

Greater Manchester's Clean Air Plan to tackle Nitrogen Dioxide Exceedances at the Roadside

Appendix E: Changes in economic context since July 2021



Salford City Council



Oldham Council

TRAFFORD COUNCIL



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Version Status:	DRAFT FOR APPROVAL	Prepared by:	Transport for Greater Manchester on behalf of the 10 Local Authorities of Greater Manchester
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Date:	June 2022		

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Glossary

Term	Definition	Source
Base Rate	Bank of England base interest rate	Interest rates and Bank Rate Bank of England
BoE	Bank of England – UK central bank	What does the Bank of England do? Bank of England
CCI	Consumer Confidence Index - a measure of how people view the state of their personal finances and wider economic prospects	Leading indicators - Consumer confidence index (CCI) - OECD Data
CPI	Consumer Price Index – UK main economic inflationary index.	Consumer Price Indices: A brief guide - Office for National Statistics
CPIH	Consumer Price Index Harmonised - Harmonised Index of Consumer Prices, inclusive of housing cost	Consumer Price Indices: A brief guide - Office for National Statistics
CVL	Creditors Voluntary Liquidation	Liquidation and Insolvency Guidance UK Government
Economic inactivity	People not in employment who have not been seeking work within the last 4 weeks and/or are unable to start work within the next 2 weeks.	Economic inactivity - Office for National Statistics (ons.gov.uk)
Energy Price Cap	Ofgem (UK Energy Regulator) market price cap setting maximum tariff rates for gas and electricity	Check if the energy price cap affects you Ofgem
GDP	Gross Domestic Product - measures the value of goods and services produced in the economy	Gross Domestic Product (GDP) - Office for National Statistics (ons.gov.uk)
GC	Growth Company / Business Growth Hub	GC Business Growth Hub: Resources to support and grow your business GC Business Growth Hub
LTV	Loan-to-value ratio	Understanding LTV ratio Experian
MPC	Bank of England Monetary Policy Committee	Monetary Policy Committee Bank of England
OBR	Office for Budget Responsibility	What we do - Office for Budget Responsibility (obr.uk)
ONS	Office for National Statistics	About us - Office for National Statistics (ons.gov.uk)
OOH	Owner Occupiers Housing Cost	Consumer Price Indices: A brief guide - Office for National Statistics
Ofgem	UK National energy regulator	About us Ofgem
RPI	Retail Price Index	Consumer Price Indices: A brief guide - Office for National Statistics
Semi-conductor	Essential component for manufacture of electronic devices	About Semiconductors SIA Semiconductor Industry Association
SME	Small and Medium sized enterprise	SME definition (europa.eu)

1 Introduction

1.1 This note summarises notable changes in economic context since July 2021. It demonstrates how factors associated with the pandemic, global supply chain challenges, and the cost-of-living crisis have the potential to create additional financial hardship for local businesses and families.

1.2 The evidence is set out as follows:

- National / international drivers (many of which are interconnected).
- Regional (North West) - labour market review.
- GM specific factors.

2 National / international drivers

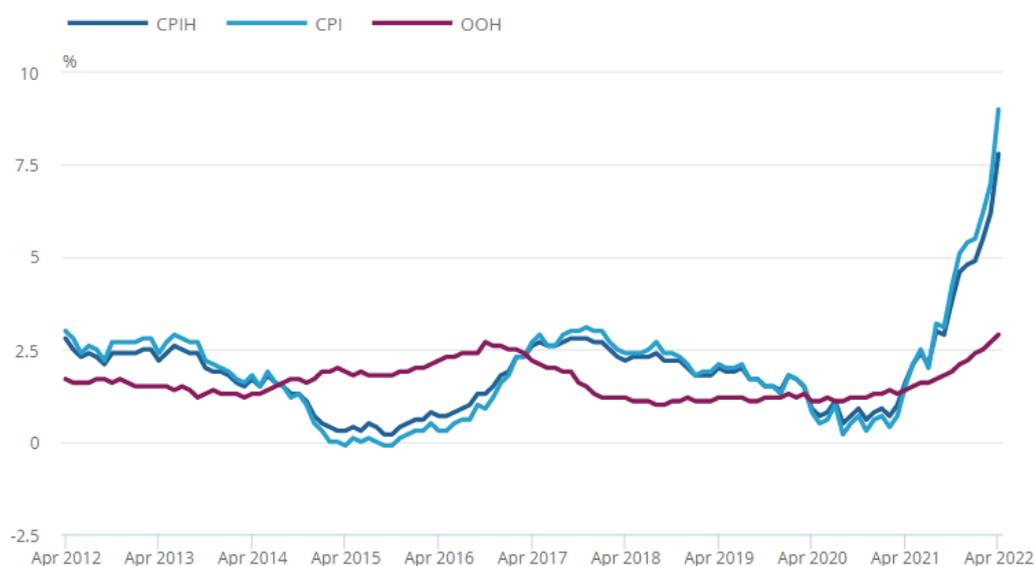
2.1 War in Ukraine (commenced late February and on-going)

2.1.1 *Global inflationary pressures have intensified sharply following Russia's invasion of Ukraine. This has led to a material deterioration in the outlook for world and UK growth. (Source: [Monetary Policy Summary, May 2022 Bank of England](#))*

2.1.2 In the May Report central projection, CPI inflation is expected to rise further over the remainder of the year, to just over 9% in 2022 Q2 and averaging slightly over 10% at its peak in 2022 Q4 (note: July 2021 CPI was 2.0% - Source: [Consumer price inflation, UK: April 2022, ONS](#)). On the 18th May 2022, CPI was announced as 9% in April.

Figure 1: The annual CPIH inflation rate was last higher in April 1991

CPIH, OOH component and CPI 12-month inflation rates for the last 10 years, UK, April 2012 to April 2022



