

## Monthly Economic Briefing Number 10: October 2009

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### Introduction

*“There will be modest growth, not at all robust, and it won’t feel like growth... unemployment will continue to go up.”*

Sir Howard Davies, former deputy governor, Bank of England, 16 September 2009

*“Expectations for recovery may have gotten a little ahead of the reality.”*

Gary Thayer, Wells Fargo Advisors in Missouri, 2 October 2009

### International Context

- The International Monetary Fund (IMF) has published its World Economic Outlook in which it has revised its forecasts for global economic growth predicting contraction of around 1% in 2009 followed by growth of 3% in 2010. Previous estimates had predicted growth of around 2.5% in 2010. The IMF has also cut its forecast for the amount likely to be written off globally in bad loans and investments by 15%. The total it expects banks to lose between 2007 and 2008 has been cut from \$4tn to \$3.4n. The IMF said the revision was made due to the more rapid expansion in the world economy than had been previously expected.
- The size of the contraction in the US economy has been revised to an annualised 0.7% between April and June this year not by 1% as previous estimates from the Commerce Department had suggested. The revision to the final figure means that US Gross Domestic Product (GDP) was \$9bn (\$5.6bn) higher than the department’s first two estimates, however the revised figure is dwarfed by the 6.4% drop in the previous quarter and the -5.4% figure for the final quarter of 2008.
- After having risen in August, consumer confidence in the United States fell back again in September, suggesting that Americans are not as convinced as US policy makers in the prospects of an economic recovery. The Consumer Confidence Index from the Conference Board fell unexpectedly from a revised 54.5 in August to 53.1 in September. The index is a hotly watched indicator of the US economy as personal spending accounts for about 70% of US economic activity. An index reading of 90 is the minimum to indicate a healthy economy.
- The US economy lost 263,000 jobs in September, which was more than had been expected. The jobless rate rose to a fresh 26-year high of 9.8% from August’s figure of 9.7%. The number in employment has now fallen for 21 consecutive months. There was also more bad news this month from the Labor Department as it revised its figures for July and August to show 13,000 more jobs lost than previously reported. The trend is still improved from earlier in the year, but employers need to feel more confident about the economy before they start hiring again.
- The Eurozone (the group of 16 European countries that use the Euro) is exiting the recession according to the latest forecast from the European Commission. The Commission forecast overall growth of 0.2% for the July to September quarter, with Germany (0.7%) and France (0.4%) growing more strongly and Italy (0.2%) also exiting the recession. However, countries like Spain (-0.4%) and the Netherlands (-0.4%) will continue to contract. The European

Commission have also produced a forecast for the UK economy – which is outside the Eurozone – predicting growth of 0.2% during the third quarter.

- The unemployment rate in the Eurozone countries has risen again to 9.6% in August, up from 9.5% in the previous month. The number of people without a job is now 15.2 million. Unemployment rose in every country in the zone, with the smallest increases occurring in Belgium and Germany. Spain continues to suffer the most with the Baltic states not far behind. The Netherlands, Austria and Cyprus continue to sustain the highest rates of employment.

EU Unemployment rates	
Highest: - Spain	18.9%
- Latvia	18.3%
- Lithuania	13.7%
Lowest: - Cyprus	5.6%
- Austria	4.7%
- Netherlands	3.5%

