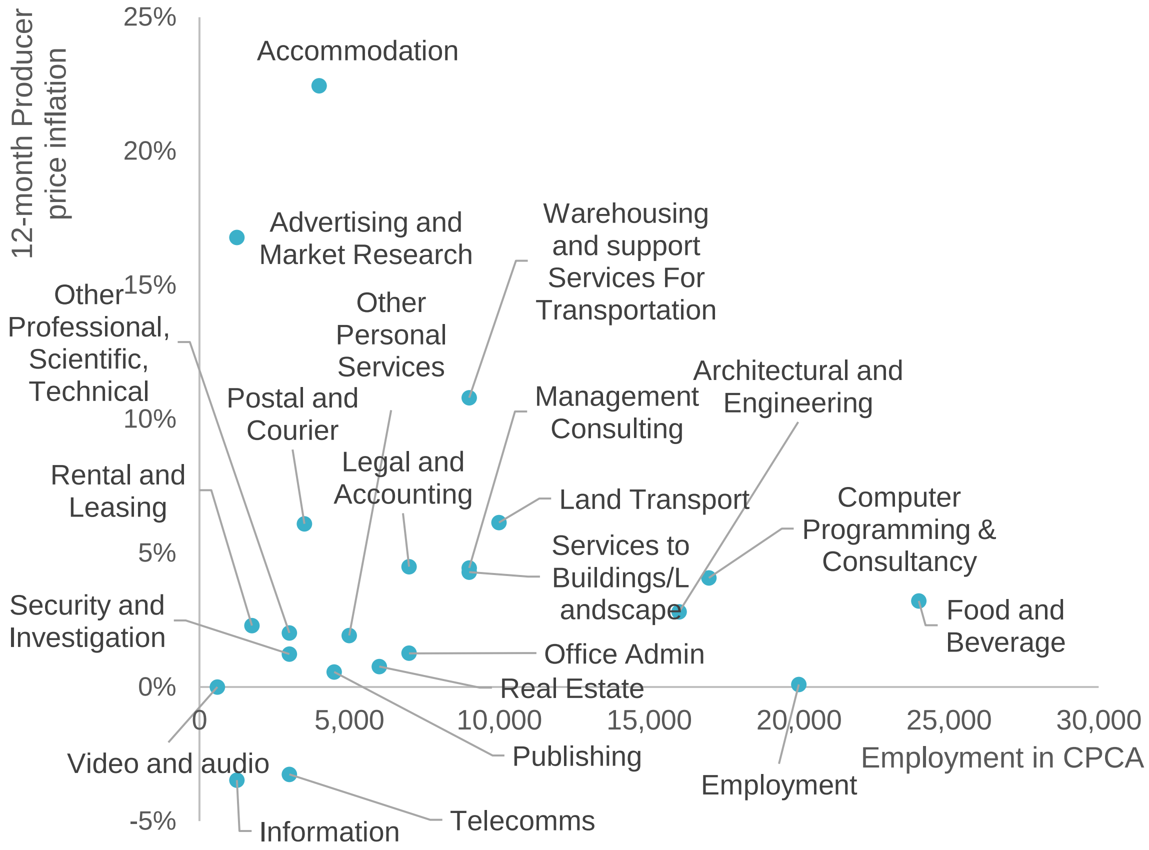
- A focus on CPCA's food manufacturing sector shows how the price dynamics have evolved in the last twelve month. Input costs – such as unprocessed food, water, and packaging – have increased by over 12%. The price of outputs from the sector has gone up by 8% - implying that while some of these costs have been passed on, for the moment at least manufacturers are seeing margins squeezed.
- The price to the consumer has also gone up, by around 6% - implying that retailers and wholesalers have also been unable thus far to pass the full cost on – though this lag could be in part caused by delays between buying and selling goods, and the time taken to adjust prices.



Sources: ONS Producer Price Index, ONS Consumer Price Index

Inflation less strong in the services sector

- Within the services sector, overall inflation is 4.0% - still high, but less than the goods sectors (though note, this data is only updated quarterly). Accommodation has seen a particular increase, with higher rents, and more travel for leisure than compared to a year earlier with Covid restrictions. Warehousing and logistics services have also climbed steeply, with increased demand for online delivery of services. Advertising has also seen a sharp price increase, though this is a relatively small sector in CPCA – employing 1,250.
- The food and beverage services sector, which employs the most in CPCA (after education, which is not shown on the chart) has seen 12-month inflation of 3.2%. This suggests rising food prices have only begun to feed through to this industry, which is likely to see further price increases.



Sources: ONS Services Producer Price Index. Note, figures aren't provided for several important services, including financial services and the arts. Sectors which employ more than 500 people are shown. Education, which employs 62,000 in CPCA, is excluded as an outlier

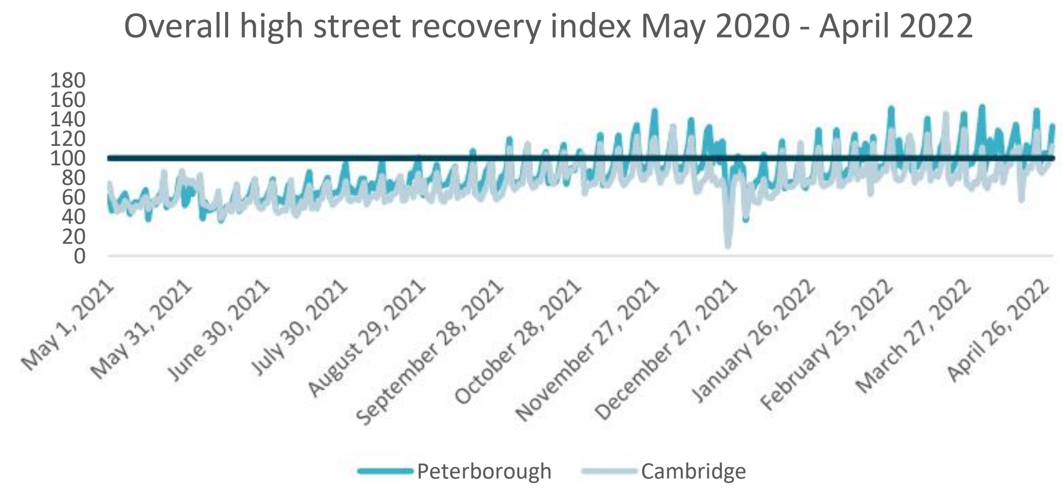
Covid-19 update

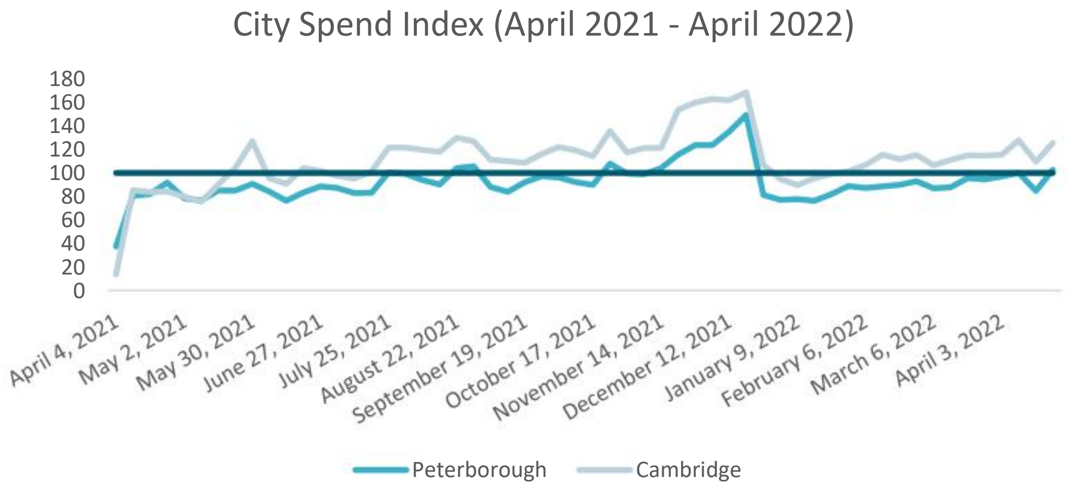
High Street Recovery

The charts show the Centre for Cities’ High Street Recovery Index for Cambridge, Peterborough and UK city wide average.

Footfall on high streets in Peterborough and Cambridge increased over the course of 2021 before dropping sharply in December. it has increased again in the first half of 2022 and in April 2022 Peterborough averaged 111, meaning footfall exceeded pre-covid levels. Cambridge averaged 91 in the same period, slightly stronger than the national average of 90.

