

Monthly Economic Briefing Number 11: November 2009

Introduction

“The challenge here is to get organic growth – growth that isn’t helped by fiscal steroids.”

Brian Bethune, IHS Global Insight, 29 October 2009

International Context

- The US economy is growing once again having achieved an annualised rate of 3.5% between July and September, the first expansion in more than a year. However the extent to which this growth was helped by President Obama’s \$787bn (£480bn) stimulus is hotly debated and there are fears that growth will fall as the stimulus comes to an end.
- The US economy lost 190,000 jobs in October which is worse than expected. The jobless rate rose to 10.2% from September’s figure of 9.8%, which was its highest rate since April 1983. The number of unemployed has risen by 8.2 million since the recession began in December 2007 and the jobless rate has risen from 4.9%.
- Having also fallen in September, US consumer confidence fell sharply again in October with rising unemployment playing the most significant role in the figure. The Consumer Confidence Index from the Conference Board fell unexpectedly from a revised 53.4 in September to 47.7 in October. Analysts were expecting the index to remain unchanged or to even rise slightly. 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 budget deficit hit a record \$1.4 trillion (£877bn) in the year to 30 September according to estimates by the US Congress. The deficit is equivalent to 9.9% of GDP – more than treble the level in 2008 and the highest since the end of World War II. The previous record, set last year, was \$459bn.
- The unemployment rate in the Eurozone countries has risen again to 9.7% in September, up from 9.6% in the previous month. The number of people without a job is now 15.3 million. The jobless rate across all 27 members of the European Union was 9.2%, with a total of 22.1 million people out of work. Compared with August, unemployment went up by 286,000 in the EU27 and by 184,000 in the Euro area.

EU Unemployment rates	
Highest: - Latvia	19.7%
- Spain	19.3%
- Lithuania	13.8%
Lowest: - Cyprus	5.9%
- Austria	4.8%
- Netherlands	3.6%

- Bank lending to companies in the Eurozone fell in September for the first time on record. Lending fell at an annual rate of 0.3% compared with a growth of 0.1% in August. The annual rate of lending to households also fell by 0.3%, following a 0.2% fall in August. The fall comes at a time when European Governments are pumping money into their economies to try and stimulate lending, raising fears that continued weak lending will hinder economic recovery.
- The European Central Bank has kept interest rates on hold at 1% for the sixth month in a row. The Bank is expected to wait several months before raising rates as it tries to nurture the eurozone economy.
- China is on track to achieve its growth target of 8% this year having grown by 8.9% from a year ago in the third quarter. The figure is up from the 7.9% growth rate seen in quarter two. China's car market has also become the world's largest, with sales up 34% to 9.66 million vehicles in the first nine months of the year.
- Russia's economy will shrink by 7.5% in 2009 according to President Dmitry Medvedev. The country, which is heavily reliant on oil exports, has been hit particularly hard by the fall in energy prices. The most recent official figures show that in the year to August, Russian GDP declined by 10.2% but it is expected that the next set of figures for quarter three will show an exit from recession.

National Context

Growth Prospects

- The UK economy unexpectedly contracted by 0.4% between July and September, according to official figures, meaning the country is still in recession. This is the first time UK gross domestic product (GDP) has contracted for six consecutive quarters, since quarterly figures were first recorded in 1955. However this figure is only the first estimate and the data could still be revised up or down at a later date. Analysts had expected quarterly growth of around 0.2%, although expectations had been tempered by recent figures showing no growth in retail sales in September and a 2.5% decline in industrial output in August. The UK economy's reliance on the service sector and financial services in particular, may be the reason why it is still in recession when partners such as France and Germany exited in the second quarter of this year.
- The economy contracted 5.2% compared with the same period last year, which was marginally better than the record figure of 5.5% in the previous three months. It has now contracted 5.9% from its peak before the recession began. The worse-than-expected GDP figures are one of the main reasons behind the Bank of England's decision to extend its policy of quantitative easing.
- The pound fell sharply after the GDP figures were released; reflecting the fact that many observers had expected the UK to have grown during the quarter. It was down 1.7% against the dollar, at \$1.6323; and down 1.9% against the euro, at 1.0859 euros.
- UK factory activity grew at its fastest pace in two years in October as orders grew at their fastest pace for almost 6 years. A report by the Chartered Institute of Purchasing and Supply (CIPS) suggests that the economy has made a strong start in the final quarter of the year with the CIPS index rising to 53.7 from 49.9 in September, its highest level since November 2007.

- New car sales recorded their biggest rise so far this year in October, helped by the scrappage scheme. The Society of Motor Manufacturers and Traders (SMMT) said 168,942 new cars were registered last month, an increase of 31.6% compared with October last year, with the incentive scheme accounting for more than 20% of sales.