- The jobless rate across all 27 members of the European Union was 9.1%, with a total of 21.9 million people out of work. Compared with August 2008, unemployment went up by 5.0 million in the EU27 and by 3.2 million in the Euro area. The largest increases were registered in Latvia (7.4% to 18.3%) and Estonia (4.1% to 13.3%) between the second quarters of 2008 and 2009.
- Between August 2008 and August 2009 the unemployment rate for males rose from 7.0% to 9.4% in the Eurozone and from 6.7% to 9.1% in the EU27. The female unemployment rate increased from 8.3% to 9.8% in the Euro area and from 7.5% to 9.0% in the EU27. In August 2009, the youth unemployment rate (under-25s) was 19.7% in the Euro area and 19.8% in the EU27. In August 2008 it was 15.6% and 15.5% respectively. The lowest rate was observed in the Netherlands (6.3%), and the highest rates in Spain (39.2%) and Lithuania (31.2% in the second quarter of 2009).
- Prices in the Eurozone fell in September at a faster rate than they had in August. The inflation rate fell to -0.3% in the year to September compared with -0.2% in the year to August, marking the fourth consecutive month that the inflation rate has been negative. Crucially, for inflation, oil prices have fallen over the past month on the basis of growing concerns over the strength of recovery in the US economy.
- Japan's jobless rate fell unexpectedly to 5.5% in August from July's record high of 5.7%. However, the number of people unemployed hit a six year high in August of 3.61 million, up 32.7% on the figure a year earlier.
- Deflation continues to be experienced in Japan where core consumer prices dropped 2.4% in the year to August, the fourth consecutive month of record falls. Analysts blamed lower petrol and energy costs as well as weak domestic demand for the figure which fell for the sixth month in a row. The Bank of Japan has already forecast that deflation will last until 2010/11 but it is expected to further extend its deflation forecast at the end of the month by another year.

## National Context

### Growth Prospects

- The Office for National Statistics (ONS) has revised its estimate of the rate of contraction in the UK economy for April-June for the second time. Previous estimates of a 0.8% contraction had been revised to a fall of 0.7% last month; however this estimate has now been further revised to a contraction of 0.6%. This latest improvement comes largely as a result of improved output for the manufacturing and construction sectors.
- Other data released by the ONS has shown that people are saving more of their incomes than at any other time in the last five years. The household savings rate increased to 5.6% in the second quarter of the year from 3.9% in the previous quarter, its highest rate since 2003. Although these figures are largely welcomed as a necessary adjustment, particularly given the levels of personal debt seen in recent years, it could affect the strength of any recovery as the money saved isn't being spent in the wider economy.
- The Governor of the Bank of England, Mervyn King, has announced in a speech to the Treasury Select Committee that the UK economy is growing again but admits that the "strength and sustainability" of the recovery remains "highly uncertain". Mr King argued that there were three "headwinds" which would make any upturn "slower and more protracted than we might have otherwise thought". Firstly, the banks' willingness to lend still created a drag on the UK economy with many smaller and medium sized companies still finding it difficult to access finance. Secondly, he argued that companies and individuals were focussing too much on repaying debts rather than on the spending on products and services that is needed to boost overall economic activity. And finally, Mr King argued that the UK was highly reliant on developments elsewhere within the world economy and that the speed of the UK recovery would be largely dictated by the pace of recovery elsewhere.
- The UK's public sector borrowing totalled £16.1bn in August which compares with £9.9bn a year ago. Although less than some commentators had forecast, the rise takes net borrowing so far this financial year to £65.3bn and the Government's overall level of debt to £804.8bn, or 57.5% of GDP.
- UK households saw their wealth fall by an average of £31,000 each last year due to the impacts of falling house and share prices. The 12% fall was calculated by the Halifax building society and was made up of an average 9% fall in the value of houses and a 32% fall in the value of shares in the FTSE All-share index which drove down the value of pension schemes.
- Activity in the UK manufacturing sector again declined slightly in September following a decline in August. The Chartered Institute of Purchasing and Supply (CIPS) index fell to 49.5 in September from 49.7 in August, the second monthly fall in a row. The decline surprised analysts who had been expecting a return to growth – any figure above 50 signifies expansion rather than contraction. However the underlying trend points towards recovery with the present dip signifying "consolidation rather than contraction" according to the survey's compilers Markit.
- The number of new cars made in the UK fell 31.5% in August from the same month a year earlier. According to figures released by the Society of Motor Manufacturers and Traders (SMMT), there were 56,737 vehicles made in the UK in August. However, the number of new cars built for the UK market has reached a four year high of one in three with the Government's car scrappage scheme helping to boost sales. The SMMT have called for the car scrappage scheme which runs until either February 2010 or until the £300 million allocated runs out – whichever happens first – to be extended, claiming that the recovery remains fragile.