Looking at spending recovery, Cambridge has made a faster recovery in 2022, with spend above pre-pandemic levels since February 2022. Peterborough has been slower to recover (across the duration of the pandemic, not only in 2022), where recovery is marginally below that of the UK cities average, but remains hovering close to pre pandemic levels over the past few months



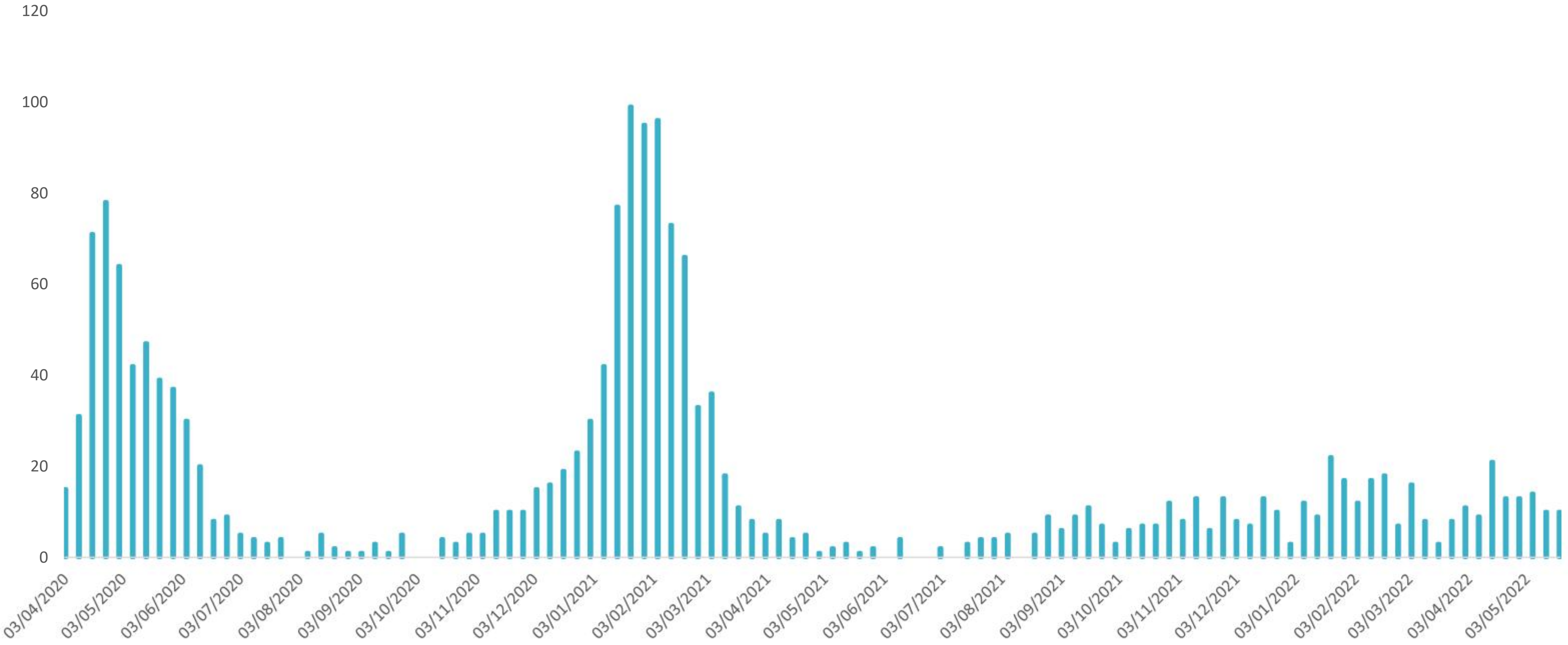


Source: Centre for Cities, High Street Recovery Index

Metro —— Dynamics

Covid deaths are still significant, but much lower than peak

CPCA is averaging 12.5 deaths per week from Covid-19, a reduction compared to 2021 (17) and 2020 (16.5)

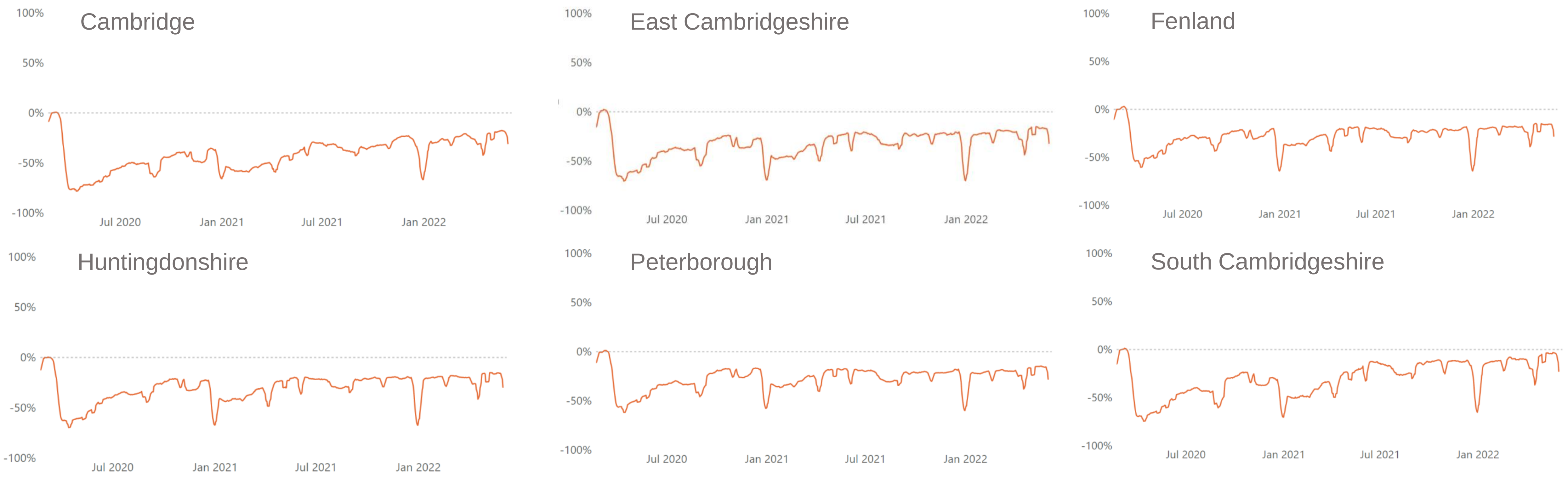


Sources: Government Coronavirus data: weekly deaths with COVID-19 on the death certificate by date registered

But workspace use remains depressed across most of the Combined Authority

Across CPCA a consistent pattern emerges, with two significant exceptions. In East Cambridgeshire, Fenland, Huntingdonshire, and Peterborough, use of workspaces is around 15% below where it was before the pandemic. In Cambridge, this is a bit lower – 18%-19%. Whereas in South Cambridgeshire in March 2022 levels were only 10% below baseline, and in late May were only 4% below baseline.

Workspace usage relative to pre-Covid baseline, March 2020 – May 2022

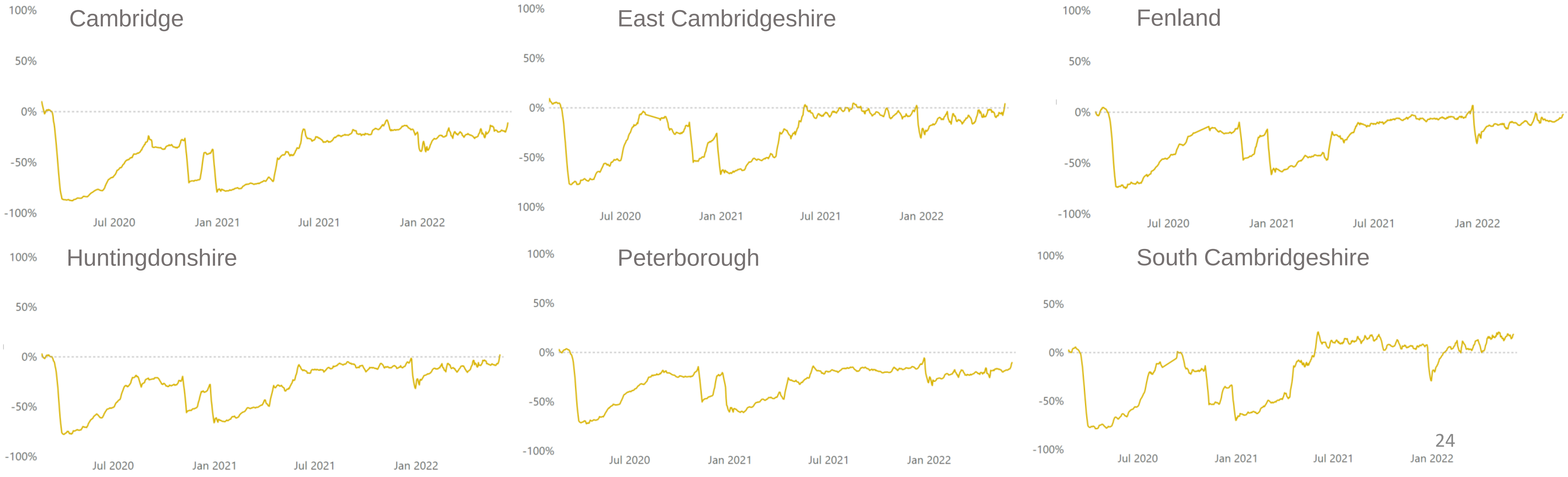


Source: Google Community Mobility Data

And retail has seen a variable recovery

The recovery in retail footfall has been more variable. In the rural districts of East Cambridgeshire, Fenland, and Huntingdonshire footfall levels are at or almost back to pre-Covid levels. Whereas, in the more urban districts of Cambridgeshire and Peterborough, retail footfall remains 15-20% below where it was before the pandemic. Most strikingly, South Cambridgeshire has seen the strongest retail recovery, with consistently around 17% higher footfall than before the pandemic. This may be a result of the "Zoomshock" – with affluent workers who are now spending less time in the office in Cambridge, spending more time and money on local retail services. However, the growing cost of living crisis is likely to hang over future retail spend as consumers cut back on unnecessary spending.

