EY ITEM Club

UK Regional Economic Forecast

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Foreword

EY UK Regional Economic Forecast

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Ernst and Young LLP are delighted to welcome you to the ninth regional economic forecast for the UK. Addressing the differences in relative performance across the regions and nations of the UK remains one of the most important challenges for policy makers in both local and central government. It will no doubt be one of the key battlegrounds for the next general election particularly given the challenging circumstances the UK economy faces. Ernst and Young LLP, as a nationwide employer, remains committed to supporting efforts to rebalance the country's economic geography, and we develop our forecasts with the goal of helping to broaden understanding and advance the debate. We will be working with EY colleagues across the country to share more of our detailed findings with local stakeholders.

The UK economy ended 2023 on a disappointing note – having confounded initial expectations and avoiding a recession in the first half of the year, it does now look as though it suffered that fate in the latter half. Although it just about managed a tepid 0.1% growth for the year as a whole. This was a consequence of a combination of high inflation and rising interest rates squeezing consumer spending power and putting pressure on corporate margins. The impact of the slowdown varied across the country, and whilst the UK saw only relatively moderate increases in unemployment – it was the impact on disposable income that made the biggest difference when it came to performance. In particular, the cost-of-living squeeze hit the lowest paid the hardest, and hence wealthier regions such as London and the South East outperformed lower income areas – and we even saw outright declines in economic activity in Wales, Northern Ireland and Yorkshire and the Humberside.

However, there are grounds to believe that the worst is behind the UK, and the outlook will improve in 2024. Over the last 12 months inflation has fallen steadily and should be back to the Bank of England's target of 2% by the spring, underpinned by falling energy prices. This will ease pressure on hard pressed household finances and business margins. It should also provide scope for the Bank of England to start to cut interest rates; with the first reduction coming as early as May. This could see confidence returning to the housing market and support a continued recovery in corporate investment as borrowing costs fall.

Consequently, growth should recover over the course of 2024, setting the foundation for more rapid growth from 2025 onwards. However, there are still limited signs of 'levelling up' or 'regional rebalancing' in the patterns of growth. London and the Southern regions of the UK are expected to continue to outperform the rest of the country. London's success obviously driven by the distinctiveness of its economy, which is characterised by knowledge-based sectors such as professional services, information and communication, and the concentration of high skilled workers in these sectors. The South East and South West follow closely behind, with growth in both regions being supported by high performance in the information and communication sector. Whilst the remaining regions of the UK will return to growth, they will continue to lag – reflecting more challenging demographics and less dynamic sectorial strengths.

In the UK, the proportion of people registered as economically inactive stood 18.3% in 2023, compared to 17.5% pre-pandemic.

This equates to three quarters[1] of a million people who have left the labour market. The level of inactivity tends to be higher in slower growth regions and nations – such as the North East, compared with London and the South East, and this acts another barrier to growth. Applying policy focus to support people back to work should be a priority of an incoming government. The work they return to is also important; the growth leaders in the UK, whether Reading in the South or Manchester in the North West, have successfully achieved scale in higher-growth, higher-value-add sectors often with a services focus. It is an example others can follow.

1. https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/economicinactivity/timeseries/lf2m/lms

Executive summary

The economy struggled in 2023.

The UK experienced a challenging year in 2023 in the face of still high (albeit falling) inflation and continued increases in interest rates, with the economy ending the year in a recession. This was reflected in relatively weak performance across the regions and nations of the UK. The fastest growing region of the UK in 2023 was the West Midlands, achieving Gross Value Added (GVA) growth of just 0.6%, with the North-East also performing reasonably well with growth of 0.5% – as both regions' manufacturing sectors benefitted from continued normalisation in supply chains and lower energy prices compared to 2022. In contrast, several regions saw outright falls in activity – including in Wales, Yorkshire and the Humberside, the South West and Northern Ireland – reflecting the cost-of-living squeeze on households and businesses.

Stronger growth is anticipated during 2024 ...

The outlook is expected to improve through 2024, with falling inflation opening the path for interest rate reductions. This should alleviate cost-of-living pressures over the course of the year. London and the Southern regions of the UK are expected to lead the recovery underpinned by still strong labour markets, a recovery in consumer spending, and robust growth expected in information and communication, professional services, and a recovering retail sector. However, growth will be muted; the EY ITEM Club winter forecast was for growth of 0.9% for 2024 for the UK as a whole, and given the disappointing end to 2023, this will likely be revised down in the spring forecast.

... setting the scene for a proper recovery in 2025 and beyond.

Accelerating growth through 2024 – assuming inflation remains under control, interest rates fall, and the labour market remains robust, should lay the foundation for a return to more normal historical levels of growth in 2025 and 2026. However, the long embedded regional structures and patterns of growth are likely to remain in place – with London remaining the UK's fastest growing region through the period 2024-2027 with growth averaging to 2.1% per year. It will be closely followed by the South East (2.0%) and South West (1.9%), both of whom are expected to grow faster than the UK average of 1.9%. In contrast, Scotland, the North East and Wales are forecast to see the lowest growth between 2024-27. This can partly be explained by a slightly lower concentration of higher growth sectors.

There is an urgent need for policy makers to address the labour market.

Last year's regional economic forecast discussed how differences in population growth, skill levels and relative weight of employment across sectors could explain regional disparities in growth. In this year's report, the focus turns to the labour market – here the various nations and regions of the UK face a challenge. In particular, the UK remains the only major OECD country where the labour market participation rate has yet to return to pre-pandemic norms.

There are significant variations in participation across the country; Northern Ireland has the highest level of inactivity, at 25.7%, almost 3 percentage points higher than in any other region. The North West, Wales and the North East, also have relatively high levels of inactivity, compared to the UK average. In contrast, the South of England (South West, London, South East) have the lowest rates of inactivity.

The relative level of inactivity can therefore to some extent explain the differential performances in terms of economic performance; faster growth (as expected in London and the South) does appear correlated with much lower levels of inactivity. In the context of continued, and country wide shortages of labour, addressing inactivity by encouraging people back into work, could help contribute to closing some of the disparities in regional growth performance.

Policy could also seek to ensure that re-skilling is focused towards sectors where demand for labour will be the greatest – the fastest growing regions of the UK have been able to build up critical mass in the fastest growing sectors – particularly in information and communication, and professional services.

UK and regional economic performance in 2023

The UK experienced a challenging year in 2023 in the face of still high (albeit falling) inflation and continued increases in interest rates. The latest data from the ONS (issued on February 15th[2]) suggested that the economy grew by just 0.1% across 2023 as a whole, and fell into a recession in the second half of the year (defined as two quarters of negative growth). Whilst this was a disappointing end to the year – the performance across 2023 should be put into context; at the start of 2023, most economists were forecasting a much more severe recession, instead we got stagnation.

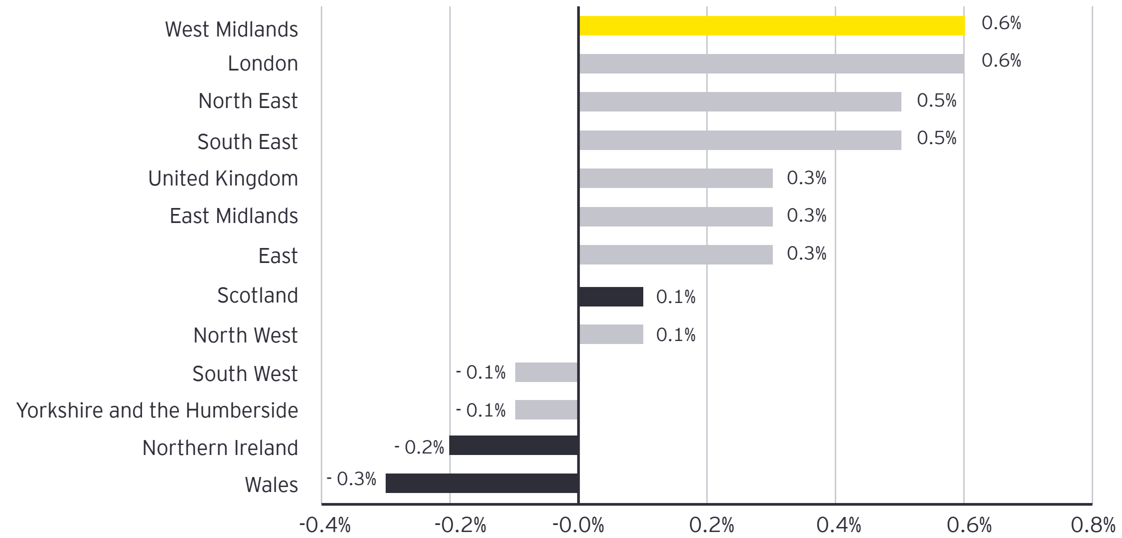
The West Midlands led the pack in terms of 2023 growth …

The fastest growing region of the UK in 2023 was the West Midlands, achieving GVA growth of 0.6%, and benefitting from lagged post-pandemic normalisation in manufacturing, and particularly automotive, supply chains. London was next fastest (0.6%), followed by the North-East (0.5%) and then the South East (0.5%). Growth in London and the South East was driven by high end services – with information and communications and administrative and support services performing well. The North East, in a similar manner to the West Midlands, benefitted from a recovery in global manufacturing supply chains and lower energy costs compared to 2022.