Inflation

- The Consumer Price Index (CPI) has fallen to its lowest level since September 2004, dropping to 1.1% in September from 1.6% in August, weakening the value of sterling. The Retail Price Index measure which includes mortgage interest payments and housing costs fell to -1.4% from -1.3%.

Interest Rates

- The Bank of England's Monetary Policy Committee announced on 5 November 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 5 November the Bank of England also decided it would expand its programme of quantitative easing by pumping an additional £25bn into the economy. The quantity of assets purchased by the creation of central bank reserves had reached £174.8 billion as of 29 October 2009.

Unemployment

- The jobless total for the UK (claimants and non claimants looking for work) rose by 30,000 over the quarter ending Sep 2009 and by 677,000 over the year, to reach 2.46 million. The jobless rate rose by 0.1% to 7.8%. These are the smallest quarterly increases since March-May 2008. The seasonally adjusted claimant count for the UK was 1,639,500 in October 2009, up 12,900 over the previous month.
- A record number of people were declared insolvent in England and Wales in the third quarter of 2009. There were 35,242 personal insolvencies, up 28% from the same period last year and an increase of 6.6% on the previous three months. On the plus side, company liquidations were down 4.7% quarter on quarter, with 4,716 liquidations in quarter three.

Housing

- House prices rose by 0.9% in September compared with August according to the Land Registry. The average price of a home in England and Wales is £158,377, 5.6% cheaper than in September 2008. Prices in the North West rose 0.8% month on month with the average house costing £116,416. Home sales are also on the rise with 80,000 in August, 82,000 in September and quarter three sales up 11% on quarter two.
- Figures released by the Council of Mortgage Lenders (CML) show that mortgage lending increased by 2% in September compared with the previous month. Gross mortgage lending in the third quarter of the year reached £38.9bn an 18% rise on the previous three month period. Separately, the British Banker's Association has claimed that the number of new mortgages approved by the main UK banks has increased to 42,100, up from 40,100 in August. Bank mortgage approvals are now 77% higher than a year ago.

- According to the Halifax, UK house prices rose by another 1.2% in October the fourth monthly increase in a row according to the lender. The Halifax said that the average price of a house was £165,528 which is still 4.7% lower than in October last year but 7.1% (£11,000) higher than the trough in April 2009.

Economic Outlook for Cumbria

Unemployment

The October 2009 unemployment and vacancy figures were released by the Office for National Statistics on 11 November 2009. The Job Seekers Allowance (JSA) Claimant Count was taken on 8 October 2009 and the vacancy count was for the month to 2 October 2009.

- The JSA claimant count in Cumbria fell by 53 between September and October 2009 to 7,995. The count fell in Barrow, Carlisle and S Lakeland, but increased in Allerdale, Copeland and Eden. The count also fell regionally and nationally. In the same month last year, the count in Cumbria rose by 113. The JSA claimant rate in Cumbria in October was unchanged from September at 2.7%.
- Over the year to October 2009 the JSA claimant count rose in Cumbria by 2,596, an increase of 48% over the year (UK increase 63%). The claimant rate rose in Cumbria over the year by 0.9 percentage points which is lower than the national increase of 1.6

Residence - Based Claimant Count Rates – October 2009						
Area	All Persons		Monthly Change (All Persons)		Annual Change (All Persons)	
	Number	Rate	Number	% of Total	Number	% of Total
UK	1,582,555	4.2%	-8,557	-0.5%	612,276	63.1%
North West	197,344	4.7%	-2,400	-1.2%	69,706	54.6%
Cumbria	7,995	2.7%	-53	-0.7%	2,596	48.1%
Local Authority Districts						
Allerdale	1,761	3.2%	34	2.0%	509	40.7%
Barrow	1,560	3.6%	-24	-1.5%	475	43.8%
Carlisle	2,020	3.2%	-80	-3.8%	703	53.4%
Copeland	1,440	3.4%	20	1.4%	339	30.8%
Eden	455	1.5%	26	6.1%	253	125.2%
South Lakeland	759	1.3%	-29	-3.7%	317	71.7%

Notified Vacancies

- The number of new vacancies notified to JobCentre Plus in Cumbria in the month to 2 October was 2,192, a rise of 253 compared to the number notified in the previous month. The number of notified vacancies rose in all districts except Copeland and South Lakeland. There were 205 fewer vacancies notified in the month to 2 October 2009 compared to the same month last year. The ratio of claimants to *unfilled* vacancies in Cumbria was 4.14 in October (GB 5.65).

Tourism – September Survey

The data included below has been collected by Cumbria Tourism via their biannual survey with 500 businesses covering the high season between April and September.