Retail and recreation usage relative to pre-Covid baseline, March 2020 – May 2022

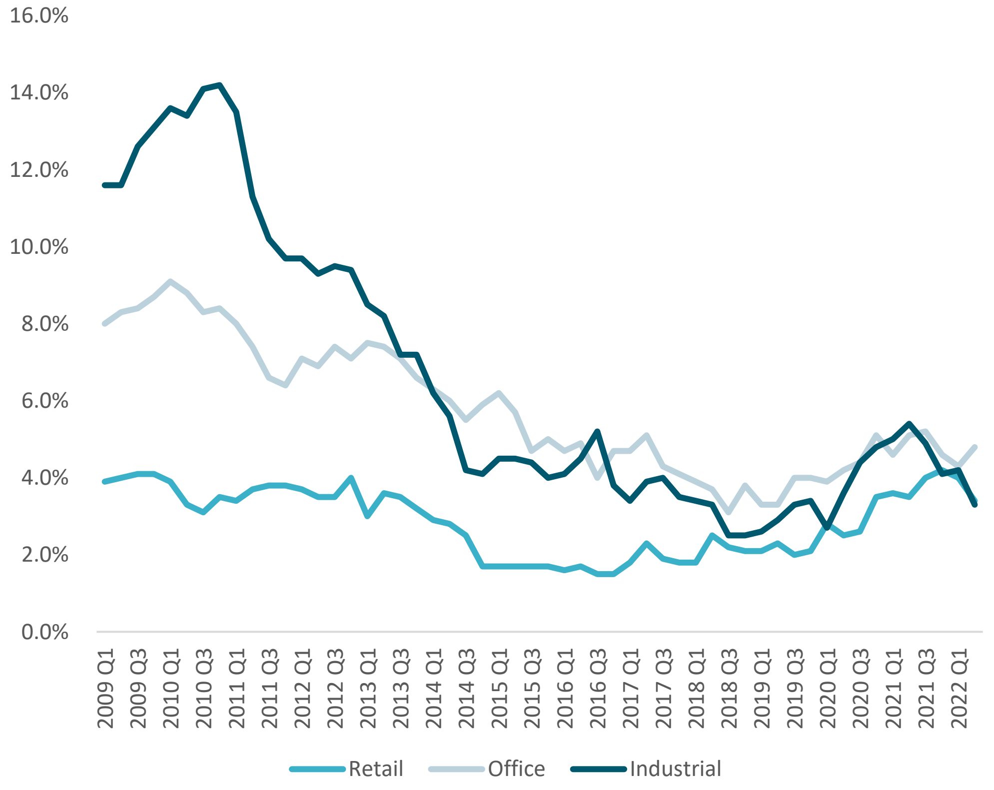


Source: Google Community Mobility Data

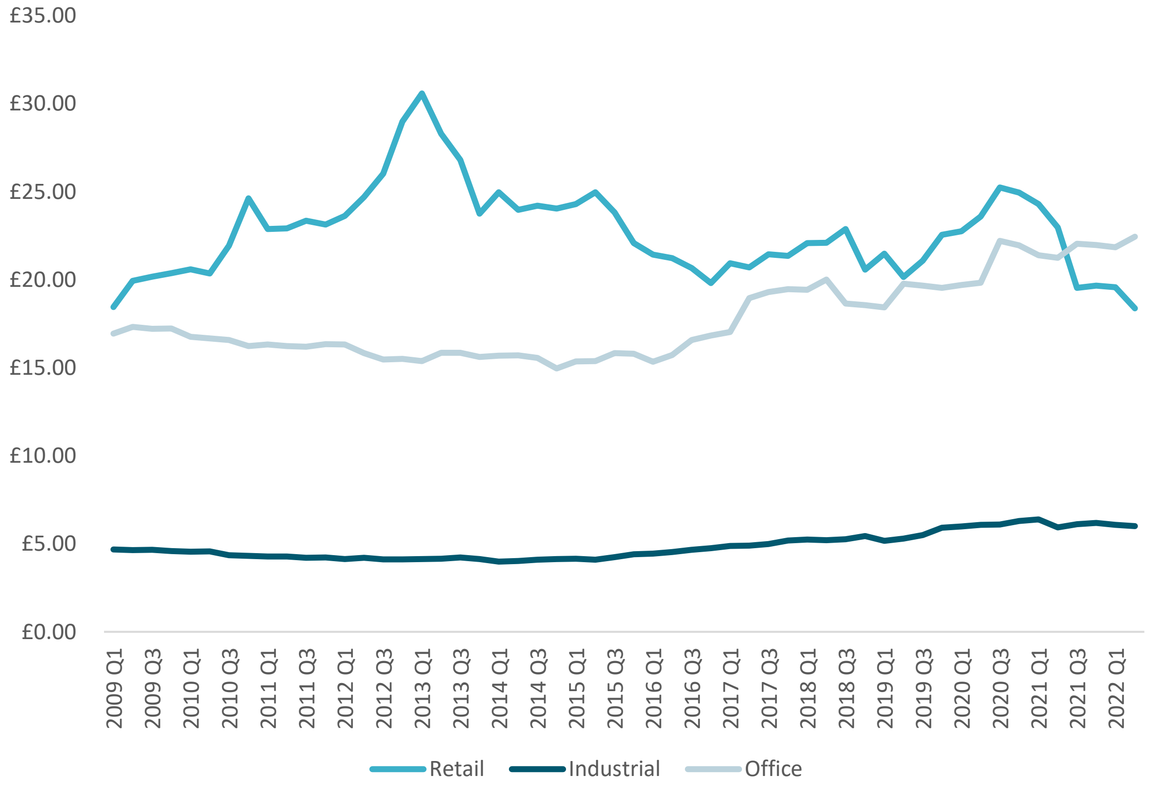
Property market data suggests the retail sector continues to struggle

Rising retail vacancy rates and falling rents suggest the retail sector is continuing to struggle. The market for office space is showing more positive signs as the rise in vacancy rates appears to have halted and rents are steadily increasing

Commercial property vacancy rate, 2009 - 2022



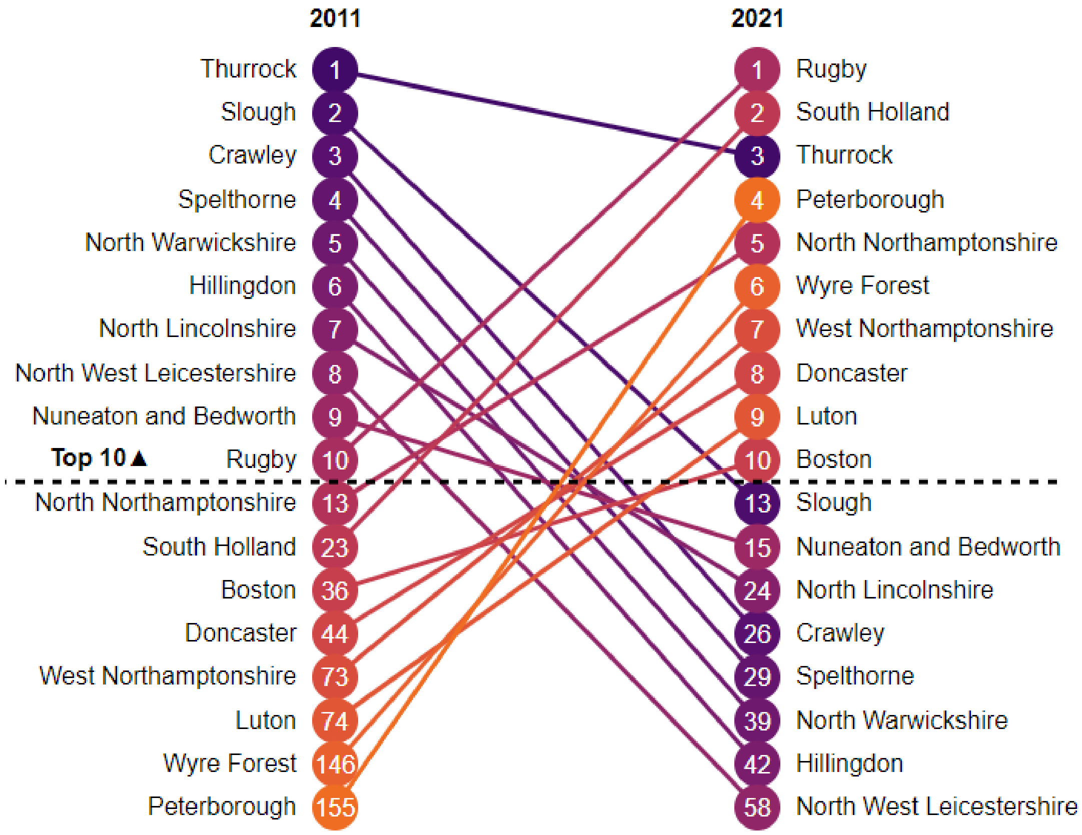
Commercial property rent per square foot, 2009 - 2022



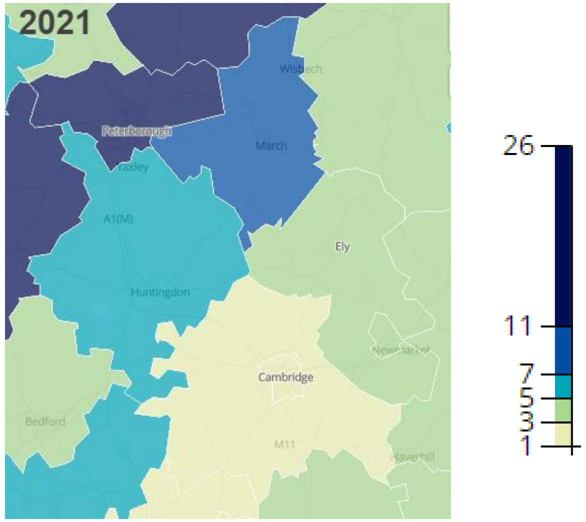
Source: Costar Commercial Property Data

But growth in logistics space is strong, especially in Peterborough

Ranking of local authorities by percentage of business units used for transport and storage, UK, 2011 and 2021



- The growth in online shopping, however, has driven an increase in space for transport and logistics, particularly further north in CPCA. In ten years, Peterborough has become the local authority with the fourth highest proportion of business units in transport and logistics in the country – with 14.6% of business units for this purpose. Whereas logistics industry previously clustered around airports and ports, the rise of deliveries has shifted the emphasis towards central places with immediate access to the major road and rail network – particular strengths for the city.