… although a number of regions did see falls in activity.

A number of nations and regions, and in particularly those most exposed to the cost-of-living crunch from higher inflation and higher interest rates, saw outright declines in activity. The hardest hit was Wales, which saw GVA fall by 0.3% during the year. Consumer spending in Wales fell by 0.6% hitting consumer facing sectors particularly hard, with declines in activity seen in wholesale and retail trade and manufacturing. A number of other regions also saw an outright contraction – with the South West, Yorkshire and the Humberside and Northern Ireland all joining Wales in recession – again with cost-of-living pressures squeezing the wider economy. The North West and Scotland just about avoided recession, but growth remained particularly weak – with again cost-of-living pressures challenging consumer facing sectors, although in the case of Scotland, a tight labour market and some growth in professional services prevented an outright decline.

Figure 1: GVA growth in UK regions and nations 2023



2. https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2023.

Regions with lower average incomes suffered due to cost-of-living pressures.

As discussed above, the differential impact of cost-of-living pressures explain some of the differences in regional performance. Where incomes are lower, households are more exposed to living cost pressures as essential items which have risen sharply in price since 2020, such as food (31.6%), form a larger proportion of total expenditure. Consequently, consumer spending has suffered more in these regions, affecting overall growth. This was particularly evident in Wales (£17,796), Northern Ireland (£18,181) and Yorkshire & the Humberside (£18,508), whilst higher income households, concentrated in London and the South East, were better able to ride out the squeeze.

Despite the challenging economic circumstances – the labour market remained robust.

Despite a different economic environment, the labour market remained reasonable robust. Whilst we did see an increase in the unemployment rate across all regions of the UK (except for London), it still remains at historically low levels – with the unemployment rate rising from 3.7% to 4.1% for the UK as a whole.

The South West continued to be the region with the lowest level of unemployment, at 3.1% in 2023. In contrast, the West Midlands (5.0%) and the North East (5.0%) had the highest unemployment rates during 2023 after both seeing increases of 0.5 and 0.4 percentage points respectively during the year.

This strength in the labour market, despite a stagnant economy, probably prevented a more severe recession given the inflationary squeeze on the cost-of-living. However, at the same time, a robust labour market will continue to cause concerns for the Bank of England, as tight labour markets are translating into increased wage pressures, which in turn could delay cuts in interest rates. However, there were some more signs of a cooling labour market. For example, vacancies fell throughout 2023 – although they still remain above pre-pandemic levels[3].

The labour market remains key then for the outlook for the UK as a whole, and for individual regional performance – a cooling but still robust labour market should enable the UK to bounce back quickly from the dip in activity at the end of 2023, and still lay the path for falling inflation and cuts in interest rates over the course of 2024. This in turn should set the foundation for a stronger recovery in 2025 and beyond. Understanding regional differences in labour markets will be key both to explain variations in regional performance, but also steer policy makers at local and national in trying to address these differences.

Figure 2: Disposable income in UK nations and regions – 2023 (£2019)

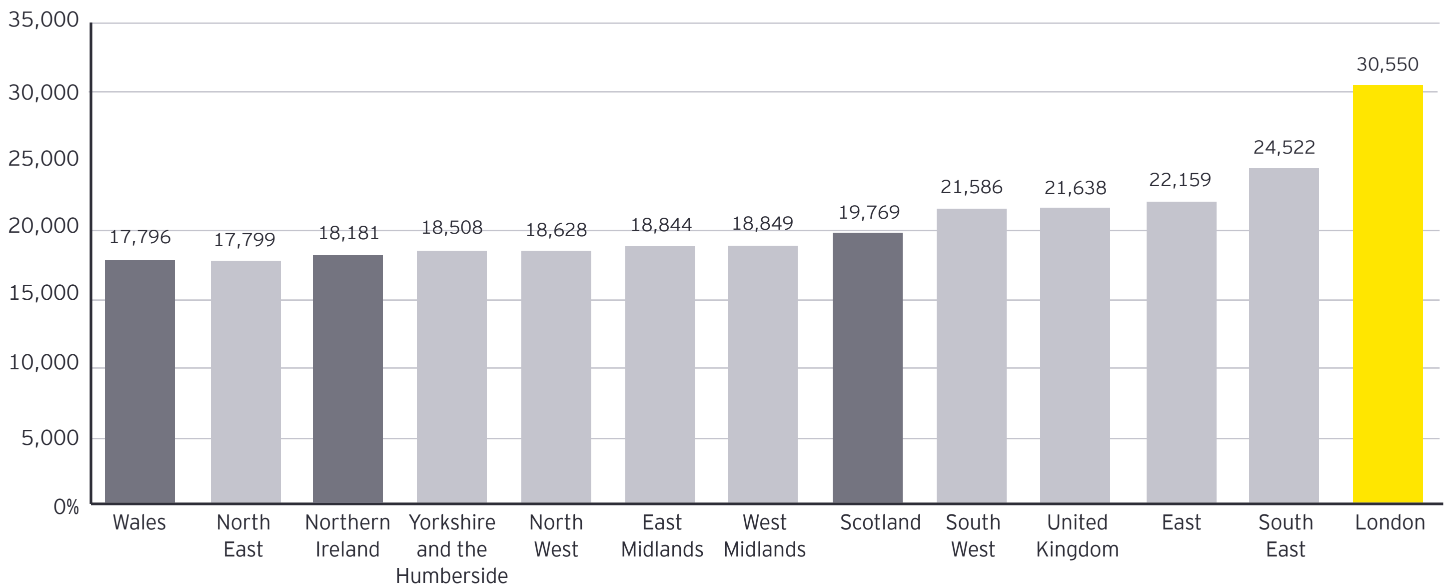


Figure 3: Unemployment rate in UK nations and regions (% of economically active population)

3. ONS

Outlook for 2024 and beyond

Stronger growth is anticipated during 2024 …

Although the UK economy closed the year having slipped into recession, the outlook is expected to improve through 2024. Inflation is on track to fall back below 2% by late spring, which should open the path for the Bank of England to reduce interest rates. This combined with rising real wages, and lower energy prices, should provide momentum particularly in the second half of the year. Forward looking indictors such as the Composite Purchasing Managers Indices (PMI)[4] have reflected an improvement in sentiment since late summer 2023. PMI increased from 48.7 to 52.1 points between October and January, now above the neutral 50 mark[5]. This, combined with strong retail sales figures in January 2024 suggest the economy may bounce back quite quickly from its dip in the second half of 2023.

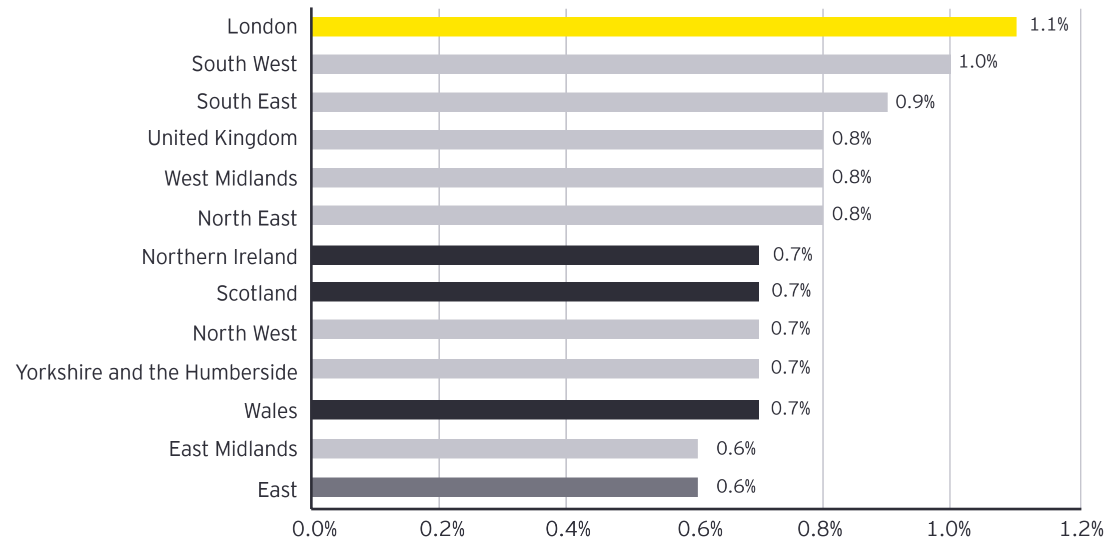
However, saying all that – the dip in activity at the end of 2023 does have implications for 2024 growth. The EY ITEM Club winter forecast was for growth of 0.9% for 2024. However – given the disappointing end to 2023 – this forecast is likely to be revised down in the spring forecast at UK and regional level. As a result, the GVA growth figures presented in this section are likely to be on the optimistic side, although the relative performance of regions is unlikely to change.