- 2.1.3 Russia is a prominent exporter of energy, producing 17% of the world's natural gas supply and 12% of its oil. (Source: [BP Country Insight - Russia](#))
- 2.1.4 8% of UK oil demand is directly imported from Russia, this is to be phased out by end of 2022, a move which could serve to place extra stress on prices. (Source: [UK to phase out Russian oil imports](#))
- 2.1.5 Both Russia and Ukraine are major agricultural exporters: both keystone producers of grain for direct consumption, milling or animal feeds. Impacts are already significant on key food commodity prices (since the war began there has been a c.30% increase in the price of wheat, and c.20% in the price of maize/corn). (Sources: [FAO of the UN: The importance of Ukraine and the Russian Federation for global agricultural](#) and [Commodity prices, Trading Economics](#))
- 2.2 Increases in the cost of energy
- 2.2.1 The energy price cap calculated by Ofgem increased by 12% in October 2021 to £1,277 (based on 'typical' levels of dual fuel consumption paid by direct debit), and this has since been followed by the April 2022 price cap increase which resulted in about 18 million households on standard tariffs seeing their annual bill jump from £1,277 to £1,971 (54%) - an average increase of £693 (difference due to rounding).
- 2.2.2 A further increase to the price cap is expected in October 2022 of c.£700-£850 (OBR forecasts published alongside the Spring Statement assume £830 - Source: [Economic and fiscal outlook, March 2022, OBR](#)) on top of current bills remains a likely 'good case' scenario - one that assumes that won't be significant impact from limiting Russian imports and associated impact on wholesale prices. Nevertheless, UK wholesale gas price remains highly volatile so there is significant uncertainty about exactly what rise can be expected.
- 2.2.3 Unlike residential households, businesses on commercial energy tariffs are not protected by any price cap and tariff prices have been rising in reaction to the spike in wholesale energy prices around the world.
- 2.2.4 *"Unfortunately, there will also be a delayed impact from rising energy prices as they feed through into the prices of other goods and services. In this context it is worrying that UK manufacturers' input prices were rising at an annual rate of 18.6 per cent in April, with some of those costs set to feed through into higher prices for consumers."* (Source: [Cap off - understanding the April 2022 inflation increase, Resolution Foundation](#))

2.2.5 With a greater tendency for tight margins and restricted cash flow, small businesses are often less well placed than their large corporate counterparts to swallow increases in business running costs, such as a rise in energy bills. Small businesses are more likely to be forced to pass on their running cost increases to consumers through price hikes, just in order to survive. This has potential to put them at a competitive disadvantage. (Source: [Federation of Small Businesses urges government to tackle cost of living crisis at root](#))

2.3 Increases in the cost of fuel for motorists.

2.3.1 In early May the EU announced its intention to withdraw from Russian oil imports by the end of 2022; further threatening to push up fuel prices for motorists and businesses across Europe, who are already facing record high costs to fill up their tanks. In July 2021 pump price (per litre) for unleaded petrol was £1.32, and diesel £1.34 – on 15th June 2022 comparable prices were £1.87 (+42%) for unleaded petrol, and £1.93 (+44%) for diesel. (Source: [RAC Fuel Watch](#) - note dashed lines on the chart below represent wholesale costs)

UK pump and wholesale fuel prices over time

Latest prices in pence per litre for **unleaded petrol** and diesel



Errors and omissions excepted Based on latest available data
Source: [RAC Fuel Watch](#) · Embed

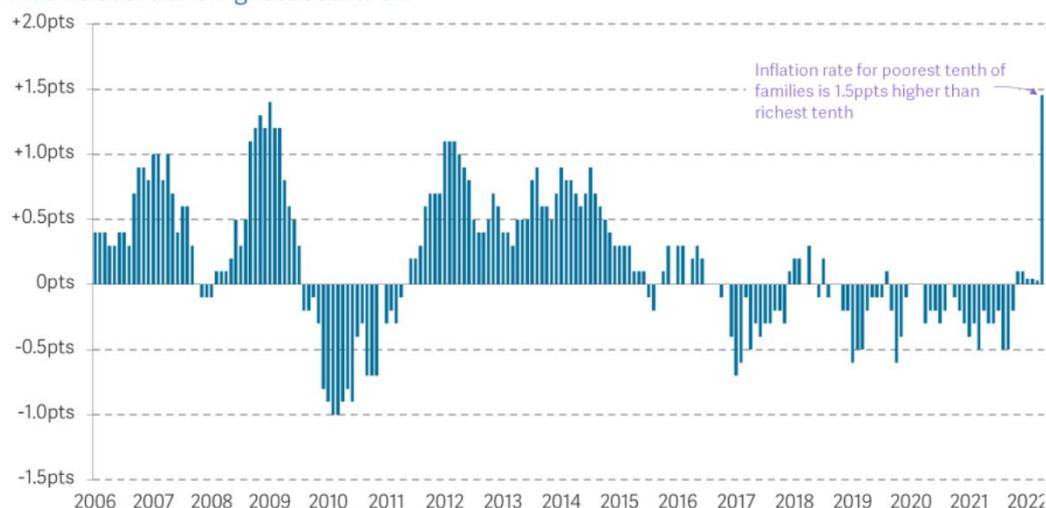


2.4 Increasing cost of food, and other products

2.4.1 Like for like grocery price inflation stood at 5.9% in April 2022, its highest level since December 2011. The average household will now be exposed to a potential extra £271 per year. A lot of this is going on non-discretionary, everyday essentials which will prove difficult to cut back on as budgets are squeezed. This is translating to a clear flight to value as shoppers watch their pennies. (Source: [UK shoppers seek out value as grocery inflation hits 11-year high](#), Kantar)

- 2.4.2 The average asking price of a used car in the UK has risen 18% between July 2021 (£14,781) and April 2022 (£17,418). (Source: [AutoTrader Retail Price Index](#))
- 2.4.3 Regulated rail fare increase at highest in 9-years at 3.8%. (Source: [Highest rail fare rise in nine years takes effect - BBC News](#))
- 2.5 On-going global impacts of COVID e.g. lockdown restrictions in the east - notably China, are still affecting supply chains in the west, impacting cost and availability of materials/parts.
- 2.5.1 Shanghai, which is home to the world's largest container port, has been the subject of city-wide lockdown during April 2022 related to the Omicron variant. Global supply chains that were already stretched are being hampered further. (Source: [China lockdowns prompt domestic shortages](#))
- 2.5.2 The global semi-conductor shortage is still impacting consumer products with retailers expected to increase costs. (Source: [Understanding the global chip crisis](#)). Intelligence from the Bank of England's Agency network suggests that shortages of semiconductors have been exacerbated by recent lockdowns in China. Contacts also reported difficulties in obtaining components and other inputs owing to the war in Ukraine, and were seeking alternative suppliers or running down existing stockpiles to support output. (Source: [Monetary policy report, May 2022, BoE](#)).
- 2.6 How the impact of inflation is distributed across society
- 2.6.1 *"Lower income families are more exposed to the rising cost of living, and not just because poorer families have fewer opportunities to cut back spending. The poorest tenth of households (by income) spend three times as much as a share of expenditure on gas and electricity bills as the richest tenth. This means the lowest income tenth of people are facing an inflation rate at least 1.5 percentage points higher than the richest tenth (see chart below). The Bank of England has warned the UK could see double-digit inflation later this year. Poorer households are already living with it."* (Source: [Cap off - understanding the April 2022 inflation increase, Resolution Foundation](#))