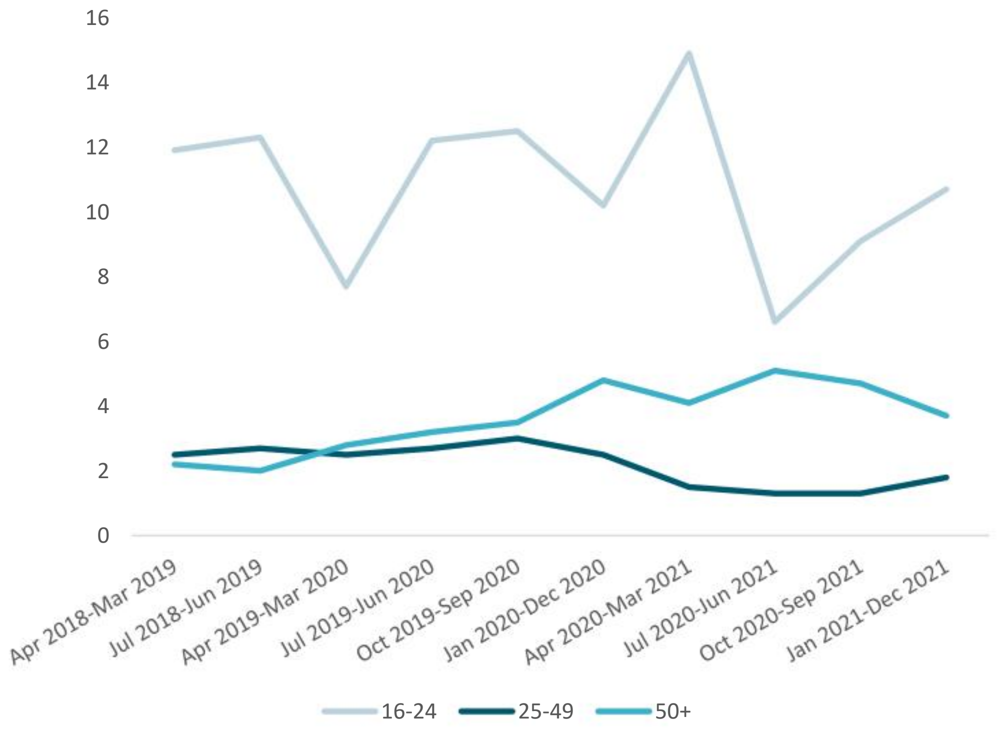
Source: ONS article: The rise of the UK warehouse and the “golden logistics triangle”

Labour market update

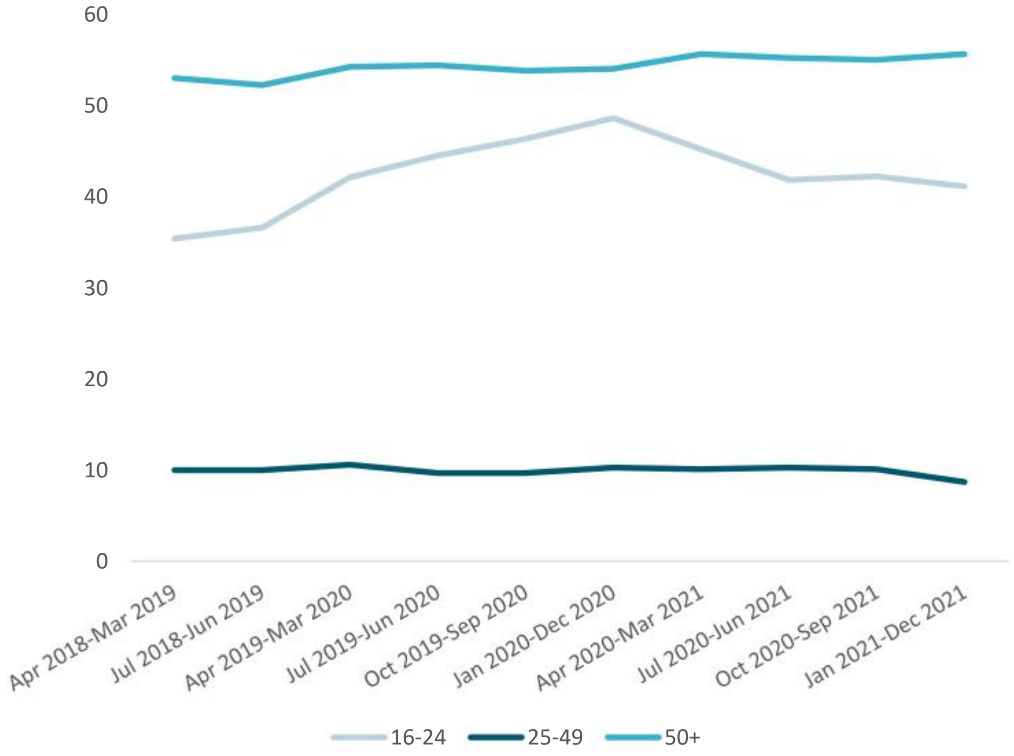
Rising youth unemployment and inactivity among the over 50s

The overall unemployment rate is 3.4%, below the regional and national level. Youth unemployment has risen while unemployment for over 50s is declining though this is likely driven by the rising levels of inactivity.

CPCA: unemployment rate by age band



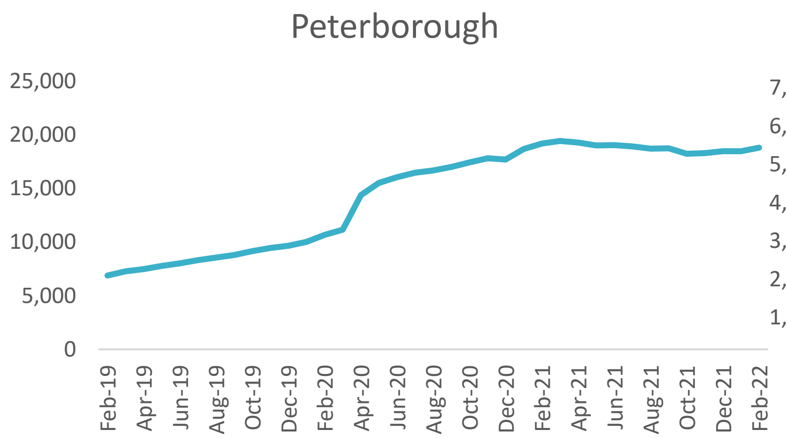
CPCA: inactivity rate by age band

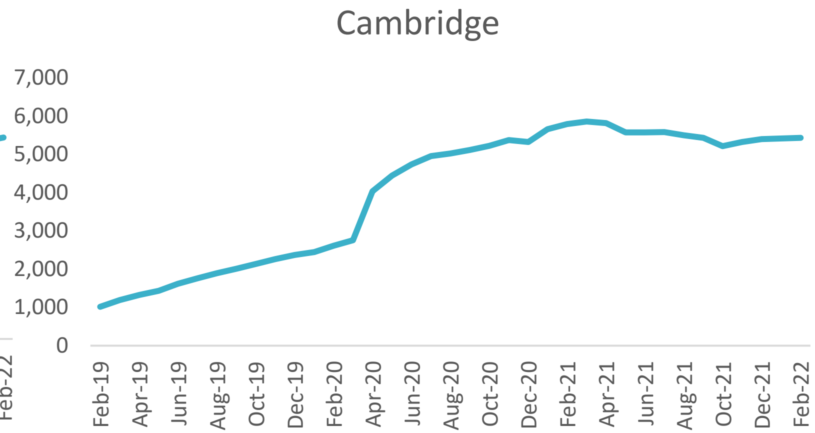


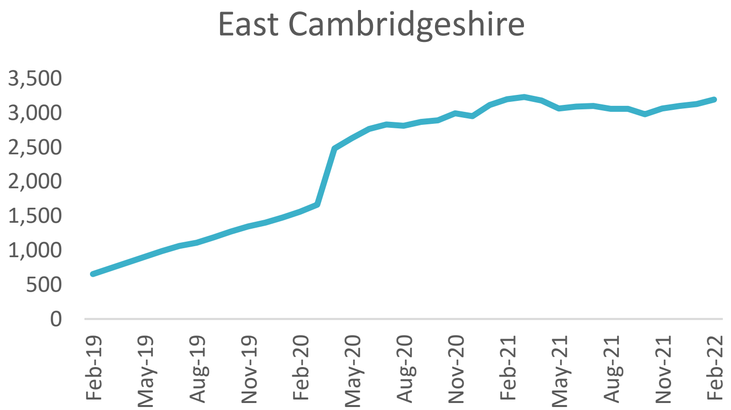
Source: ONS Labour Force Survey

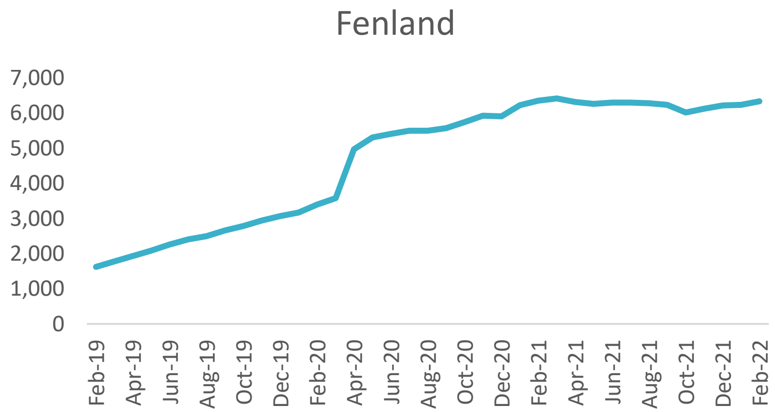
The number of households on universal credit shows no signs of declining