London and the Southern regions of the UK are expected to lead the recovery and outperform compared to the UK average. GVA in London is expected to grow by 1.1%, with the South West and the South East achieving 1.0% and 0.9% respectively. The recovery in these regions will be underpinned by still strong labour markets, a recovery in consumer spending as inflation falls, and then relative robust growth expected in information and communication, human health and social work activities, professional services, and wholesale and retail trade sectors.

… although not for all as consumers remain squeezed.

In contrast, the East of England is expected to experience the lowest rate of growth in 2024 at 0.6%. This is explained by a relatively stagnant performance of the labour market, with flat total employment and continued increase in the unemployment rate, plus some declines in activity expected in agriculture, forestry and fishing, real estate activities, water services and arts and recreation. Similarly, in the East Midlands, growth will be impacted by weaker performance in consumer facing sectors, with manufacturing (-0.7%) and arts, entertainment and recreation (-1.4%) forecast to see declines in GVA.

Figure 4: GVA growth in UK nations and regions 2024



4. Refinitiv.
5. Below the 50 mark indicates contraction, whilst above the 50 mark indicates growth.

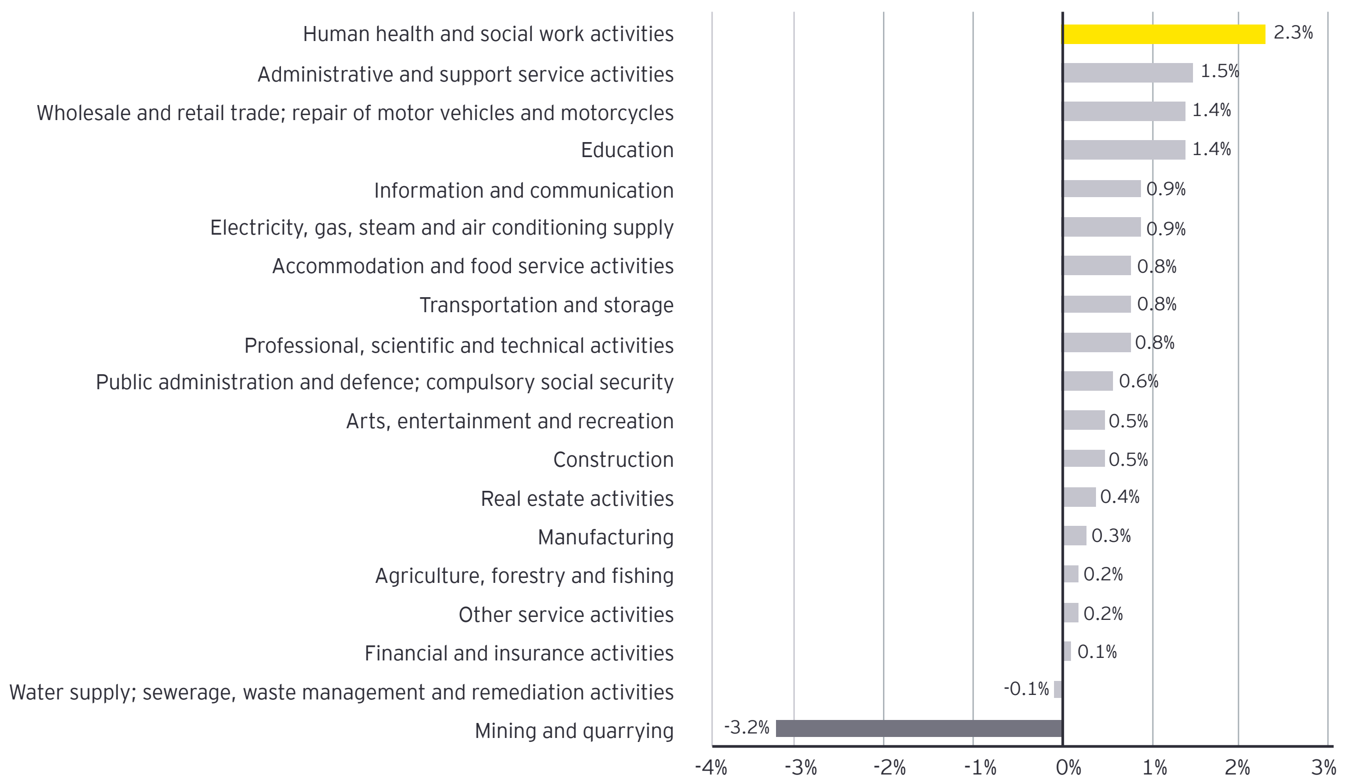
With regional differences in sector strengths playing a part.

There will continue to be significant differences in growth rates (and absolute growth) by sectors — and hence the relative weight of each sector in a national or regional economy will tend to dictate. For example, ongoing challenges in the mining and quarrying sector (-3.2%) at the UK level, largely reflects the long-term decline in North Sea oil production, which will be of particular challenge to Scotland, and to a lesser extent the North East of England. The decline in activity is largely driven by structural changes — as many oil fields are reaching the end of their useful life. However, policy has played a part — the Scottish government is ambivalent around new investment in oil and gas production, and whilst the UK government is warmer to the idea, the imposition of significant windfall taxes has also acted as a barrier to investment. This despite recent energy price shocks, and the exposure of the reliance on imported oil and gas for UK and European economies that the Ukraine war has exposed.

In contrast, growth in the human health and social work (2.3%) is set to top the growth charts. However, this is largely as a consequence of the high demand for health and social services and increases in NHS spending in response to backlogs, plus the relative weakness of other sectors. The East of England is expected to see the greatest proportionate expansion in the sector, at 2.6%.

Elsewhere we continue to see strong performance in high value add services sectors — such as information and communication, professional, scientific and technical activities — reflecting rapid advances in technology, and the continued shift to the services sector in the UK economy.

Figure 5: UK GVA growth by sector — 2024

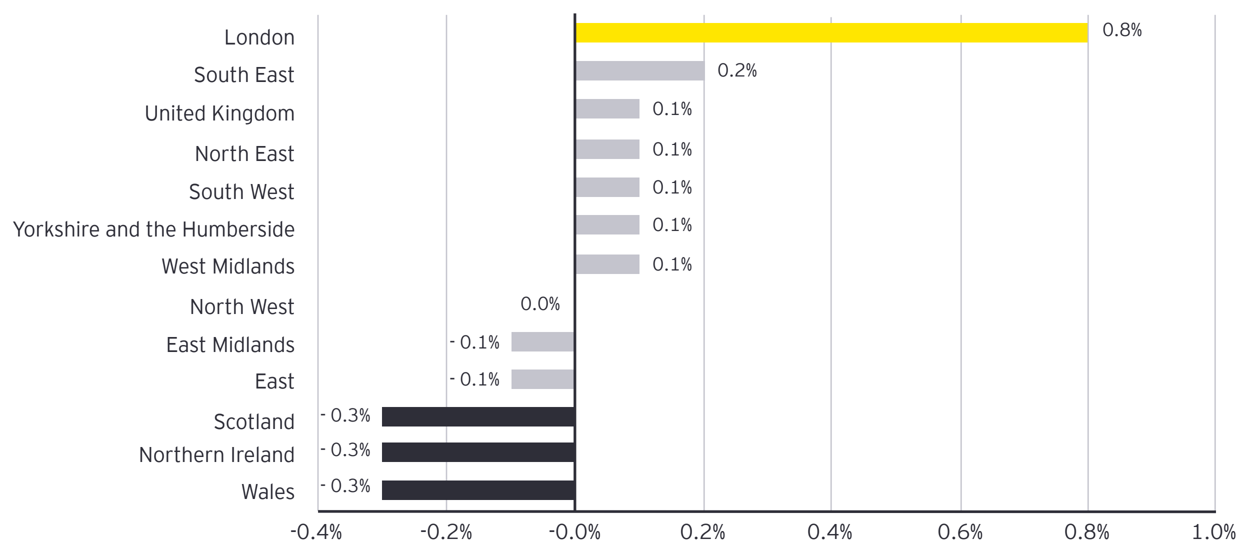


Generally, movement in employment is expected to be consistent with GVA performance at a national and regional level.

London employment growth is also expected to lead the UK during 2024, although growth remains relatively low, at 0.8%. Other parts of the South of England are expected to see employment growth towards the higher end of the range, consistent with the high GVA growth that is anticipated. Similarly, in Wales (-0.3%), the East of England (-0.1%) and East Midlands (-0.1%), a decline in employment is anticipated, consistent with the weak GVA growth in the region.

However, in Northern Ireland (-0.3%) and Scotland (-0.3), employment is expected to decline despite reasonable levels of GVA growth being forecast for 2024. In these nations, the largest declines in employment are anticipated in sectors such as accommodation and food service activities and agriculture, which are relatively low productivity sectors in terms of GVA per worker.