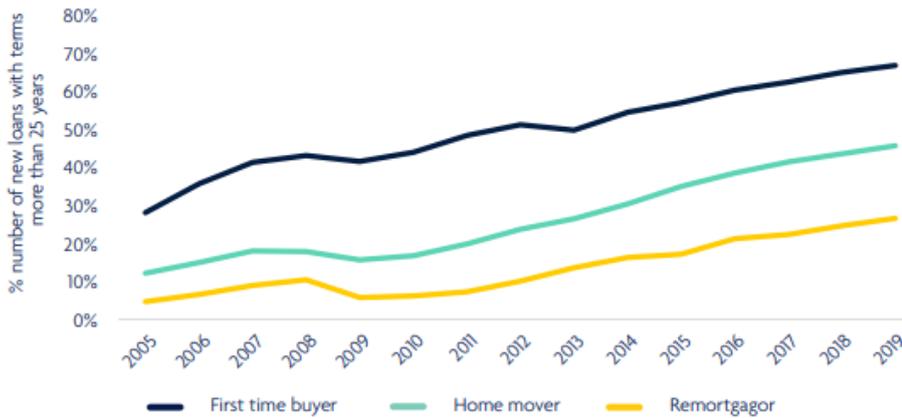
Gap between estimated CPI-consistent inflation rate for lowest equivalised disposable income decile and highest decile: UK



Notes: Data prior to 2022 are ONS-produced estimates. After 2022, these are calculations from Resolution Foundation constructed to be consistent with the overall CPI index.
Source: RF analysis of ONS, Consumer Prices & Living Costs and Food Survey. © Resolution Foundation 2022 resolutionfoundation.org

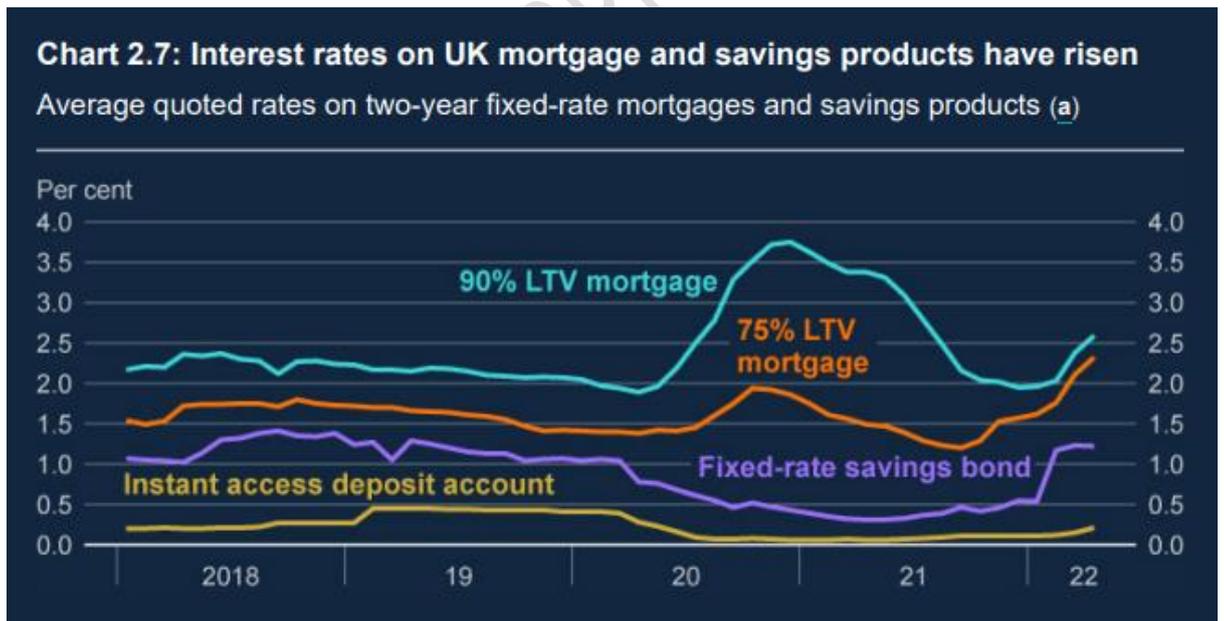
- 2.7 Changes to Bank of England base rate - 0.25% in Jan 2022, risen to 1.25% (16th June) - moving into a phase of more expensive borrowing.
- 2.7.1 *Rates on new lending to SMEs rose by around 110 basis points between January and March this year, and are now slightly above their 2019 levels. While larger firms' ability to access credit is broadly unchanged, credit conditions have tightened slightly for smaller firms since January 2022. (Source: [Monetary policy report, May 2022, BoE](#)).*
- 2.7.2 *'Surveys of business activity have generally remained strong. There have, however, been signs from indicators of retail spending and consumer confidence that the squeeze on real disposable incomes is starting to weigh on the household sector. The level of GDP is expected to be broadly unchanged in Q2.'* (Source: [BoE MPC May 2022 minutes](#))
- 2.7.3 About a third of UK adults have a mortgage. Of those, three-quarters have a fixed mortgage, so will not be immediately affected. The rest - about two million people - will see their monthly repayments rise.
- 2.7.4 The popularity of 5-year fixed deals has increased in recent years, in comparison to shorter 2-year fixes. This change in preference has taken place amidst a backdrop in which mortgage terms have lengthened (in part a response to rising house prices). This points to less flexibility for homeowners to reduce their monthly outgoings should they find themselves exposed to higher interest rates when their fixed product period ends. (Source: [The changing shape of the UK mortgage market - UK Finance](#))

Chart 8 - Lengthening mortgage terms



Source: UK Finance - restricted access data

- 2.7.5 “Quoted rates on mortgages have recently increased across all LTVs, reflecting the pass-through of higher risk-free rates. The quoted rate on a 75% LTV mortgage has risen by around 70 basis points since January, while the rate on a 90% LTV mortgage is up by 65 basis points.” (Source: [Monetary policy report, May 2022, BoE](#)).