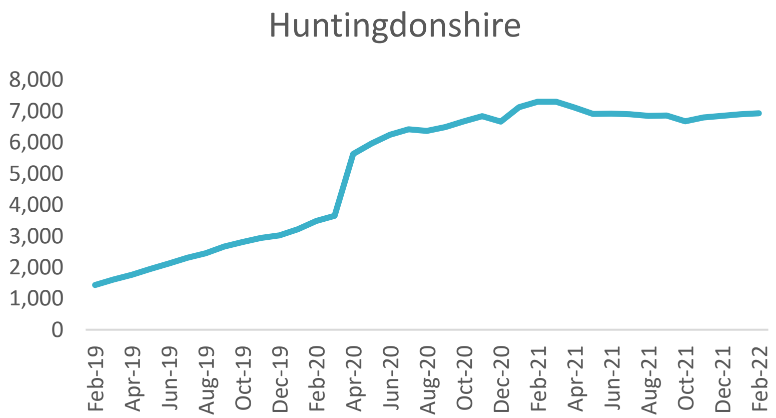
The number of households on universal credit varies across local authorities but has followed a similar pattern: steadily increasing from February 2019 – 2020 before rising sharply. The spring of 2021 saw slight decreases in most places but there are no large decreases. The latest data suggests the number of households on UC is Beginning to increase again.

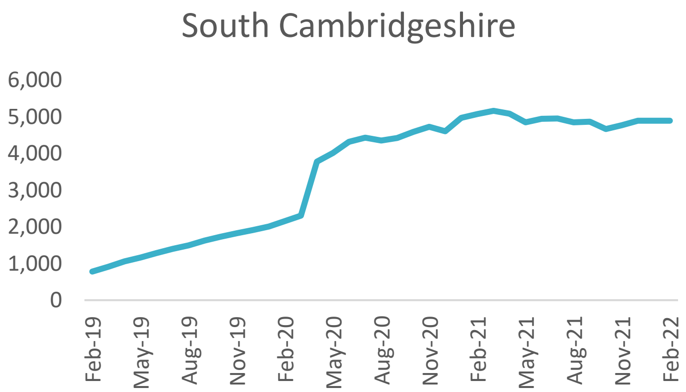










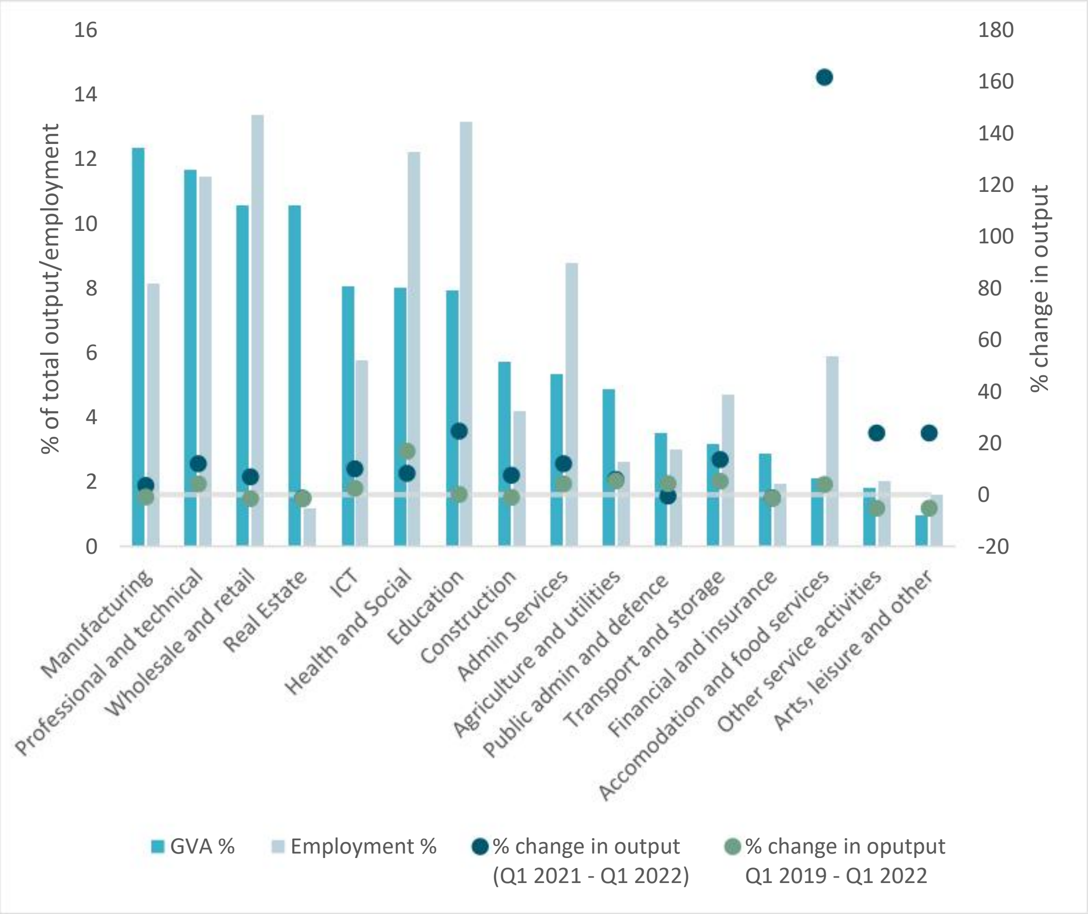


Source: Department of Work and Pensions; Stat-Xplore, Households on Universal Credit

Business Environment

Output growth by sector and business sentiment updates.

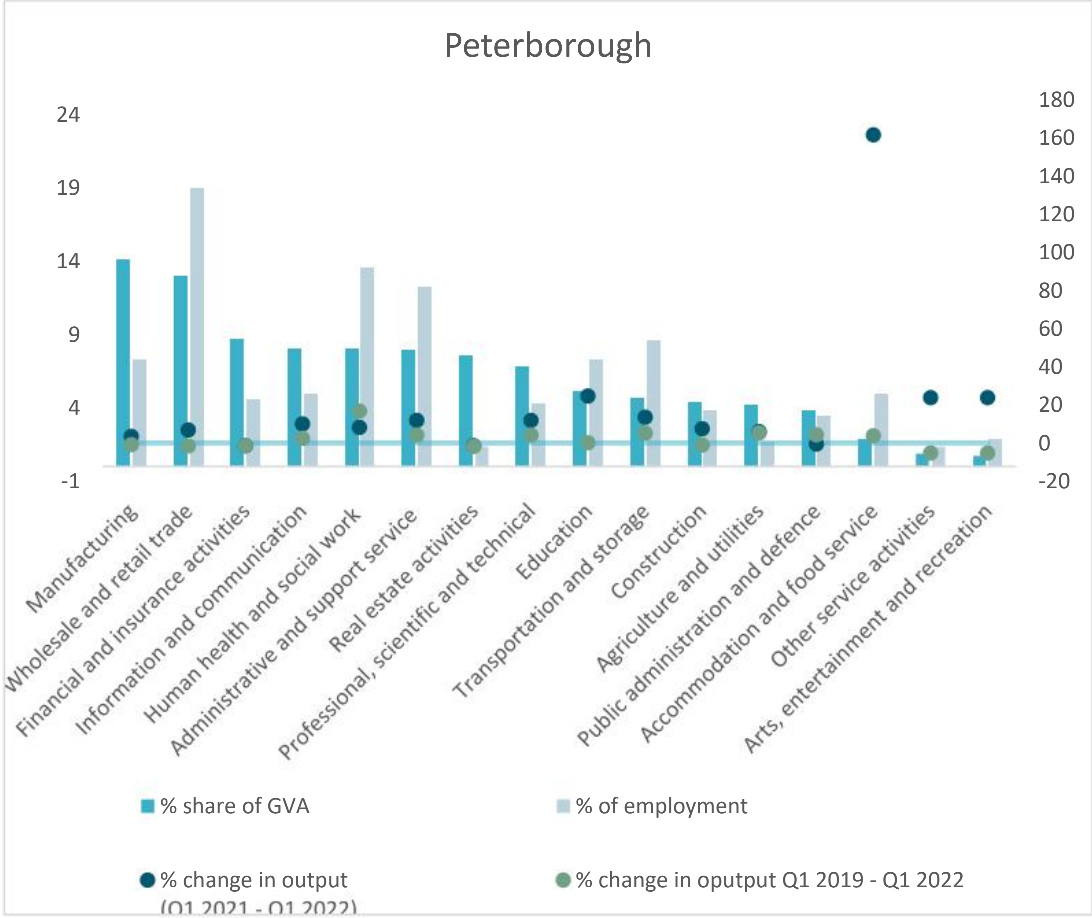
Output has recovered in the last 12 months but several sector remain below 2019 levels