Figure 6: UK employment growth in UK nations and regions — 2024



Looking beyond 2024 — continued dominance of London and the South East …

As referenced above, lower inflation and a strong labour market should see a return to growth in real incomes, this combined with the prospect of interest rate reductions, should lay the foundation for a return to more normal historical levels of growth — although this will likely be delayed to 2025 and 2026.

However, the long embedded regional structures and patterns of growth are likely to remain in place — with London remaining the UK's fastest growing region through the period 2024-2027 with growth averaging to 2.1% per year. It will be closely followed by the South East (2.0%) and South West (1.9%), both of whom are expected to grow faster than the UK average of 1.9%.

→ ey.com/uk/regionalforecast

... which is reflecting sectorial specialisation.

London's success continues to be driven by the distinctiveness of its economy, which is characterised by knowledge-based sectors such as professional services, information and communication, and the concentration of high skilled workers in these sectors. The South East and South West follow closely behind, with growth in both regions being supported by high growth in the information and communication sector. All nations and regions outside of the South of England are expected to lag behind the UK average in terms of medium-term GVA growth. In particular, Scotland, the North East and Wales are forecast to see the lowest growth between 2024-27. This can partly be explained by slightly lower concentration of higher growth sectors, such as arts, entertainment and recreation, professional services and administrative and support services. By 2027, these sectors are expected to comprise a total of 11%, 13% and 9% of the economy in Scotland, the North East and Wales respectively, compared with 15% in the UK as a whole.

Figure 8: UK annualised GVA growth by sector 2024-27

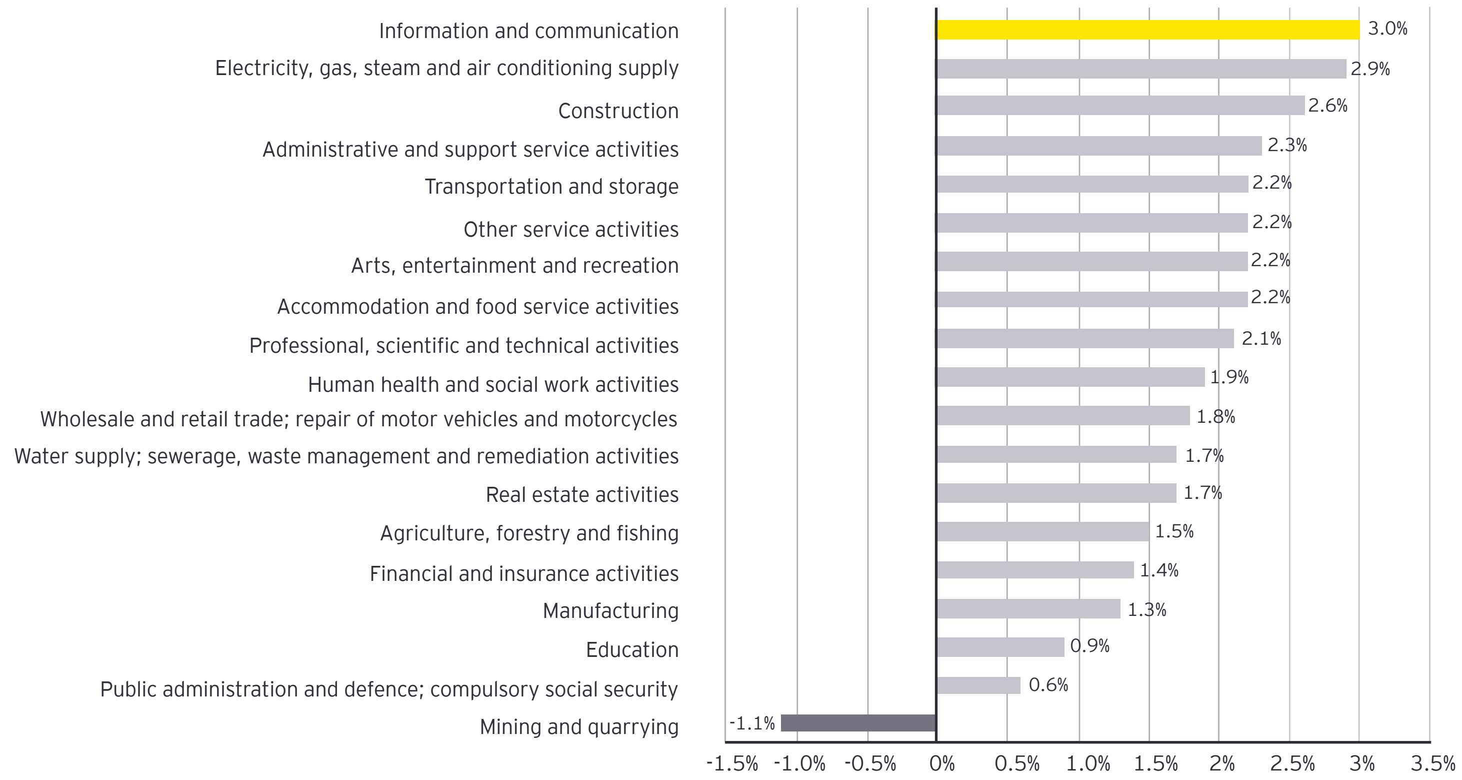
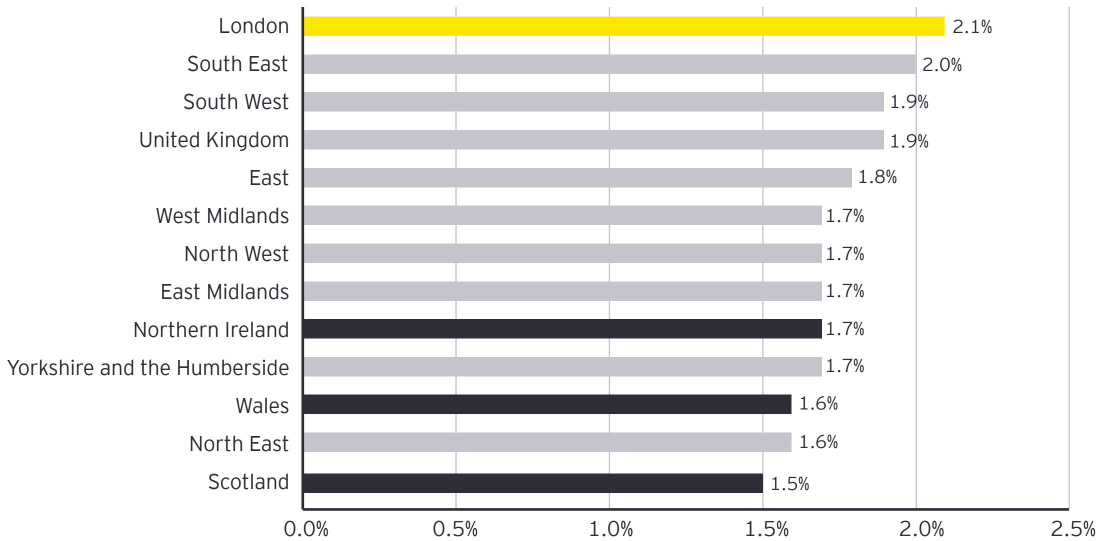