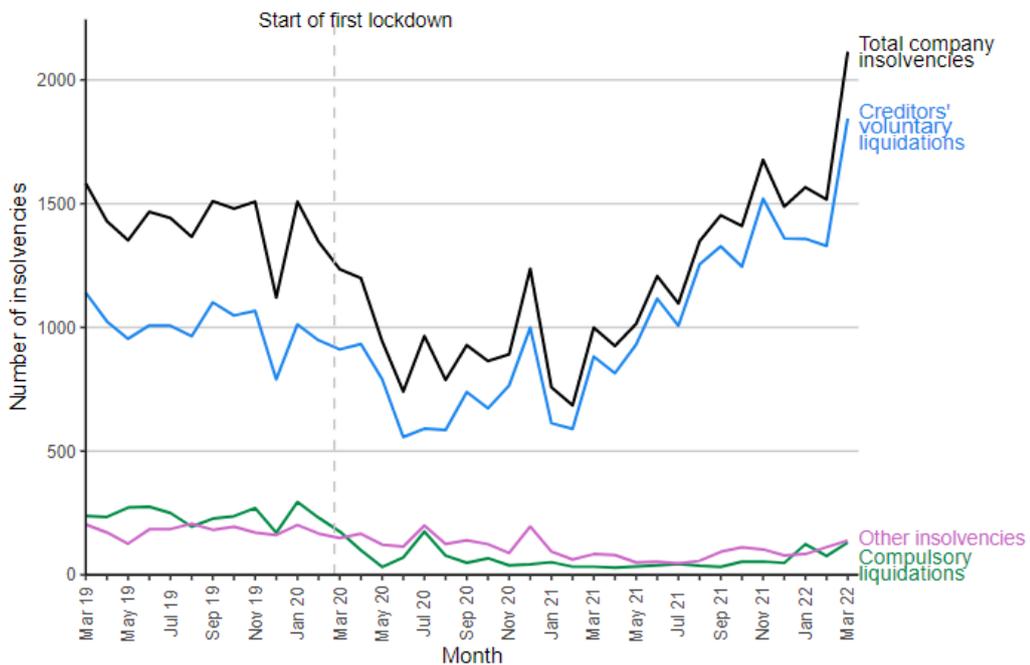
2.8 Removal of Government Covid-support schemes, such as furlough, enhanced sick pay, business rates pauses, and the Universal Credit uplift. Also, businesses are starting to have to pay back Covid loans.

2.8.1 *“Businesses that were just hanging on before the recent interest rate rises have seen the rise in borrowing costs push them over the edge. Between interest rates and inflation, this is the most difficult period for businesses since the height of the pandemic. This time they are having to manage without government support. UK businesses will be hit by the ‘cost of living crisis’, just as consumers will be.”* Rebecca Dacre, partner at Mazars.
(Source: [Business insolvencies increase amidst spiralling inflation](#))

2.8.2 The moratorium winding up petitions prevented creditors from applying to make a business insolvent because of unpaid debts during the Covid crisis, but this ended on 31 March. The end of this protection for struggling businesses will likely result in more insolvencies in the coming months - the number of registered company insolvencies in March 2022 (England and Wales) climbed above pre-pandemic levels. (Source: [Monthly insolvency statistics - March 2022](#))

Figure 1: The number of registered company insolvencies in March 2022 was higher than pre-pandemic levels, driven by a higher number of CVLs.

England and Wales, March 2019 to March 2022, Not seasonally adjusted

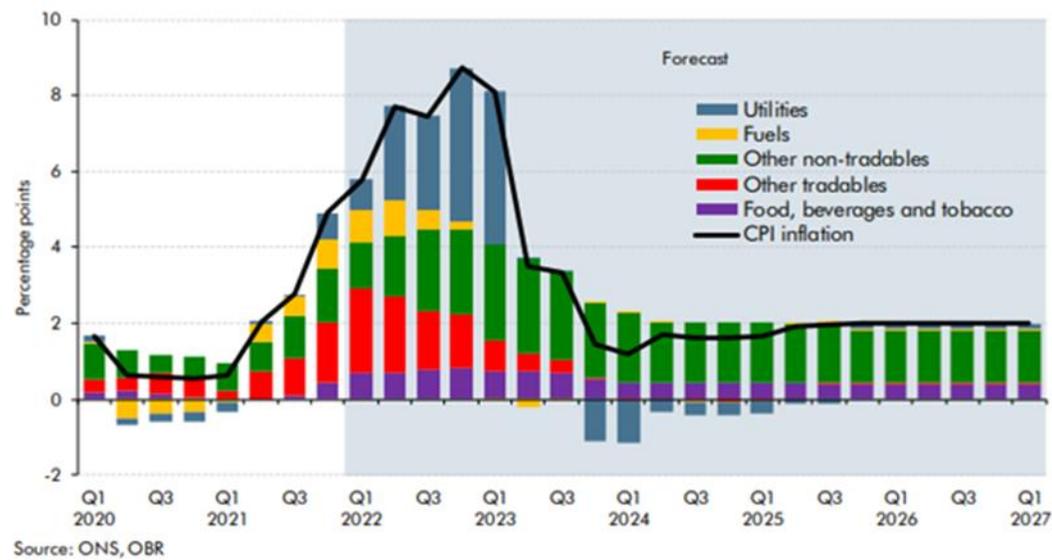


Sources: Insolvency Service (compulsory liquidations only); Companies House (all other insolvency types)

2.9 Since July 2021, time has passed for the ‘squeeze’ on consumer demand to take effect – whilst it is hard to judge exactly when the peak impact on society will be, it is clear that it is still to come.

2.9.1 The chart below demonstrates that inflation is expected to peak in Q4 2022 – it is important to note however that since this was published in March 2022, expectations for CPI have been revised upwards for Q4 2022 from the previous ‘close to 9%’ to 10.25% under a new central forecast for CPI from the Bank of England. Sources: [Economic and fiscal outlook, March 2022, OBR](#) and [Monetary policy report, May 2022, BoE](#))

Chart 2.7: Contributions to CPI inflation



2.9.2 See previous reference to ‘There have, however, been signs from indicators of retail spending and consumer confidence that the squeeze on real disposable incomes is starting to weigh on the household sector.’ (Source: [BoE MPC May 2022 minutes](#))

2.9.3 The UK consumer confidence index, a measure of how people view the state of their personal finances and wider economic prospects, crashed seven points to minus 38 in April, its lowest level since 2008 when it was minus 39, according to research company GfK. (Source: [UK consumer confidence plunges - Financial Times](#))