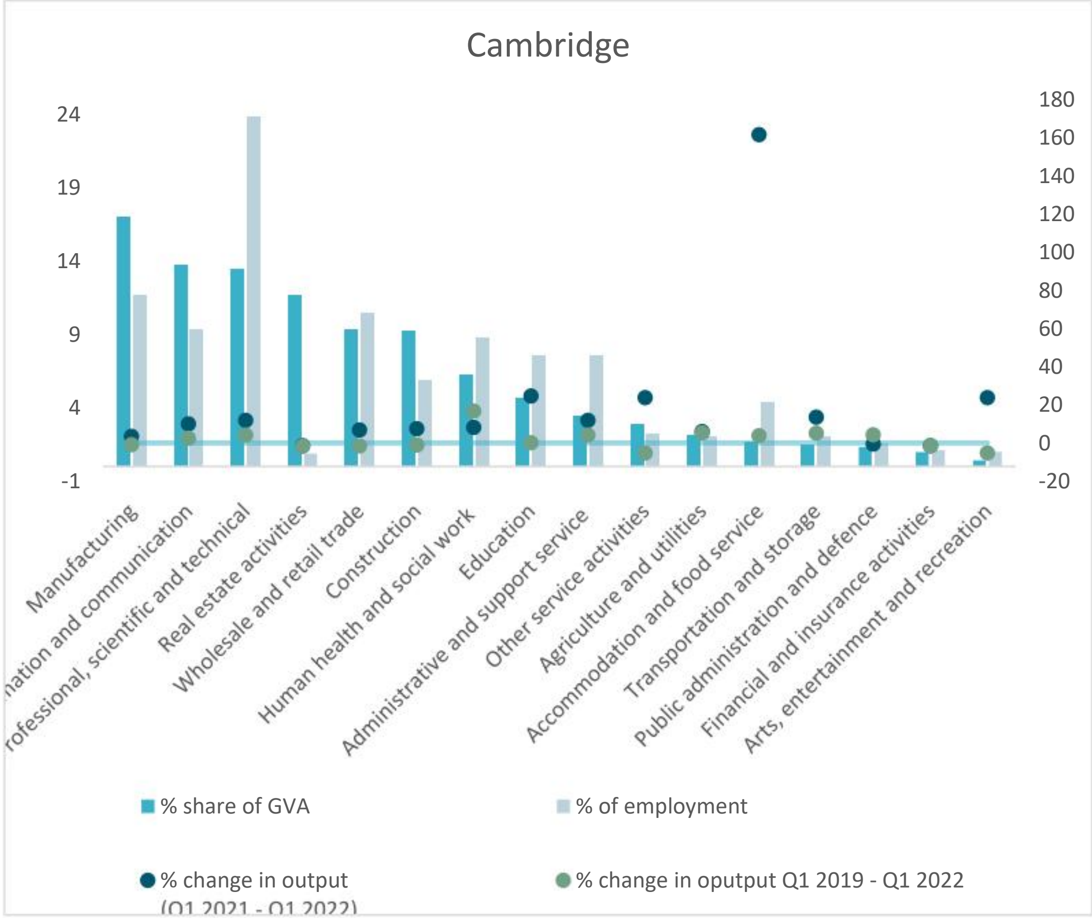


- National GDP data shows that in the 12 months leading up to Q1 2022 all sectors (except Public Administration and Defence) saw increased output as the economy began to recover from covid. The level of increase was especially large in sectors most impacted by Covid restrictions, particularly accommodation and food services
- However, the economic recovery from covid is not complete; several sectors are still below the level that they were at in the first quarter of 2019. This includes Manufacturing and Wholesale and Retail which are two of the three largest sectors by GVA in CPCA.
- The following 3 slides show this information for each local authority district

Source: Metro Dynamics Analysis of BRES. Quarterly GDP estimates. Regional gross value added (balanced) by industry

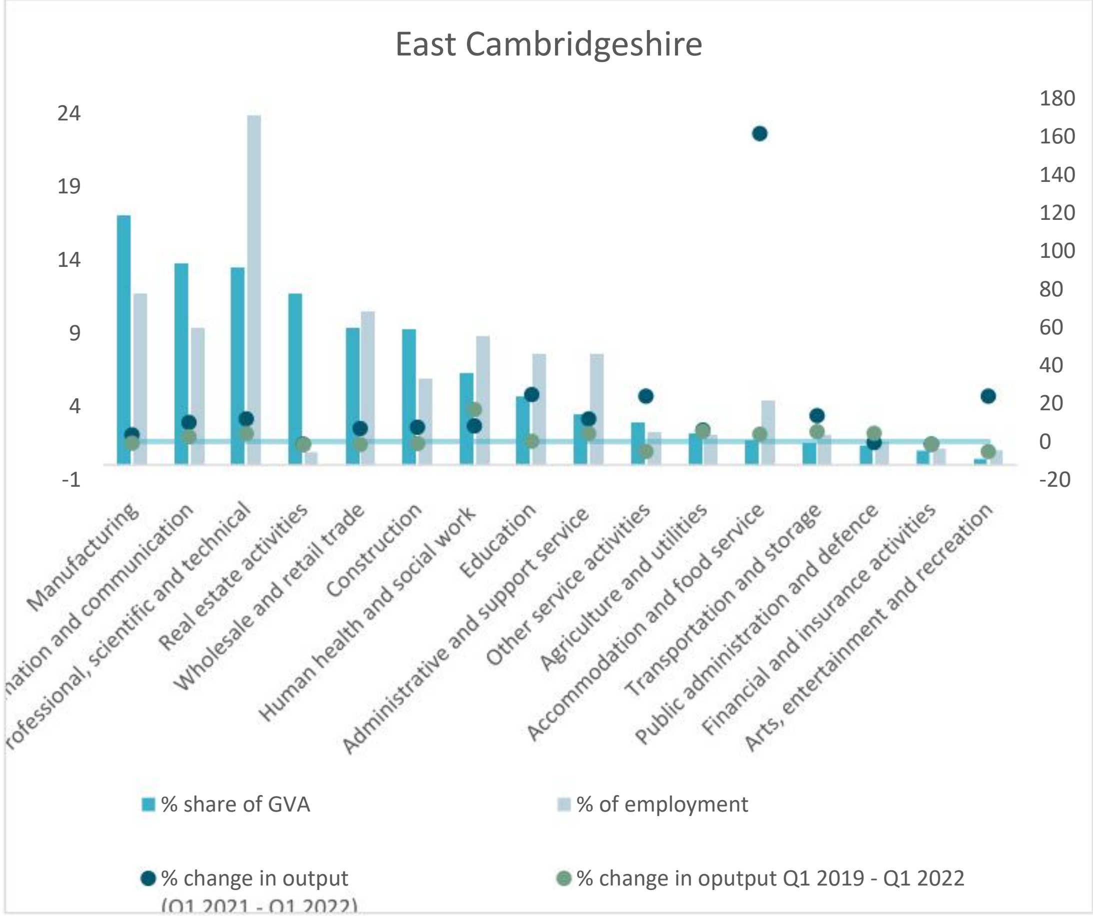
Output recovery by sector: Local Authority