Figure 7: UK Annualised GVA Growth by region 2024-27



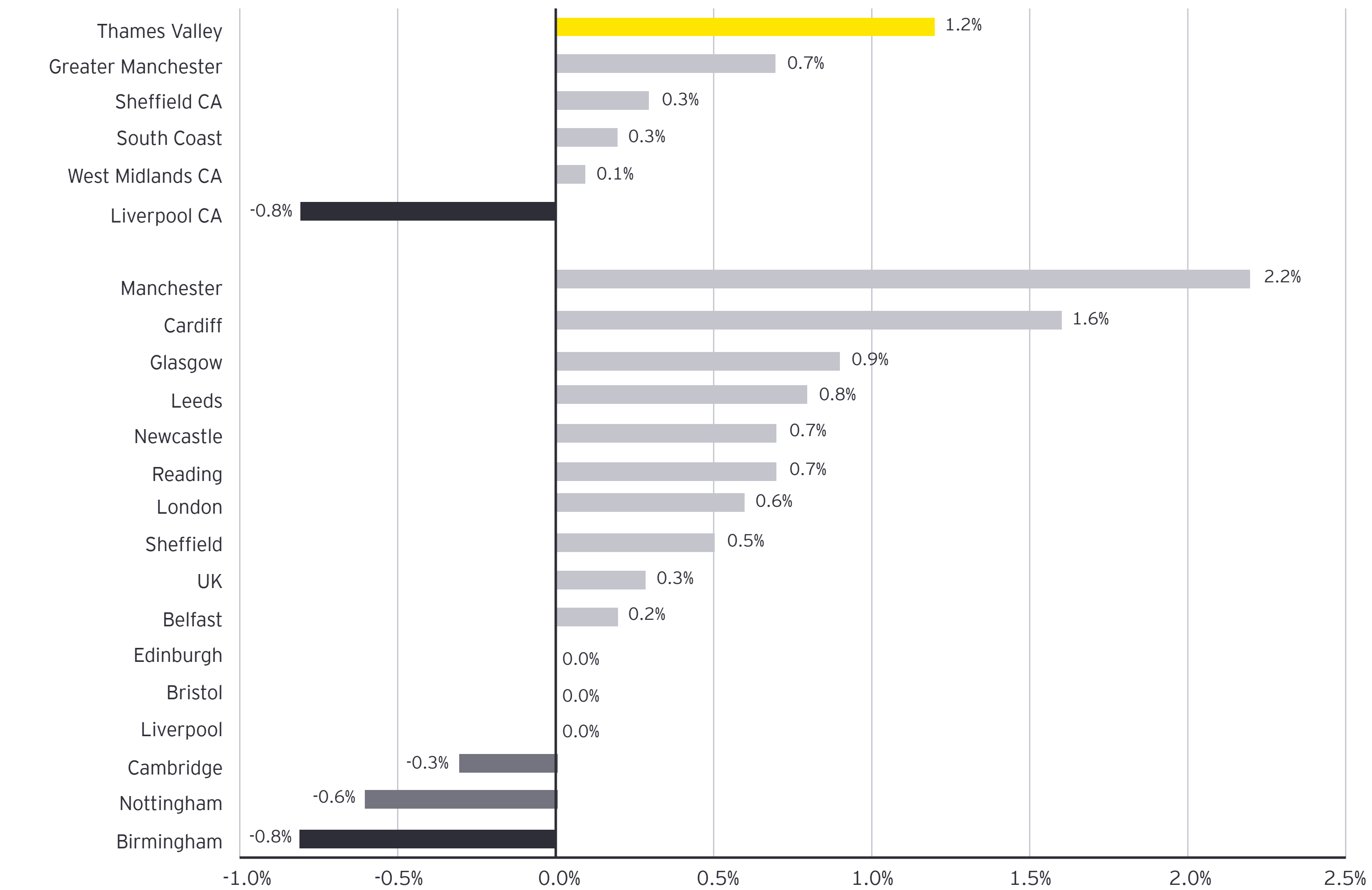
Performance across the UK at a city and town level

Significant variation in performance throughout 2023.

The variation in performance across core cities in the UK, was more pronounced than that observed between regions and nations. On one hand, Manchester (2.2%), Cardiff (1.6%) and Glasgow (0.9%), were able to buck the national trend of stagnation. In Manchester, its impressive transition to developing its service sector drove such rapid growth, supporting wider adjacent sectors such as construction, and was also apparently immune to the national trend of a tight labour market – with total employment rising by 3% year on year in 2023, as the city centre continues to attract talent. In Cardiff, growth was driven by expansions in the real estate, professional services and administration sectors. Glasgow saw an expansion in the professional services sector, coupled with an increase in productivity (in terms of GVA per worker) which drove growth.

In contrast, a number of cities saw a contraction in activity, including Birmingham (-0.8%), Nottingham (-0.6%) and Cambridge (-0.3%). Here, it looks as though cost-of-living pressures played a part – as all of these cities experienced a fall in consumer spending during the year. Birmingham and Nottingham have the lowest disposable income per capita of any cities in the UK, providing less flexibility absorb hikes in living costs. Whilst disposable income remains relatively high in Cambridge, it has seen a fall in real terms (-1.1%) since before the pandemic, constraining affordability for consumers.

Figure 9: GVA growth in major cities and combined authorities – 2023



Birmingham in particular struggled — with many sectors shrinking during the year (11 out of 19 sectors), with most significant declines in wholesale and retail trade and financial and insurance activities. The effect on overall GVA growth in the city was compounded by low productivity in higher growth sectors compared with the rest of the country, measured in terms of GVA per worker. This includes administrative and support services (GVA per worker is 41% lower) and manufacturing (GVA per worker is 14% lower).

At the combined authority level, Liverpool particularly struggled, again down to cost-of-living stress on its population, with consumer spending dipping 0.6%, and wholesale and retail trade seeing a contraction of 3% in GVA and 2% in sector employment.

The cost-of-living crisis has had a disproportionate impact on income in some towns and cities.

The ability of households to cope with sustained rising prices is influenced by their income, with higher levels of income providing households with greater headroom to maintain consumption levels through absorbing price increases. These differences in income can explain some of the variation in performance in 2023 in particular. For example, Nottingham and Birmingham, the two cites that experienced the largest falls in activity in 2023, had households with the lowest levels of disposable income per capita, which could well explain some of the weaker performance, as households had less ability to cope with inflationary shocks.

The outlook for major cities is more optimistic for 2024 …

Following a weak year for some cities in 2023, all major cities except for Nottingham are expected to outstrip UK average GVA growth during 2024. Manchester is expected to hold its position as fastest growing city with a projected expansion of 2.2%.

Birmingham and Nottingham, whilst moving back into positive territory in 2024, are still expected to lag other core cities — with growth of just 0.8% in Nottingham and 0.9% in Birmingham reflecting that despite an improved environment, both cities still face significant headwinds, hard hit by challenges pertaining to living costs due to the low disposable income in each area.

… and employment is also forecast to grow in all major cities.

Moderate growth in employment is expected in all major cities during 2024, with Manchester projected to have the highest growth, at 1.2%. Whilst Liverpool is forecast to see growth of 0.4%, the broader Combined Authority (CA) is expected to see a slight fall in employment by 0.1%. This reflects a lagged effect of poor economic momentum in the area transferring through to the labour market, as Liverpool CA experienced a -0.8% contraction in GVA during 2023.

Figure 10: Levels of disposable income per capita — 2023 (2019 prices)