## Inflation

- The Consumer Price Index (CPI) has fallen to its lowest level since February 2005, dropping to 1.6% in August from 1.8% in July. Lower food prices contributed to the fall, with the price of fruit, vegetables and bread all decreasing. The Retail Price Index measure which includes mortgage interest payments and housing costs rose to -1.3% from -1.4%.

## Interest Rates

- The Bank of England's Monetary Policy Committee announced on 8 October 2009 that it had decided to keep interest rates at a record low of 0.5% for the seventh successive month.

## Quantitative Easing

- At its meeting on the 8 October the Bank of England decided it would continue its plan to pump up to £175bn into the economy but decided not to extend the programme. The quantity of assets purchased by the creation of central bank reserves has reached £158 billion as at 1 October 2009.

## Unemployment

- The jobless total for the UK (claimants and non claimants looking for work) rose by 210,000 over the quarter ending July 2009 and by 743,000 over the year, to reach 2.47 million. The jobless rate was 7.9% for the three months to July 2009, up 0.7 over the previous quarter and up 2.3 over the year. The number of 16-24 year olds out of work rose from 928,000 to 947,000 – edging closer to the landmark one million – and the jobless rate for this age group is at 19.7%, the highest since records began. Claims for unemployment benefit in August grew by 24,400 from July to 1.61 million, the highest since May 1997.

## Housing

- House prices dropped very slightly in August, down 0.1% from July, according to the Land Registry. Nevertheless, the annual rate of decline is continuing to slow with prices 9.4% lower than in August 2008, a marked improvement on the low of -16.0% in February. Separate figures released by the Department of Communities and Local Government showed that UK house prices were 1.4% higher in July than in June, but still 8.3% lower than in July 2008. The quarter on quarter change which is a less volatile measure of price fluctuations showed that prices increased by 2.1% in the quarter to July, a shift from the falling values of 2.8% seen in the quarter to the end of April.
- Figures released by the Council of Mortgage Lenders (CML) show that mortgage lending fell by 13% in August compared with the previous month. Gross mortgage lending totalled £12.6bn, down from a revised £14.5bn in July and still more than a third down on the figure for August 2008 of £19.9bn. According to figures released by the Bank of England, mortgage approvals were also slightly down, falling for the first time in 10 months. In August there were 52,317 approvals, down from 52,404 in July. However, the impact of the holiday season on the propensity of people to purchase a house during this part of the year may well account for this small dip in both lending and approvals.
- In a separate survey by the Royal Institute of Chartered Surveyors (RICS) it has been reported that house prices are on the rise. The proportion of surveyors indicating that prices were on the rise turned positive for the first time in two years although this was largely driven by property prices in the South East and by a shortage of houses for sale. The actual number

of sales was also up with surveyors selling an average of 17 homes each over the last three months, the most since May 2008 but still a third down on the position at the start of 2008.

## Economic Outlook for Cumbria

### Unemployment

The Aug 2009 unemployment and vacancy figures were released by the Office for National Statistics on 16th Sep 2009. The JSA Claimant Count was taken on 13th Aug 2009 and the vacancy count was for the month to 7th Aug 2009.

- The JSA claimant count in Cumbria rose by 223 between July and Aug 2009 to 8,167. The count rose in all districts and regionally and nationally. In the same month last year, the count in Cumbria rose by a similar amount (221). The JSA claimant rate in Cumbria in Aug 2009 was up by 0.1 from July at 2.8%, a similar rise to regionally and nationally.
- Over the year to Aug 2009 the JSA claimant count rose in Cumbria by 2,950, an increase of 57% over the year (UK increase 73%). The claimant rate rose in Cumbria over the year by 1.0 which is lower than the national increase of 1.8.