Key findings from the survey include:

- 33% of businesses report profits down and 28% report profits up. This is an improvement from the results 6 months ago, when only 19% reported increased profitability and 43% reported a decrease. More businesses in South Lakeland report improved profitability than other areas; overall Carlisle businesses have performed marginally less well.
- Expectations for the next 6 months are reasonably bright. 28% say business is 'looking good' and a further 52% have 'OK' expectations. 20% say business does not look great. This is reasonably positive for the time of year.
- Cumbria has enjoyed a successful period in terms of guest/visitor numbers. 41% of businesses have had more visitors than the same period last year and a further 34% have had the same level. Only 25% report a decrease. It appears that more British people have stayed in the UK. Increases have been seen in both visitors from overseas (34%) and also new visitors (45%).
- This period has seen a huge increase in last minute bookings. Nearly 45% of businesses have had more last minute bookings than normal, compared to only 9% who have had fewer.
- Most sectors are coping well with the recession because people appear not to have reduced their holidays and breaks significantly. The exception is retail which has been hit by lack of spending on arrival.
- More than 36% of businesses single out their own website as the means that will win them the most business during the next 12 months. Interestingly, only 2% say this about listings in brochures.

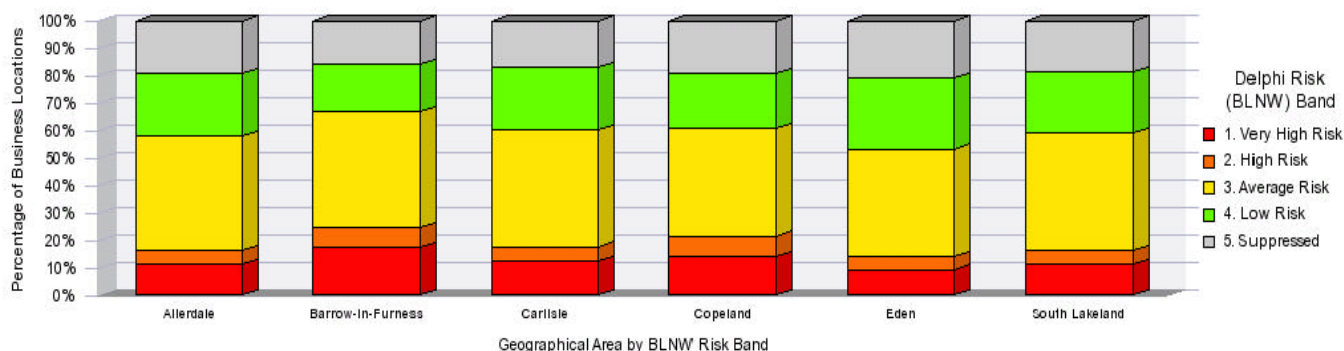
In other tourism news, Visit Britain's annual report has stated that Tourism contributes £114 billion (8.2%) to the UK's GDP. Of this amount, domestic visitors spend £66 billion, with international visitors contributing £20 billion and the industry £28 billion. Nationally, tourism supports 2.6 million jobs and over 200,000 small and medium sized enterprises (SME'S).

Visit Britain's annual report also announced that, in 2008, inbound tourism to Britain was a game of two halves. The first eight months of the year saw a 2% increase in visits with a 6% rise in spending. However, the impact of the credit crunch had a devastating effect on the visitor economy. From September to December, overseas visits were down by 12% and spending fell by 4% compared to the same period in 2007.

Update on Business Performance

Business Link NW are using a Commercial Delphi Risk Profiling model supplied by Experian as a way of identifying the risk of trading with, or lending to, businesses. Of the 34,000 businesses in Cumbria, slightly over 4,000 (12%) are labelled as being at maximum risk of commercial failure. However this is substantially better than other sub-regions in the NW and below the NW average (20%). Across Cumbria's six districts, Barrow (18%) has the highest concentration of businesses at maximum risk and Eden (9%) has the lowest level.

Percentage of Business Locations by Geographical Area and BLNW Risk Band



Job losses continue to occur within the Cumbrian economy:

- Staff at System Training face possible redundancy because of Government funding cuts. Staff were told that the company was starting consultation on a possible 10 redundancies group wide with as many as possible being voluntary. Parent company System Group employs 130 staff at its Irthington base, near Carlisle.
- The Bay pub in Denton Holme, Carlisle has closed. Six staff have lost their jobs at the pub renowned for its beer garden and riverside location. The Crown pub in Botchergate has also shut down making a further 6 staff redundant.
- Nearly 50 Carlisle based rail workers could lose their jobs as part of a cost cutting exercise. Network Rail the company responsible for maintaining the rail lines – says it will cut jobs in order to reduce costs.
- Public sector cuts are now beginning to filter through into Cumbria. The County Council has announced plans to axe 14 senior management posts. Allerdale council chiefs have pledged to keep compulsory redundancies to a minimum as they work to make £3.5 million worth of savings. The authority wants to cut full-time job numbers by 47 as part of a drive that will also see parking charges raised and service budgets cut. A further fifty jobs could be cut as part of South Lakeland District Council’s plan to save £1.3m through an ongoing restructuring programme to modernise the authority and reduce costs.