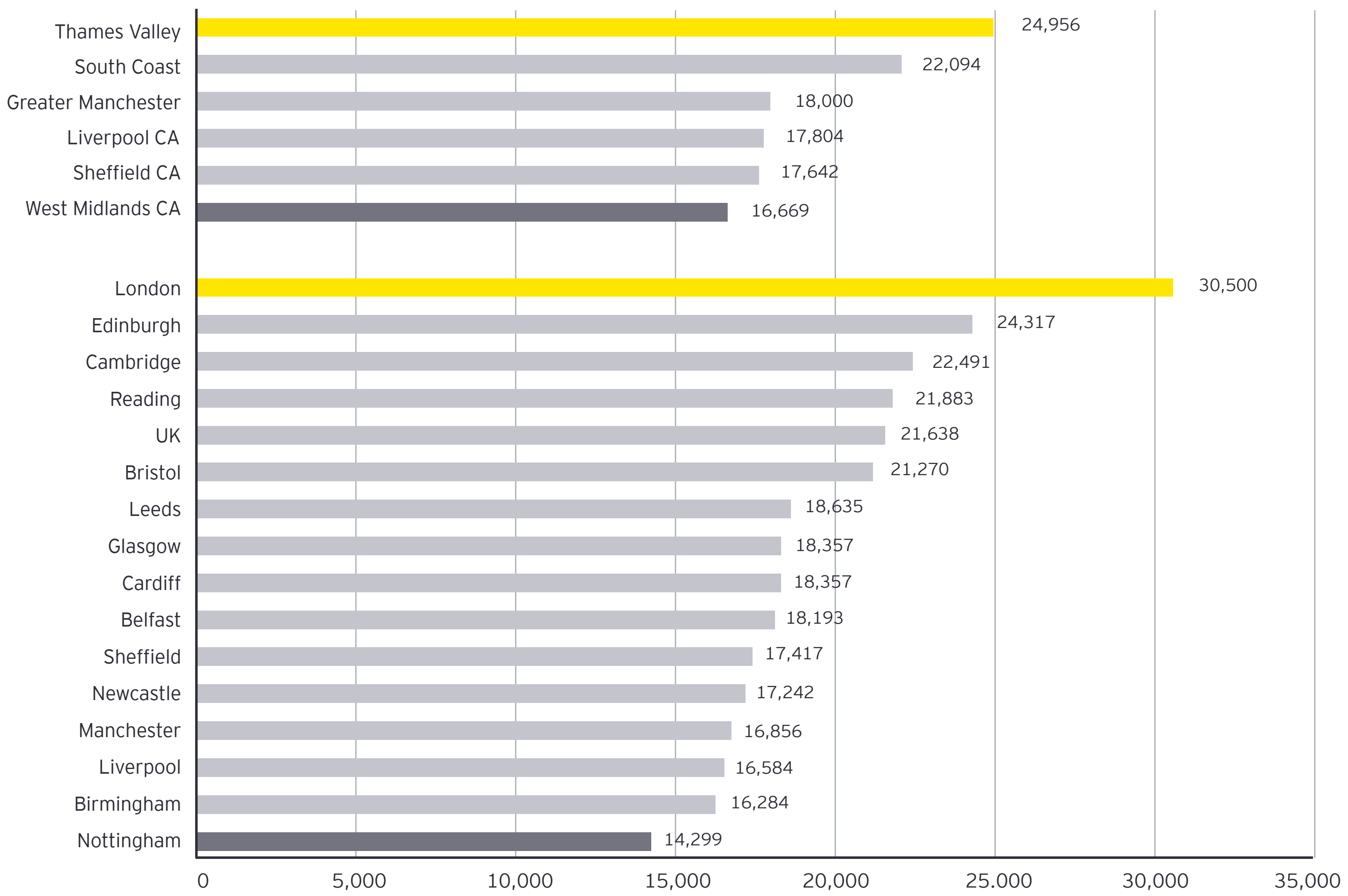


Figure 11: GVA growth in major cities — 2024

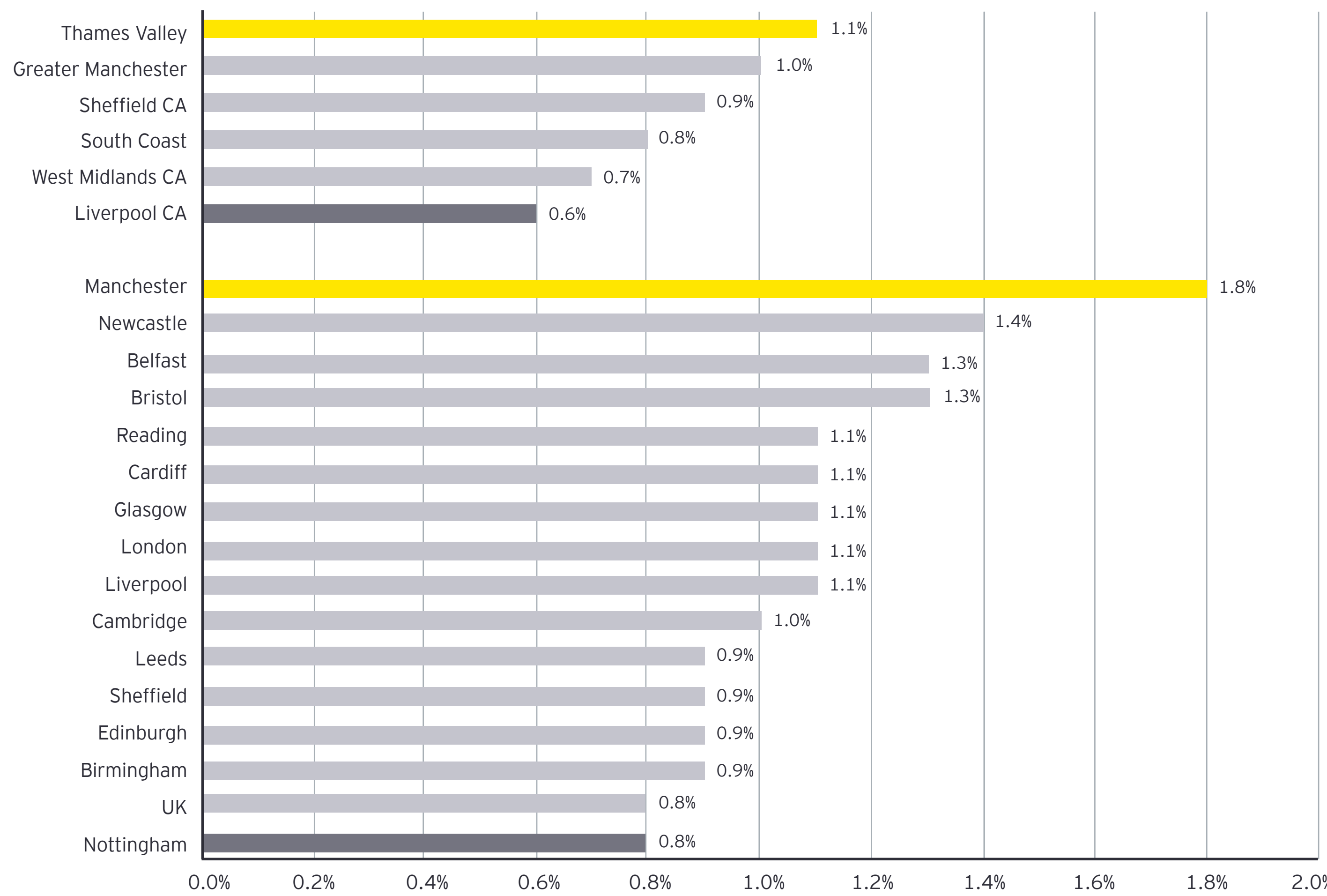


Figure 12: Employment growth in major cities – 2024

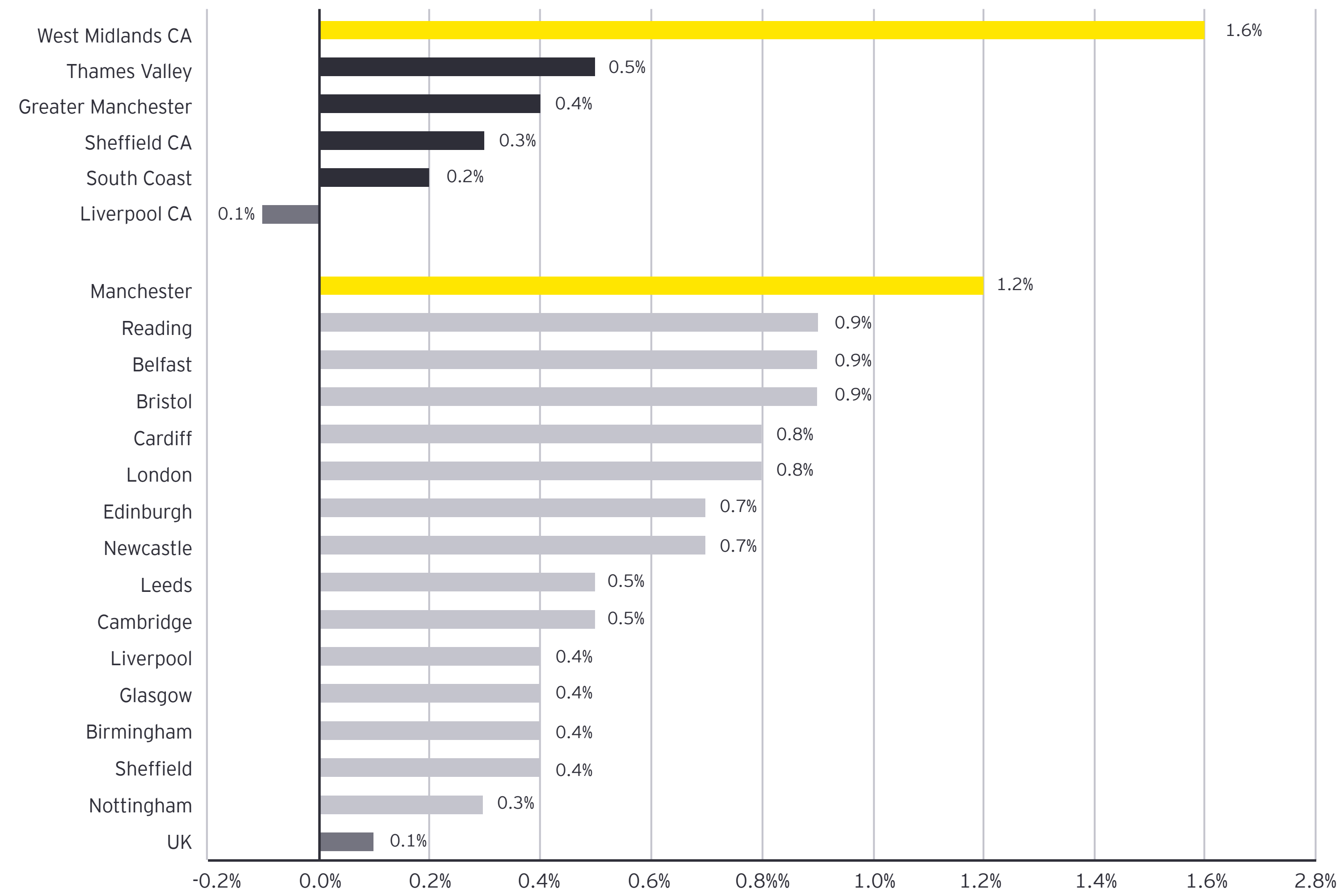


Figure 13 & 14: GVA and employment growth in major cities – 2024-27 average growth

In the medium-term, Reading and Manchester lead the way.

Looking to the medium-term, Reading is projected to overtake Manchester as the highest growth location, benefitting from its location in the M4 corridor enabling it to benefit from an expansion in big technology. The information and communication sector is forecast to grow by an average rate of 3.3% annually in Reading between 2024 and 2027. The Thames Valley is forecast to remain the highest growth region both in terms of GVA and employment growth, also driven predominantly by an expanding information and communication sector.