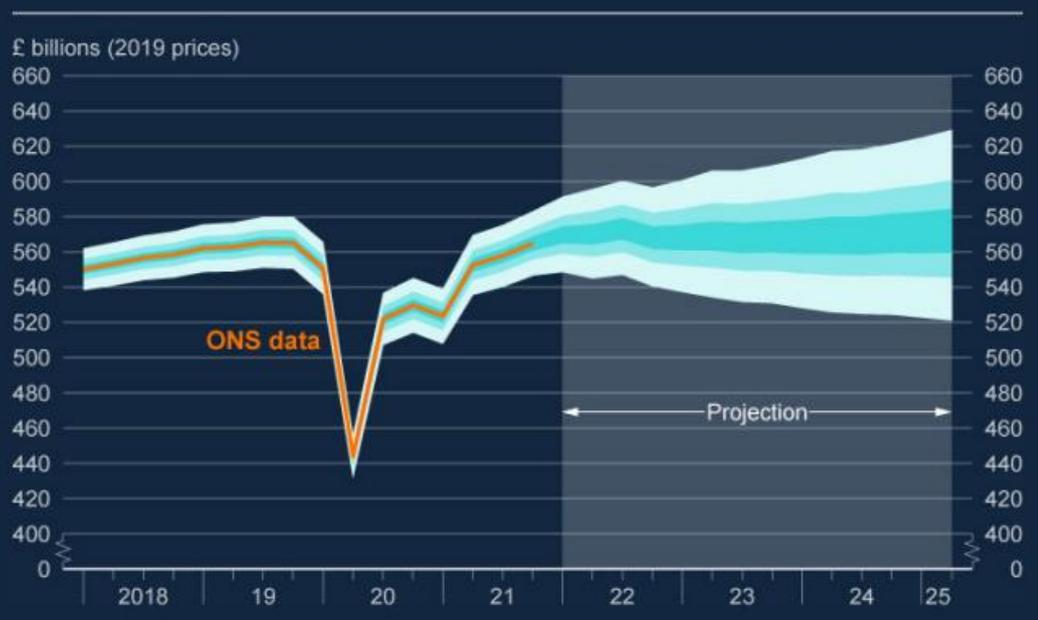
2.10 Revised projections for UK GDP Growth

- 2.10.1 BoE estimates that quarterly UK GDP growth was 0.9% in 2022 Q1. Growth slows sharply over the first half of the projection (see first chart below), reflecting the significant adverse impact of higher global commodity and tradable goods prices on UK demand. GDP is projected to fall in 2022 Q4 (see second chart below), driven largely by the decline in households' real incomes, including that stemming from the projected rise of around 40% in retail gas and electricity prices when the Ofgem price caps are next reset in October. Calendar year GDP growth is broadly flat in 2023. Four-quarter GDP growth picks up to around 0.75% by the end of the projection as the pressures on household incomes ease somewhat, although this is still below pre-pandemic rates. (Source: [Monetary policy report, May 2022, BoE](#)).

Chart 1.1: GDP growth projection based on market interest rate expectations, other policy measures as announced



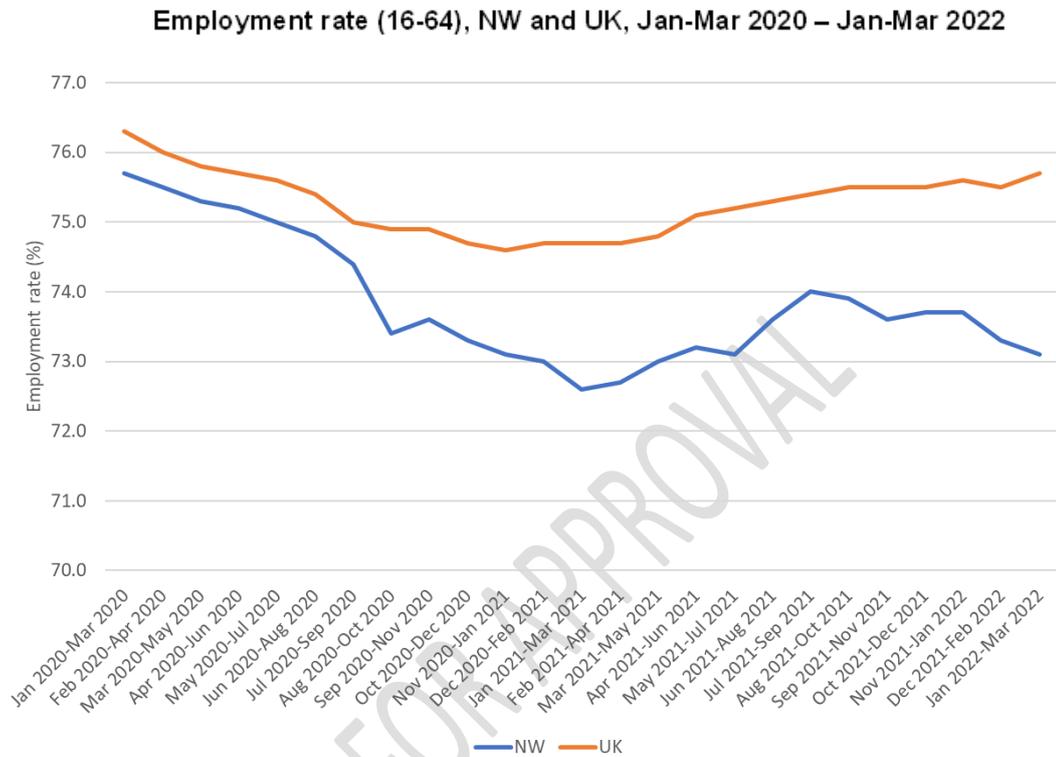
Chart 1.2: GDP projection based on market interest rate expectations, other policy measures as announced



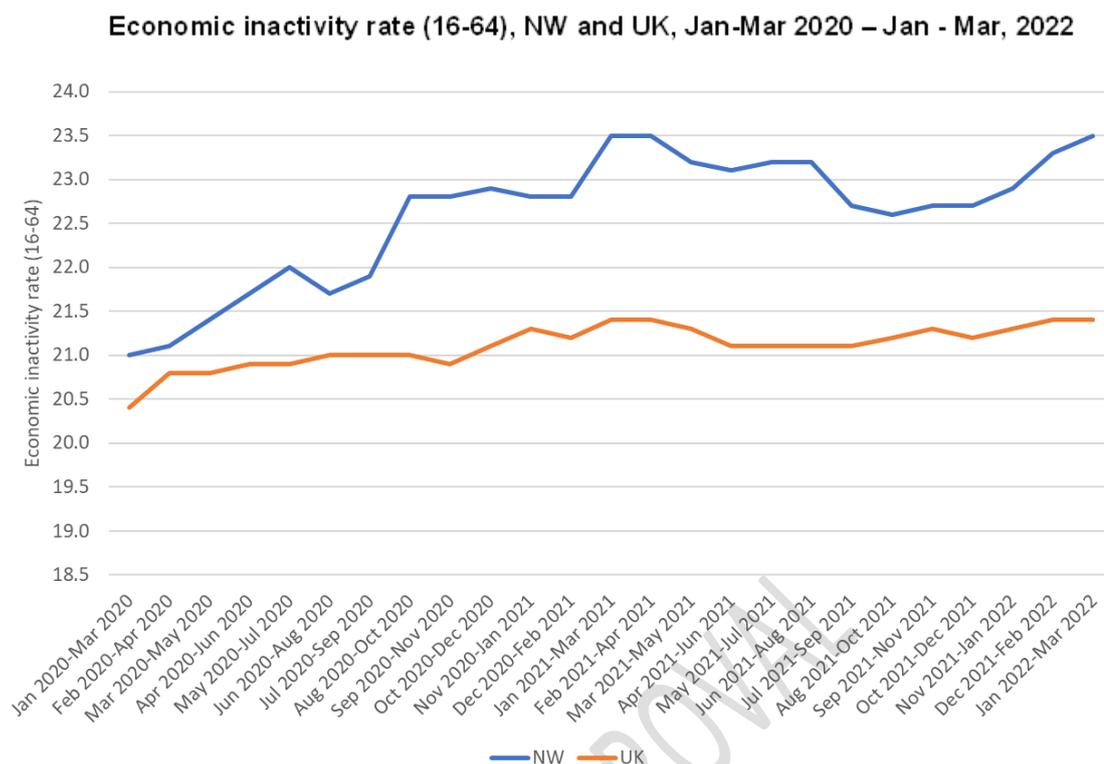
3 Regional (North West) - labour market review