Residence - Based Claimant Count Rates – August 2009						
Area	All Persons		Monthly Change (All Persons)		Annual Change (All Persons)	
	Number	Rate	Number	% of Total	Number	% of Total
UK	1,602,189	4.2%	29,050	1.8%	678,313	73.4%
North West	201,172	4.7%	3,577	1.8%	79,105	64.8%
Cumbria	8,167	2.8%	223	2.8%	2,950	56.5%
Local Authority Districts						
Allerdale	1,736	3.1	65	3.9%	601	53.0%
Barrow	1,622	3.7	84	5.5%	555	52.0%
Carlisle	2,123	3.3	20	1.0%	829	64.1%
Copeland	1,443	3.3	11	0.8%	345	31.4%
Eden	434	1.4	31	7.7%	237	120.3%
South Lakeland	809	1.3	12	1.5%	383	89.9%

### Notified Vacancies

- The number of new vacancies notified to JobCentre Plus in Cumbria in the month to 7th Aug 2009 was 2,309, a rise of 756 compared to the number notified in the previous month. The number of notified vacancies rose in all districts. There were 218 fewer vacancies notified in the month to 7th Aug 2009 compared to the same month last year. The ratio of claimants to *unfilled* vacancies in Cumbria was 4.83 in Aug 2009 (GB 7.08).

### Tourism – August Survey

As well as biannual telephone surveys with 500 businesses during October and April, Cumbria Tourism started monthly email surveys at the end of 2008 to monitor the impact of the credit crunch. Cumbria Tourism find that the information from the monthly email surveys tends to be more pessimistic as a rule. Accordingly, and because they are based on a smaller, less representative sample (160 in this case) than the telephone surveys (500) they are treated as interim information only.

Key findings for August include:

- 41% of businesses report profits down, a slight improvement on 45% for July. 33% report profits up.
- As the year has progressed businesses have become less optimistic. The proportion of people thinking 2009 will be as good as or better than 2008, peaked at 78% during May and now stands at 69% - although this is a slight improvement on July.
- So far the overall response by tourism businesses suggests that the various changes in consumer behaviour as a result of the economic climate (e.g. the staycation) are having a net negative effect. Each month more businesses report a negative impact than report a positive one (with the exception of May when this was equally divided).
- The current economic climate has forced 45% of business to offer special deals and promotions – astonishingly, given the time of year, 26% have purposely reduced prices.
- Despite the difficult circumstances, tourism businesses in Cumbria continue to invest time and money in their product, investing in marketing, advertising, facilities and customer service. A focus on customer service was the most widely reported action, being taken by 49% of respondents.
- One in ten businesses report trading difficulties. At the start of the year up to a quarter of tourism businesses had reported that they were facing trading difficulties. The largest problems experienced are increased business costs, reduced demand, unavailability of credit and cash flow issues.
- Other significant trends include an increase in last minute bookings (reported by 53% of businesses), an increase in online bookings (39%) and an increase in overseas visitors (36%).

In other tourism related news, four Cumbrian tourism businesses have reason to celebrate after having been awarded wins at the prestigious England's Northwest business awards. Hall Hills near Carlisle was awarded the Self Catering Holiday of the Year trophy; Castlerigg Hall was presented with the award for Holiday Park of the Year; Low Sizergh Barn, near Kendal, scooped the Taste of England's Northwest award; and Windermere's Gilpin Lodge Country House Hotel won the award for the Small Hotel of the Year. Cockermouth Market Place also picked up a prize in the public space category after having been awarded one of four judge's commendations which recognised high standards. All the Northwest winners will now go forward to represent the region in the national finals organised by VisitEngland to be held in April.