In terms of GVA and employment growth, both Sheffield and Nottingham are expected to lag behind other cities in the medium-term. Sheffield (1.0%) is forecast to grow at a much slower pace than the UK average (1.9%) between 2024 and 2027. Although there is a projection of growth across all sectors in Sheffield, relatively weak growth is expected in some sectors that comprise a substantial part of Sheffield's economy. Average growth of 0.8% and 1.2% are forecast for the education and real estate sectors respectively, which both comprise 11% of total GVA. The relationship between GVA and employment growth demonstrates that areas where employment growth is suffering, there is a drag on activity, as captured by GVA, due to reduced spend in the economy.

A focus on regional labour markets

It remains the only OECD country where the labour market participation rate has yet to return to pre-pandemic norms, and with unemployment standing at 4.1%, labour shortages remain a significant challenge across most sectors, despite a slowing economy.

Last year's regional economic forecast discussed how differences in population growth, skill levels and relative weight of employment across sectors could explain regional disparities in growth. In this year's report, the focus returns to the labour market, but looking through the lens of labour market participation.

There are significant regional disparities in terms of economic inactivity.

Across the UK, there is significant variation in the proportion of the working age population (16–64-year-olds) that is economically inactive – i.e., the proportion of the population that, for whatever reason, is not available for work.

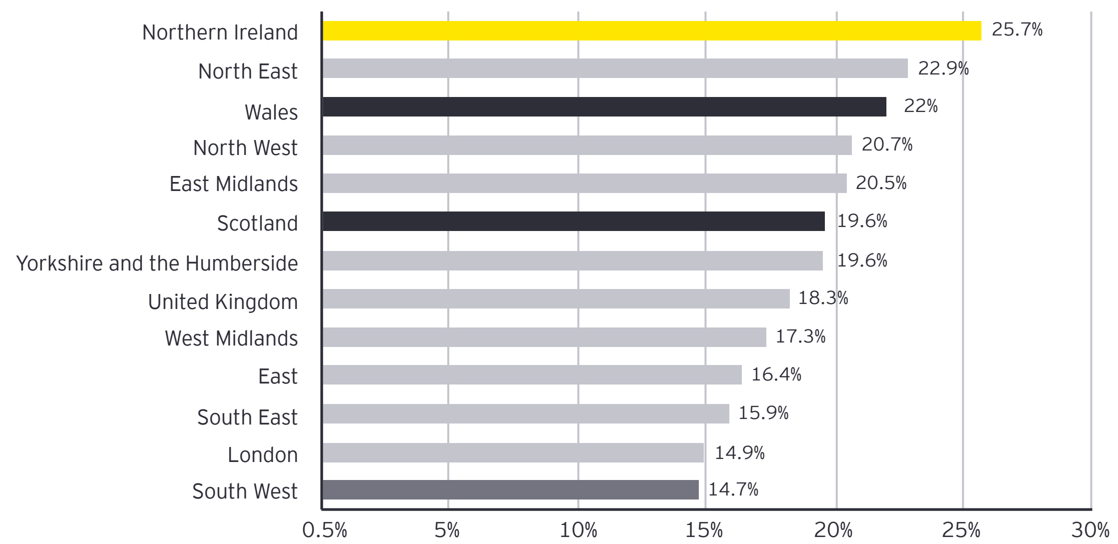
Across the UK, Northern Ireland, has the highest level of inactivity, at 25.7%, almost 3 percentage points higher than in any other region. The North West, Wales and the North East, also have relatively high levels of inactivity, compared to the UK average. In contrast, the South of England (South West, London, South East) have the lowest rates of inactivity, at around 15% and over 10 percentage points lower than Northern Ireland.

Areas with lower levels of economic inactivity are expected to see stronger employment growth during the medium term.

The relative level of inactivity can therefore to some extent differential performances in terms of economic performance; London, the South East and the South West have, and are expected to continue to outstrip the rest of the country when it comes to economic growth. Whilst there is a question of which way causality flows; better performance does appear closely correlated with much lower levels of inactivity. In the context of a continued, and country wide shortages of labour, addressing inactivity and encouraging people back into work, could help contribute to closing some of the disparities in regional growth performance.

London (1.5%), the South East (1.3%) and South West (1.2%) are all forecast to see the highest rates of annual employment growth between 2024-27. In contrast, Scotland (0.8%), the North East (0.9%) and Northern Ireland (0.9%) all have higher rates of inactivity relative to other regions and are forecast to see the lowest rates of employment growth during the medium-term.

Figure 15: Economic inactivity in UK nations and regions (as a proportion of working age population) – 2023



This highlights a structural employment issue – economic inactivity is likely to be constraining employment growth and thus the economic prosperity of selected regions. Targeted policy interventions could help to address these gaps.

Differences in social provision and support can perhaps help us to understand at least part of what is driving the regional disparity in inactivity. For example, Northern Ireland is the only region in the UK for which there is no scheme in place for free childcare[6], increasing barriers for parents returning to, or remaining in the workforce. Looking after family constitutes the third most common reason for economic inactivity across the UK.

Similarly, other factors which contribute to economic inactivity, such as long-term sickness, are presumably influenced to some extent by the standard of healthcare provision in the local area. Documented variation in hospital waiting times captures this disparity. As of August 2023, approximately one in 150 people in England had been awaiting treatment for at least 52 weeks. This compares with one in 80 people in Northern Ireland and Scotland, and one in 20 in Wales[7].

Targeted intervention could help to alleviate barriers to labour force participation, such as addressing long-term sickness and ensuring accessibility to parental support in regions such as Scotland, Northern Ireland and the North East.

Policy could also seek to ensure that re-skilling is focused towards sectors where demand for labour will be the greatest, considering structural changes in the UK economy. The sectors forecast to see the most substantial growth in employment between 2024-27 are arts, entertainment and recreation, professional services and administrative and support services – in thinking through local area development plans, and skills interventions, policy makers should be cognoscente of where growth in labour demand is expected to come from and plan accordingly.