3.1 Labour market data released by the Office for National Statistics on 17 May 2022 showed that the employment rate in the North West continued to fall. It was 73.1% in the three months to March 2022. At the start of the pandemic it was 75.7%. The North West has about 130,000 fewer jobs than before the pandemic.

3.2 The gap between the jobs performance of the North West and that of the UK was at its widest in two years in the Jan-Mar 2022 data (a gap of 2.6ppts). Nationally, the employment rate for the UK was 75.7% - up from 75.5% in the three months to February. The North West therefore seems to be on a different trajectory from UK patterns. (Source: [Labour market in the regions of the UK: May 2022](#))



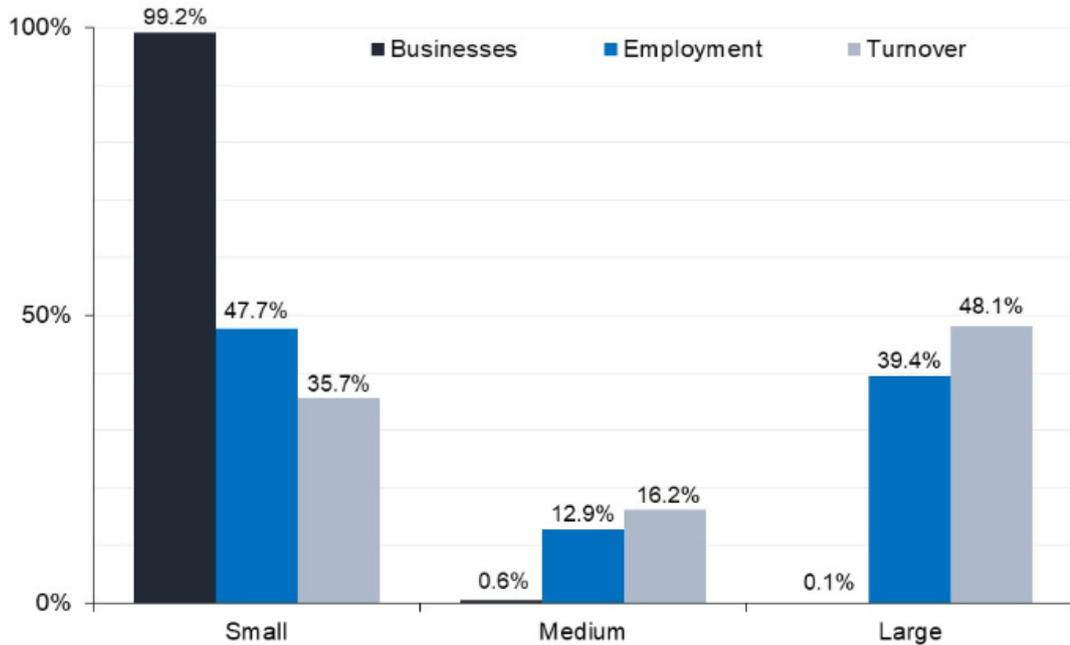
3.3 An increase in working age economic inactivity has attracted national attention. In the NW of England the Covid-driven rise is more marked than the national average. As well as the inactivity rate returning to a pandemic high of 23.5% in the most recent data the gap with the UK has widened once more (2.1ppts). (Source: [Labour market in the regions of the UK: May 2022](#))



4 GM specific factors

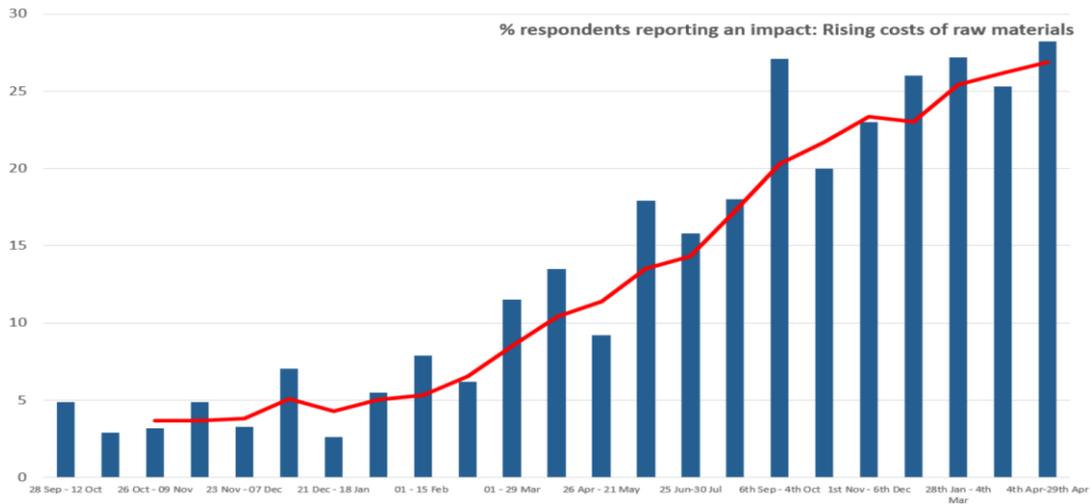
4.1 GM Business composition

- 4.1.1 In 2021 GM had c.107,000 registered businesses – 98% of which had less than 50 employees (defined here as ‘small’). Despite having comparable total and working age populations, GM has an additional c.15,000 ‘small’ businesses in comparison to the West Midlands combined authority area. (Source: [UK Business Counts 2021 - enterprises by industry and employment size band](#))
- 4.1.2 The chart below is based on UK wide data, but it is important for demonstrating the importance of ‘small’ businesses in terms of both employment and turnover. (Source: [Business population estimates for the UK and regions 2021, BEIS](#))