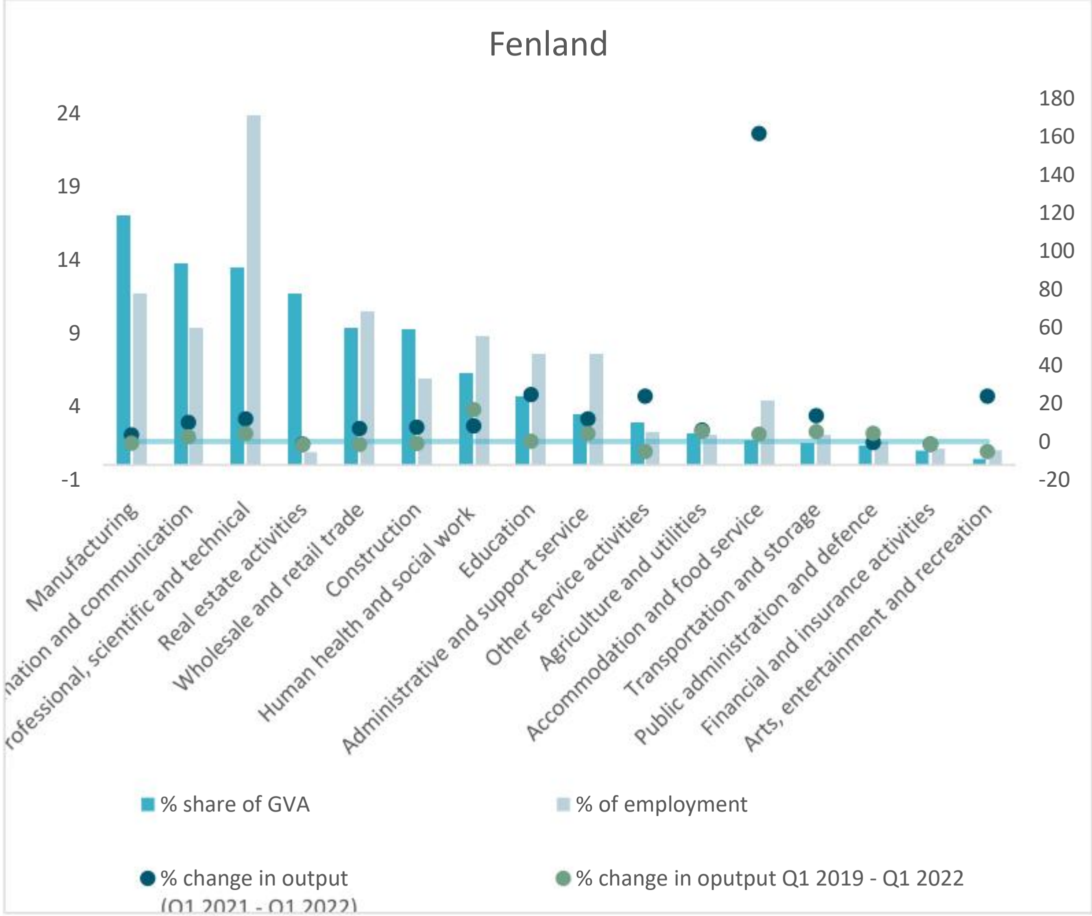




Source: Metro Dynamics Analysis of BRES. Quarterly GDP estimates.
Regional gross value added (balanced) by industry

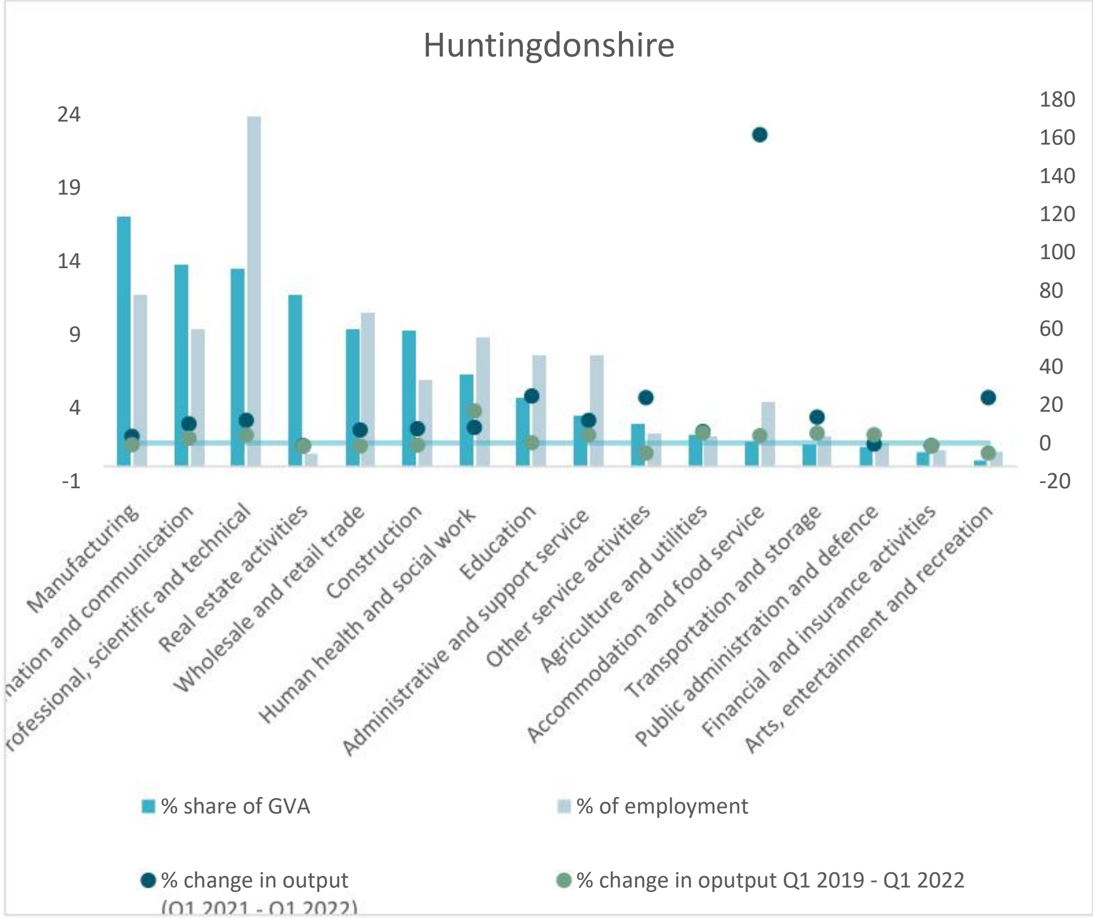
Output recovery by sector: Local Authority

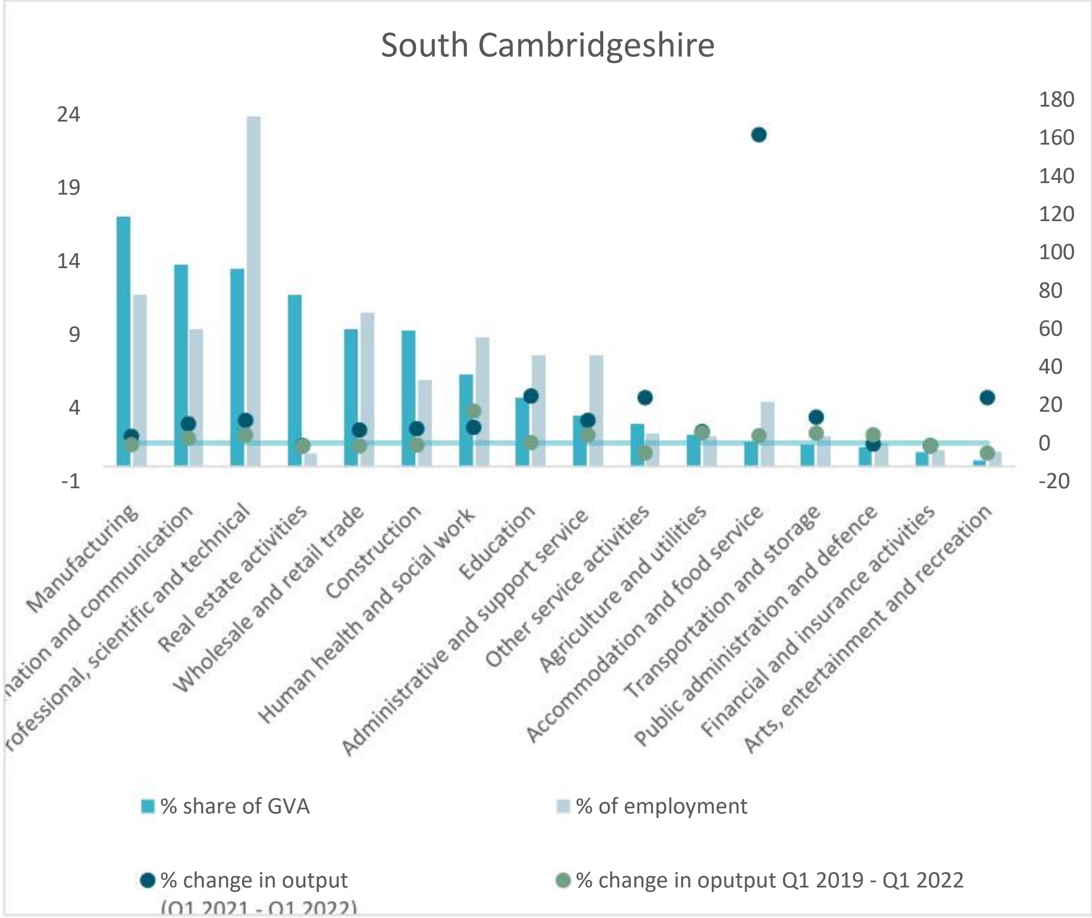




Source: Metro Dynamics Analysis of BRES. Quarterly GDP estimates. Regional gross value added (balanced) by industry