### **Job losses continue to occur within the Cumbrian economy:**

- Iggesund Paperboard has announced it will cut staff numbers by "up to 100" at its paper mill at Siddick, near Workington. The jobs will go when it closes one of its two board machines at the plant at the end of the year. The move will reduce output at the site by 50,000 tonnes a year. The company, which employs about 400 people at the Siddick plant, blamed the weak paper market for the move.
- Cumbrian staff at clothing and outdoor stores Millets and Blacks Leisure face an uncertain future after the firm announced that it was to close 89 stores. The troubled retailer operates Millets stores in Carlisle, Whitehaven, Keswick, Ambleside and Kendal and Blacks shops in Keswick and Ambleside. It has recently been announced that the Carlisle store on English Street is one of those which is set to close, however rival Outdoor chain Cotswold has announced it is to open a store in English Street and is seeking a store manager, an

assistant manager and full and part time retail staff. The fate of the remaining Cumbrian stores remains uncertain.

- Seventeen construction workers have lost their jobs at Sellafield. The group was made redundant by contractors Laing O'Rourke after a construction project came to an end.
- Another Carlisle bar has fallen victim to the recession. The Social Bar and Café in Lowther Street closed at the beginning of September, only nine months after its launch. Twelve staff have lost their jobs as a result of the closure.

### **However there has also been some good economic news in Cumbria over the past month.**

- The redeveloped University of Central Lancashire (UCLan) campus at Westlakes is now open and will cater, initially, for about 300 students. Research specialism at the new facility will include environmental sciences, sustainable development, epidemiology and genetics. The facility also incorporates a business incubation suite for new businesses seeking a first base that can offer technology and support services.
- The first apprentices have begun studying at the new Energus nuclear skills academy at Lillyhall, Workington. The Academy has the ability to deliver to 200 apprentices, 50 Foundation Degree students and up to 250 undergraduates; all orientated towards the nuclear and energy related industries, together with a range of industry-focused short courses.
- Workers at Pirelli in Carlisle have had their hours increased with reinstatement of the 'guaranteed week'. Production at the factory will be stepped up for October with a stabilisation of European orders and the Government's car scrappage scheme responsible for the increased demand for tyres.
- A Cumbrian technology firm is to create 20 jobs after clinching a government contract to carry out aerial surveys of potential offshore windfarm sites. HiDef of Whitehaven has signed a deal with the Crown Estate to carry out the service that will involve surveying almost 40,000 sq km of waters around the UK coastline. Additional inquiries for the company's services have already come from Spain, Portugal, Denmark, Germany, Belgium and the USA demonstrating proof of West Cumbria' ability to provide technological solutions to Britain's and the World's energy needs.
- Steelmaker Corus has announced that it will establish a new steel can recycling centre near Workington. The company has signed a deal with west Cumbrian firm Derwent Recycling to check, store and bale waste cans at its Lillyhall recycling centre.
- Two new stores have opened in Carlisle. Discount chemist Semichem has opened a shop in the former Principles site on English Street. Nine jobs will be created by the firm in its first Cumbrian venture. Additionally, PANDORA, the global jewellery brand has opened a 'concept store' in The Lanes, choosing Carlisle for its new store ahead of rivals such as Newcastle or York.

## **Summary**

The mixed picture continues this month with forward looking indicators providing some encouraging news about the growth prospects for the world economy. On the other hand, amidst the hard data on performance, doubts remain about the strength of the recovery and, in particular, the outlook for employment remains bleak as the numbers of jobless continue to grow both internationally and nationally. Yet, with house prices now at worst stable and, on some measures, beginning to show a trend towards growth, consumers should begin to be more confident that the

tide has turned and that modest growth will be able resume. Nevertheless, the stumbling block still remains that, for as long as the banks continue to insist on onerous terms and conditions, both consumers and businesses will have a difficult time driving any sort of sustained recovery.

In Cumbria, major employers continue to show resilience and the balance of news reports are increasingly tipping towards the more positive end of the scale. As was reported last month, whilst some businesses will undoubtedly continue to experience difficult times, the overall outlook for the county remains reasonably upbeat and, within an improving global and national picture, there is reason for many to remain hopeful.