Figure 16: UK annualised employment growth in UK nations and regions – 2024-27

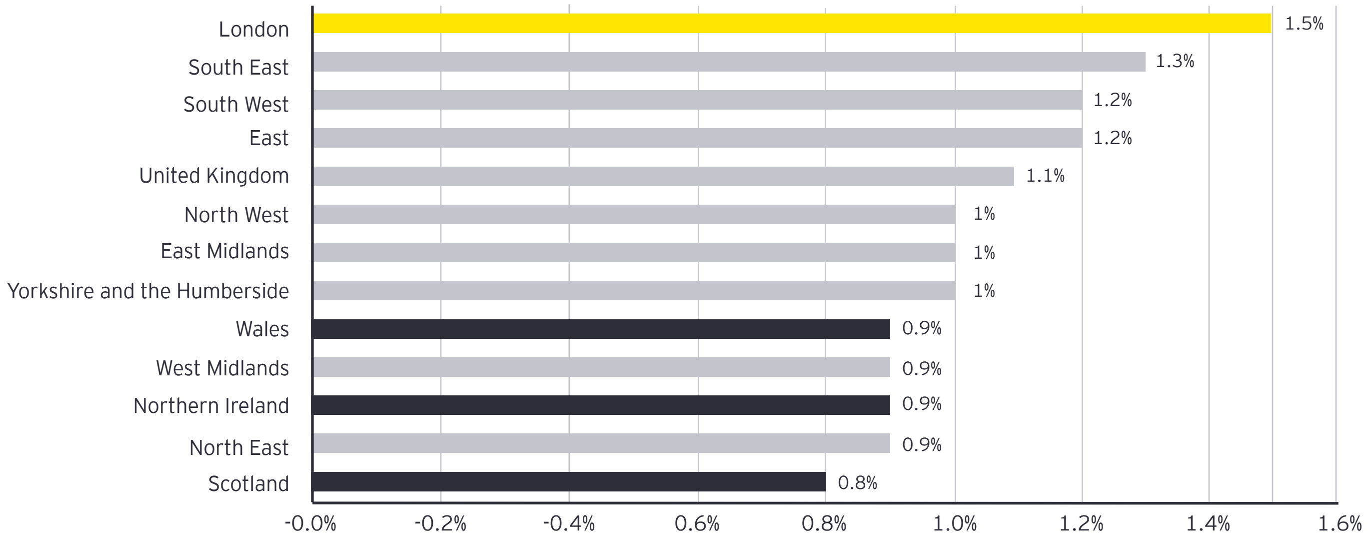
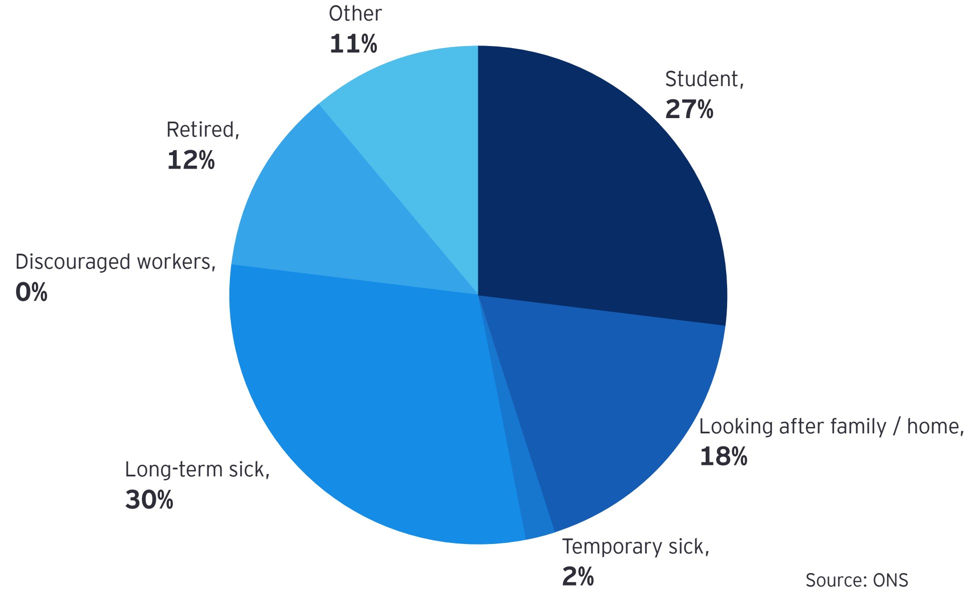
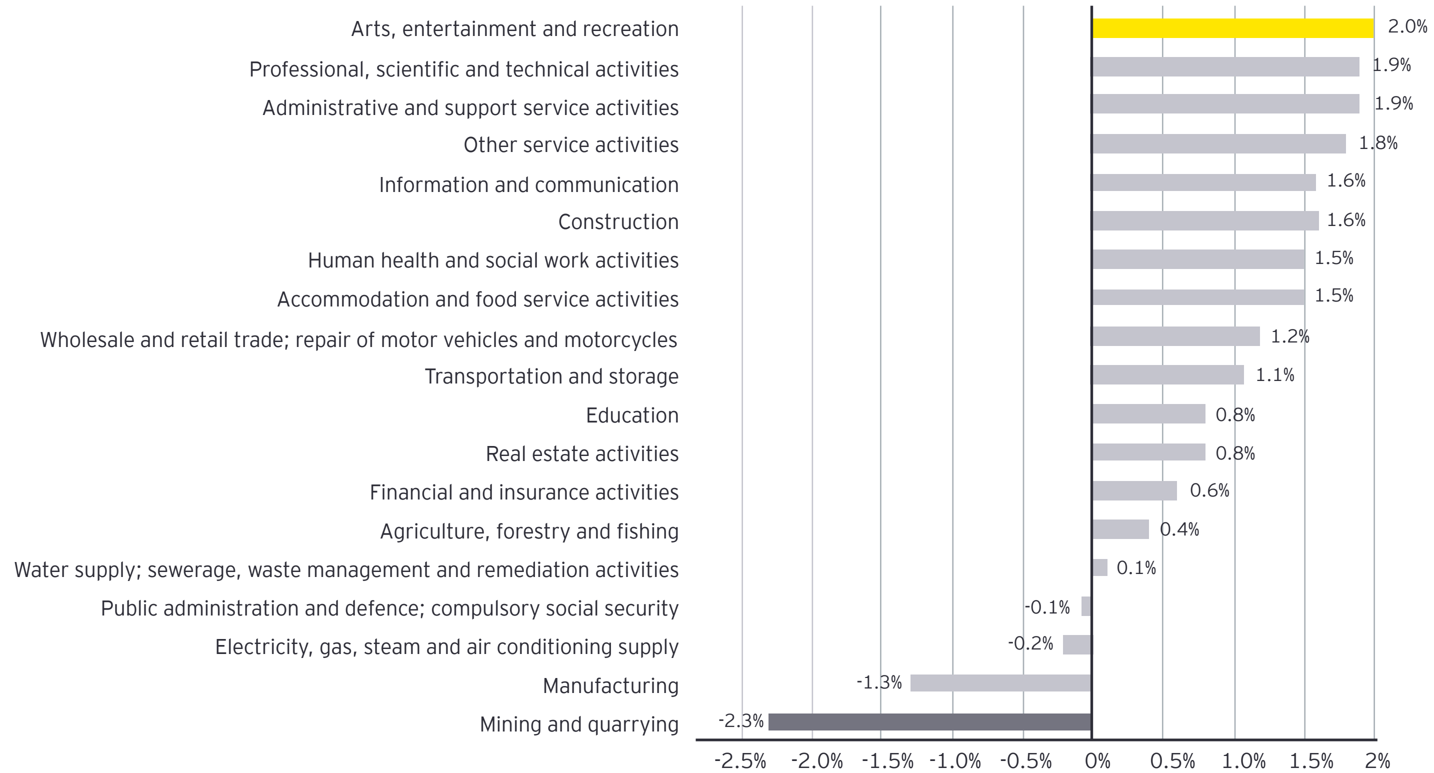


Figure 17: Economic inactivity by type in the UK – 2023 Q4[8]



Source: ONS

Figure 18: UK annualised employment growth by sector – 2024-27



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Implications for policy

The UK economy, in line with the rest of the world, has been buffeted by external forces in recent years. The combined shocks of the pandemic and energy crisis fuelled inflation globally, with all major central banks responding by increasing interest rates. This has particularly affected European economies, whilst the US is a major oil and gas producer, less exposed to fluctuations in global energy prices.

These forces were largely out of the control of UK policymakers, but as we have observed, there has been differential impacts across the regions and nations of the UK, reflecting well-established structural differences. Addressing these regional and geographic imbalances remains an essential priority of policy makers in the UK regardless of their political leanings, particularly in an election year. Voters will expect to hear how politicians plan to return the UK to a trajectory of strong growth after almost two years of economic stagnation, and importantly how regional imbalances will be addressed.

'Levelling up' was a key plank of the Conservative parties 2019 election manifesto. Whilst the term has now slipped out of the day-to-day political spotlight, the need to address regional imbalances remains. We reported last year in our UK Attractiveness Survey that investors viewed this as the number one priority for UK's domestic policy agenda.

It should also be recognised that the fiscal situation faced by both central and local governments is challenging. Higher inflation and higher interest rates, plus a debt overhang from the pandemic, mean that government finances are the most challenged they have been for a generation. A new government will have limited fiscal tools to address the growing needs across health, social care, education, defence, transport and many other areas of government. As seen in the economic inactivity, cost-of-living, and employment data, 'more devolution' is not necessarily a panacea either, with Northern Ireland, Scotland and Wales experiencing significant pressures also. These structural pressures will require large amounts of resource and coordinated effort to tackle.

It's all about the labour market …

So, what can the government do? As highlighted in this report, incentivising those who have left the labour market back into employment will help to address some of the structural challenges. This should encompass both incentives and programmes to increase participation, particularly from those with caring responsibilities – but also to address some of the health concerns that have driven the big increase in those out of work with for long-term sickness.

Given the UK has a strong sectoral focus in retail, manufacturing, and finance – policymakers could direct initiatives nationally aimed at improving workplace health and wellbeing, with a focus on-flexible working conditions, ergonomic adjustments, mental health support and improving the support available to people with long-term sickness.

Even though employment is forecast to grow across most sectors in the UK, some sectors are set to decline, and they appear to be concentrated in regions anticipating muted growth. Given this, policymakers ought to consider a range of measures to invest in skills development aimed at high value employment plus retraining opportunities for those facing long-term sickness, disability or are out of the workforce due to cost-of-living constraints.

… and infrastructure!

Numerous studies and analyses have flagged how expensive and difficult it is to build housing and infrastructure in the UK, whilst at the same time flagging relatively low levels of capital investment in the UK – the two are not unrelated!

An easing of planning requirements, and a reduction in the administration and internal hurdle rates to get infrastructure spend approved, are essential to easing pressures in this domain. A greater level of pragmatism is necessary in the application of rules and regulation and some political courage perhaps in facing down opposition to development.

Devolution of decision-making from central to local government remains a stated objective for both parties – and this may be part of the solution to addressing some of the barriers to investment the UK faces across regions, but whilst this democratises decision-making and improves accountability, it won't address all of these problems on its own.

Based on what we have noted on inactivity in the labour market, policymakers should focus regionally and nationally on improving accessible transport infrastructure, including infrastructure for walking and cycling, in order to facilitate active travel options for individuals facing financial constraints or mobility issues due to sickness.

Lean into innovation.

As shown in the forecast – the fastest growing regions of the UK have been able to build up critical mass in the fastest growing sectors – particularly in information and communications and professional services. As a starting position, this can provide an example to other regions as to which sectors to prioritise in order to engender growth, building on the UK's many strengths at the national level.

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