4.2 Outlook for GM Businesses

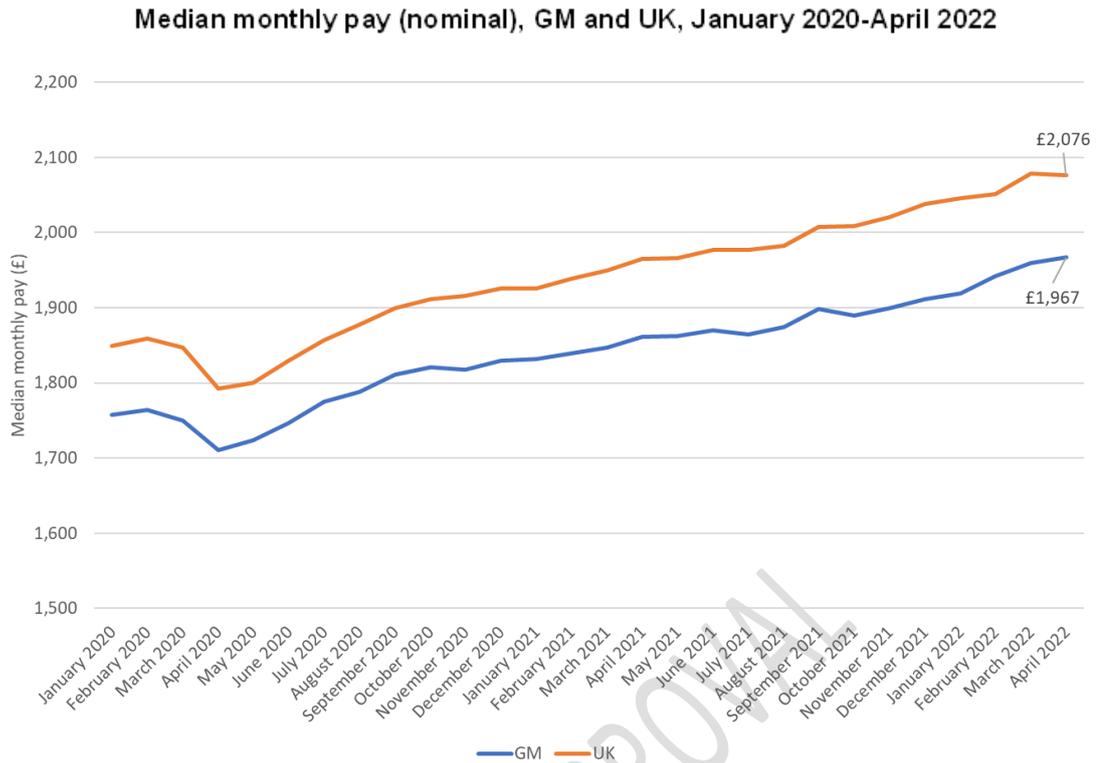
- 4.2.1 The GC Situation Report May 2022 contains findings based on 246 surveys completed with firms (almost all in Greater Manchester), between the 4th April and 29th April 2022.
- 4.2.2 The GC survey and other national statistics and surveys show that there is heightened concern about input prices and the volatility of supply chains.
- 4.2.3 The stand-out change in the survey results for April is the proportion of firms identifying the pressing challenges of managing overall business finances (43% vs 33% previously). This is mirrored by a four percentage-point rise in businesses reporting insolvency risk / financial stress in other third party risk data (RedFlagAlert).
- 4.2.4 The chart below points to the increasing proportion of GM businesses being impacted by the rising costs of raw materials - April 2022 reported a value of 28% vs. 16% for July 2021 (Source: [Growth Company Business Survey](#))



4.2.5 Recruitment remains a key challenge for business, with total vacancies across all sectors having been at high levels over the last year - this is meaning that some firms are finding significant challenges in staffing their operations - Manchester Airport being a key example. The previously noted increase in economic inactivity brought about by the pandemic has likely shrunk the size of the available workforce to GM businesses (in the North West during Jan-March 2022 the working age inactivity rate was 23.5% vs. a national inactivity rate of 21.4% - this is higher than it was at the beginning of 2020. (Source: [Labour market overview, UK: May 2022, ONS](#))

4.3 Wages in Greater Manchester (ONS 'experimental' data)

4.3.1 The chart below indicates that estimated median pay in GM is over £100 a month below the UK median (note: this data is unadjusted for inflation and indicates the trend only). The wage gap was at its widest in January of 2022 (£127 a month). The data suggests that GM nominal median pay has increased since last month, but fallen slightly in the UK. Real terms pay has been falling recently in the midst of cost of living increases. (Source: [Earnings and employment from Pay As You Earn Real Time Information, seasonally adjusted, ONS](#))