Output recovery by sector: Local Authority

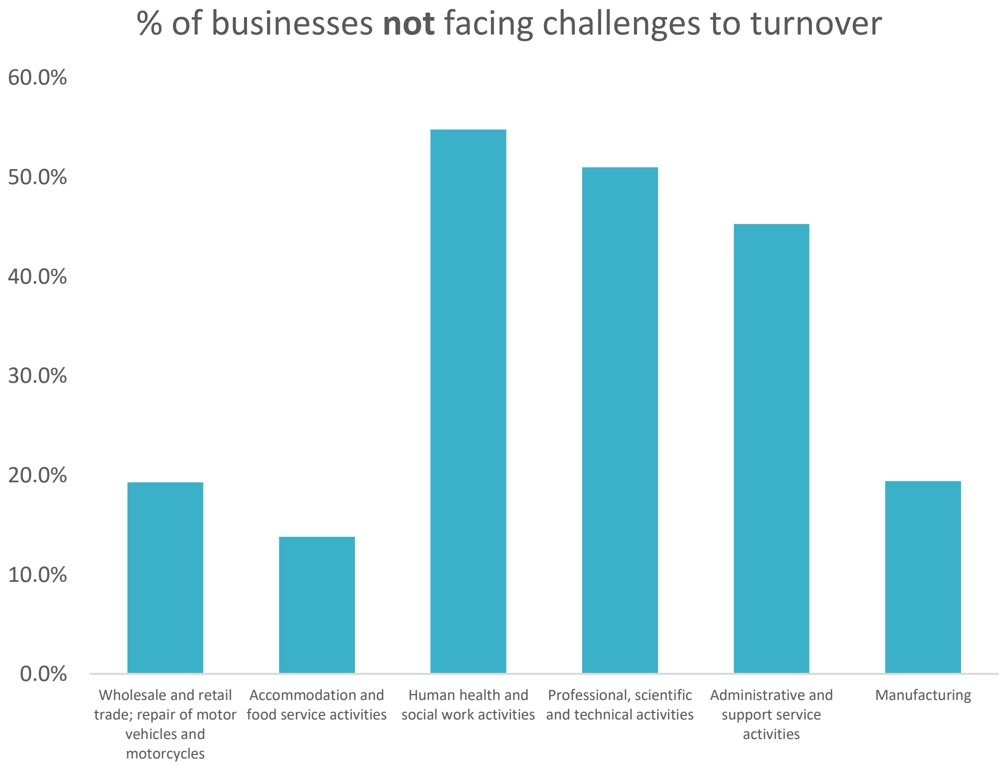


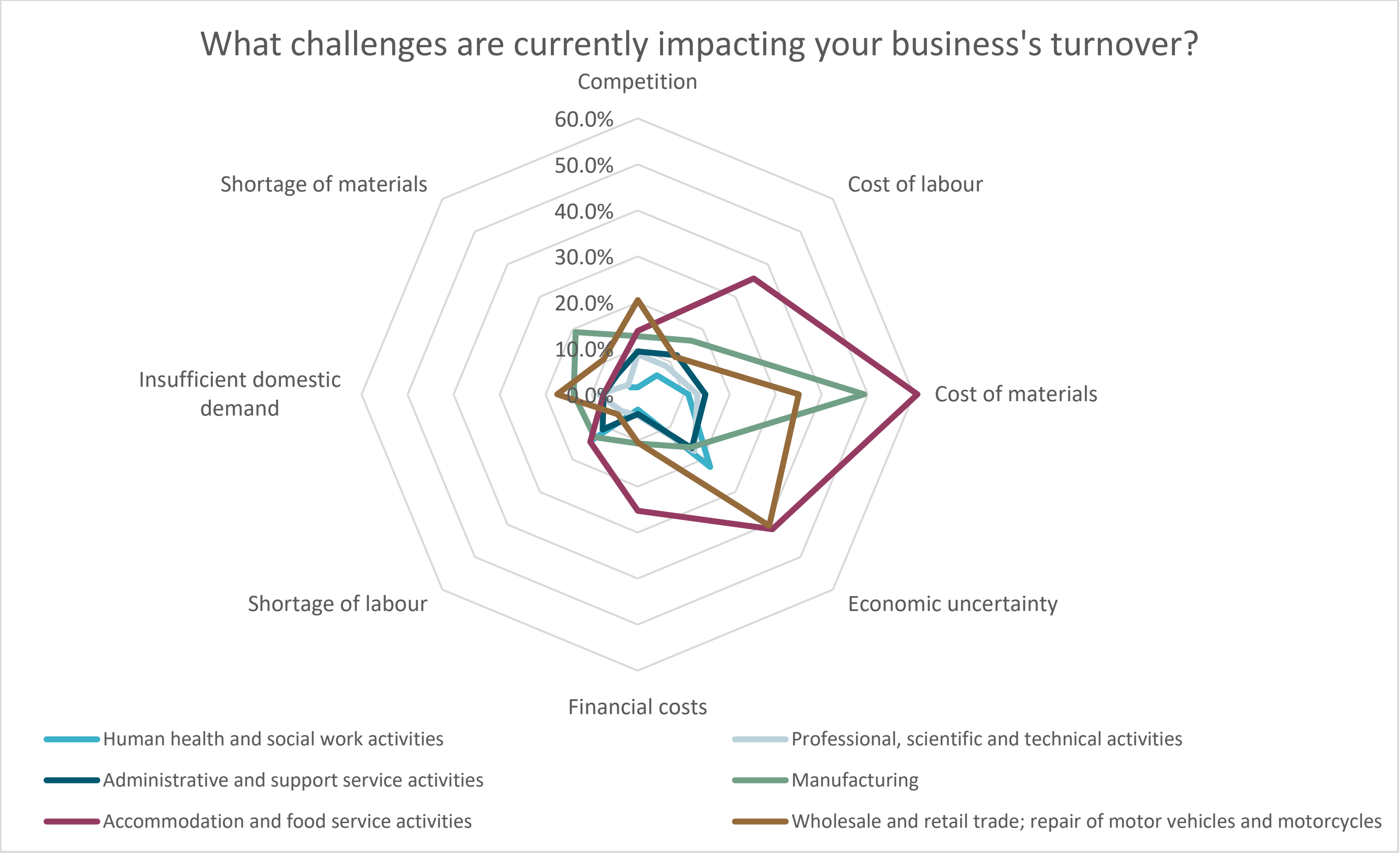


Source: Metro Dynamics Analysis of BRES. Quarterly GDP estimates.
Regional gross value added (balanced) by industry

Businesses facing challenges to turnover in CPCA's biggest employers

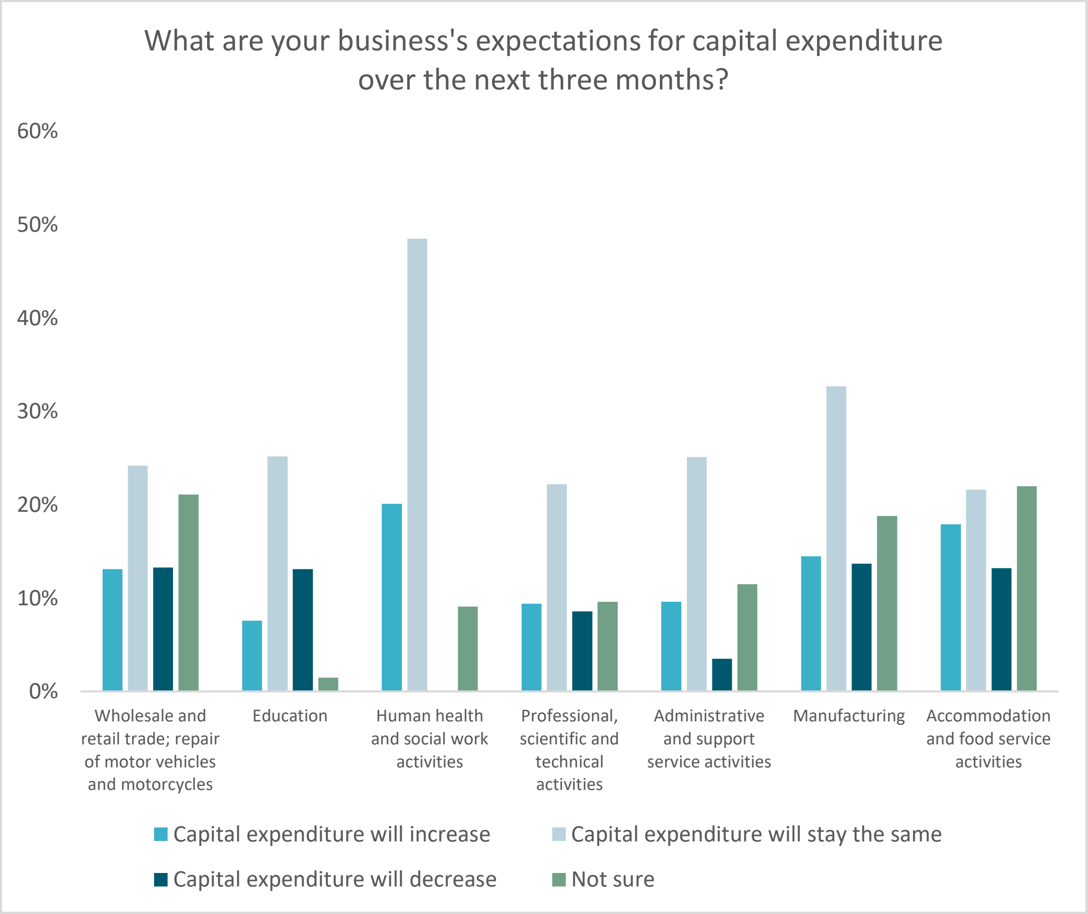
Turnover for businesses in the Manufacturing, Wholesale and Retail and Accommodation and Food Services is being impacted by the cost of materials and businesses in CPCA's major sectors are being impacted by wider economic uncertainty.





Source: ONS Business Insights and Conditions Survey

Capital expenditure expectations vary by sector, with considerable amounts of uncertainty



Source: ONS Business Insights and Conditions Survey

The chart on the left shows expectation for capital expenditure in the next 3 months for the sectors which are the largest by employment in CPCA. Expectations for capital expenditure vary considerably by sector.

In every sector the largest proportion of businesses expect capital expenditure to stay the same. More businesses expect an increase than a decrease in most sectors, except for education and wholesale and retail.

The level of uncertainty for the near future is quite high, particularly in sectors where higher percentages reported they face turnover challenges, emphasizing the risks to investment from current economic uncertainty and high inflation.

Metro — Dynamics

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