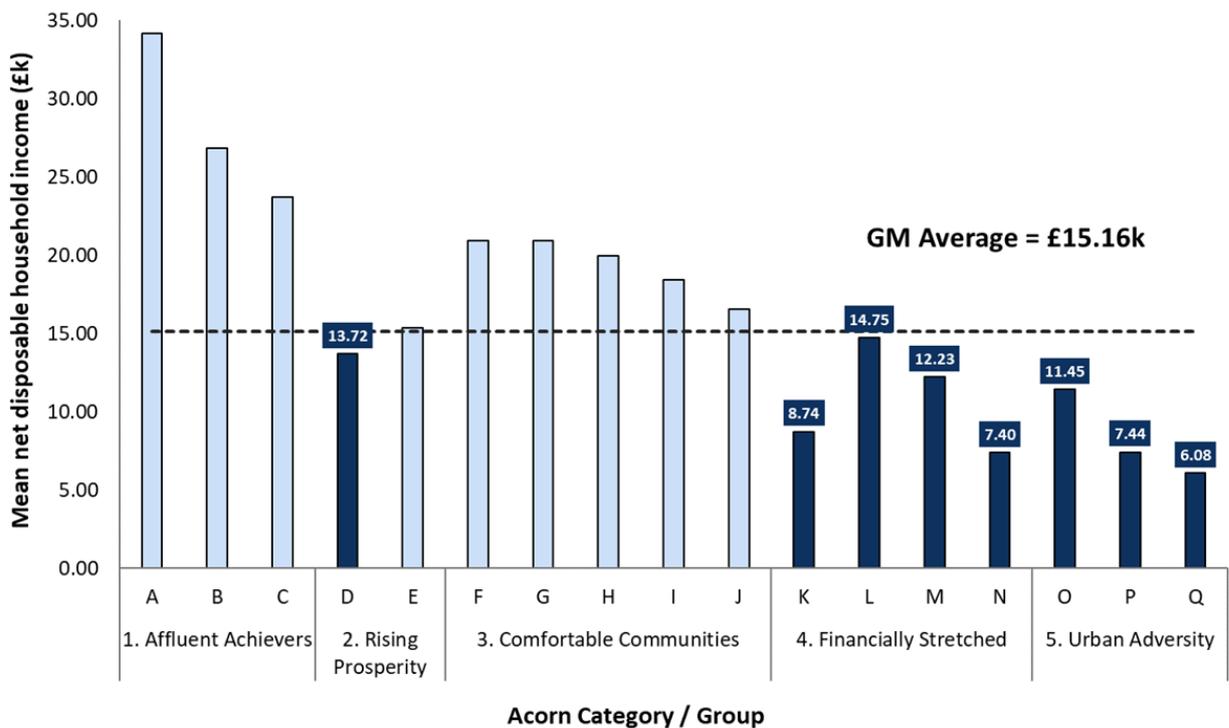
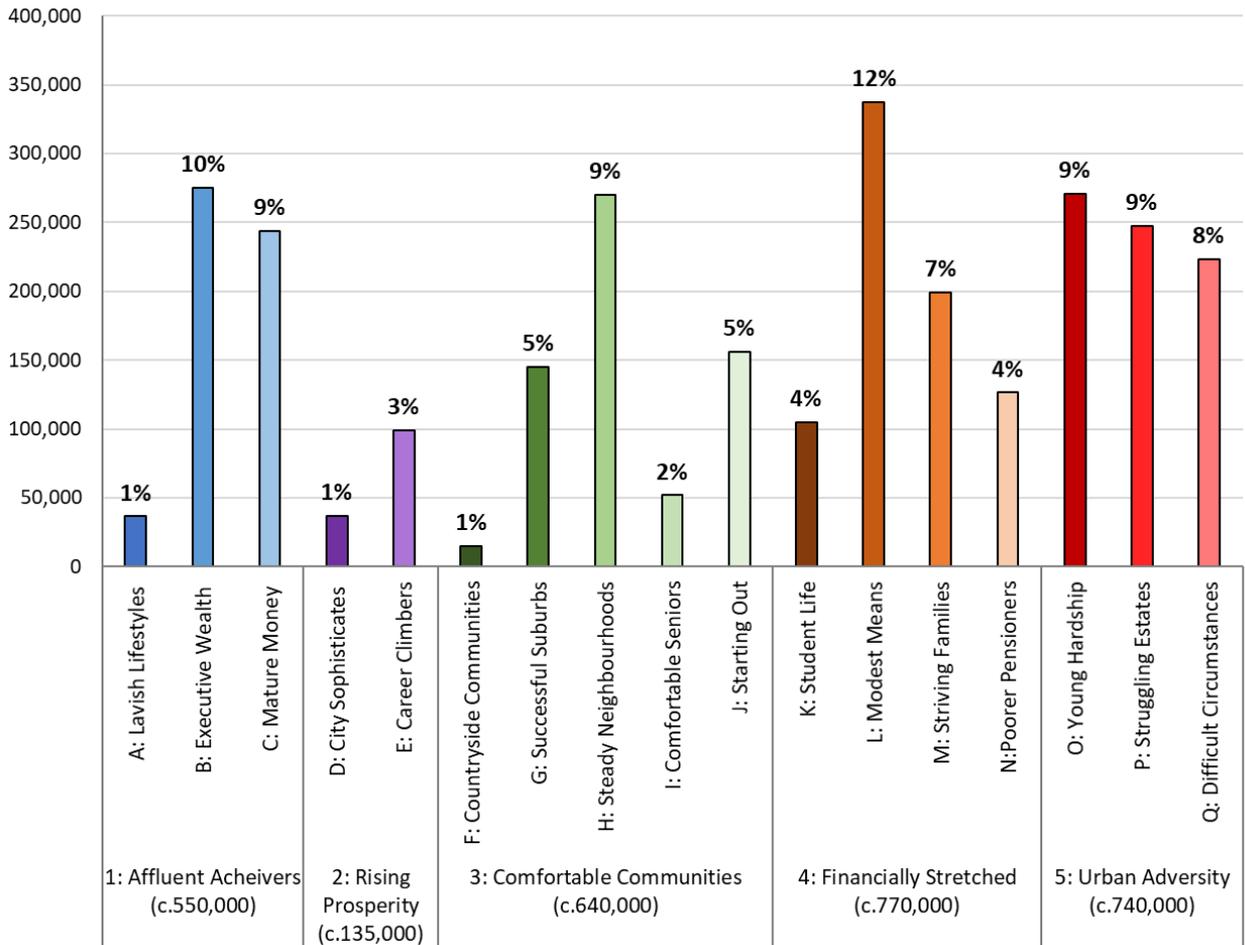


4.4 Understanding the GM residential population

4.4.1 53% of the GM resident population is classified as either ‘Financially Stretched’ or ‘Urban Adversity’, the corresponding value for the UK is just 40% - this demonstrates the greater vulnerability of the GM population to inflation associated with non-discretionary spend (Source: Acorn 2021. CACI Limited. The applicable copyright notices can be found at <http://www.caci.co.uk/copyrightnotices.pdf>)

4.4.2 For ‘Financially Stretched’ and ‘Urban Adversity’ households - disposable income is typically well below average, and often below £10k - note: the values shown in the chart below are prior to the full impact of the recent 2022 surge in inflation being felt. This means that those with limited disposable income as of 2021, are now likely to be even more vulnerable to any costs that may be passed onto them as a result of CAP related interventions. It also serves as a reminder that GM businesses that rely on demand from GM residents, could be particularly vulnerable to weakening consumer demand.

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(Source: Acorn 2021, Paycheck Disposable Income. CACI Limited. The applicable copyright notices can be found at <http://www.caci.co.uk/copyrightnotices.pdf>)

5 Conclusion

- 5.1 UK inflation reached a 40-year high of 9% during April 2022, up from 2% in July 2021. It is widely accepted that inflation will increase to higher levels still during the remainder of 2022, with evidence already pointing to consumer demand being dampened.
- 5.2 GM is not insulated from the impacts of high inflation, in fact in some respects it is particularly vulnerable - noting its relatively high volume of small businesses, and a higher than average (vs.UK) proportion of residents who typically have below average disposable household incomes.
- 5.3 The Bank of England has already responded by increasing base rate to 1.25% (up from 0.1% in July 2021) - signalling that further rate rises are likely. This in turn will increase the cost of borrowing to both businesses and residents who require finance and are not protected by fixed rates.
- 5.4 Meanwhile the Bank of England's Monetary Policy Report (May 2022) points to an expectation for GDP to fall in Q4 2022, and be 'broadly flat' during 2023.
- 5.5 In summary, any intervention, such as a charging clean air zone, that could see businesses forced to pay additional charges and potentially pass costs on to the consumer, could have severe consequences for those groups who are already struggling to cope with the cost of living crisis.