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

- A new nuclear power station at Sellafield, which could create up to 6,000 construction jobs and in the longer term 5-600 permanent jobs, has come a step closer with the signing of a £70 million land deal. Also this week the Government announced that all three potential nuclear reactor sites in Cumbria – Braystones, Sellafield and Kirkstanton – that were put forward to the strategic siting assessment had made it through in to the draft Nuclear National Policy Statement.
- A sports and fitness club in Carlisle which has stood empty since it was built earlier this year should open in the New Year, creating 50 jobs. The club on the site of the old Vasey’s furniture showroom in Currock Road, should have welcomed its first members back in June, but it was put up for sale by parent company JJB Sports as soon as it was completed and was subsequently bought by Dave Whelan Sports Ltd. The club, now known as DW Sports Fitness, will have a 20m by 9m swimming pool, 2 hot spas, a fibre optic-lit steam room, air

conditioned gym with free weights area, an exercise studio, a Ki studio for Yoga and Pilates, a sports shop and a café/restaurant.

- Value retailer, Home Bargains is investing £500,000 to set up a store at Earls Lane, Carlisle, near the city's bus station. Bosses plan opening the outlet as part of an ambitious recession-defying expansion bid to double its shop numbers within 4 years. It will create between 25 and 30 new jobs and will sell high street brands from health and beauty products to household goods, food, toys and more.
- 8 new jobs have been created at the Tesco supermarket at Rosehill, with the opening of a mobile phone shop. Four new staff, including a manager, have already been taken on. The remainder of the posts will be filled by staff who already work at the Warwick Road Supermarket which currently employs 400 people.
- Clothes firm Ethel Austin and partner Au Naturelle have opened up a store in the old Zavvi unit in the Lanes Shopping Centre.
- Up to 20 jobs could be created with the opening of 2 takeaways next door to each other in Carlisle. The plans revealed this week will also bring a disused building in Belah back into use. One of the outlets – Primo – has been hailed as Carlisle's first Italian takeaway. The other, called 'Flavours', will be an Indian takeaway.
- Work is underway on the site for a new Sainsbury's store in Carlisle. Diggers moved in to level the Stanwix plot where the supermarket giant is building a Sainsbury's Local. Once completed the store will employ 15 full time staff and a further 10 part timers, though the construction phase of the project is likely to create around 20 jobs.
- Work will start very soon on a £25 million plan to create a passenger and freight terminal at Carlisle Airport. The exact start date is dependant on funding and weather. The airport will provide a link to the south of England and to Europe for flights from Carlisle.
- The Lake District has been named one of the top 10 places to visit by the Lonely Planet – and the only one in the UK. The Lonely Planet's Best in Travel 2010 guide singles out the world's top travel destinations. The Lake District was chosen ahead of other locations in the UK because it sums up all that's green, great and grand about the English Landscape.
- More than 500 jobs and 332 businesses are to be created in Cumbria within the next 12 months thanks to a new Government scheme. The Cumbria Intensive Start-up Support Programme – which is part of a scheme announced by Business Secretary Lord Mandelson and the Northwest Regional Development Agency – will be worth more than £2 million over the next five years. In addition, plans to create nearly 50 jobs in Copeland have been announced. Government funding has been secured to employ 48 people in local businesses, the nuclear sector and Copeland council over a 12-month period.
- A £3.5 million revamp of Copeland's Rosehill Theatre will create up to 30 jobs. The project, which is expected to be completed within two years, will see improvements to the theatre, the barn, an open area that will be used as a performance space, and a new restaurant.
- A firm is bucking the recession by creating 15 new jobs. Liberata, which provides, amongst other things, a benefits and council tax service to Barrow Borough Council, currently employs around 300 people at its Phoenix Road call centre in Barrow. The firm recently announced it is taking on 15 more employees, ranging from revenues officers and benefits assessors to customer service advisors.

- Nine jobs are being created after a Cumbrian pub moved its brewery to larger premises. The family-owned Bitter End on Kirkgate, Cockermouth, launched its new brewery at Derwent Mills Commercial Park after it outgrew premises attached to the pub.
- The new Tesco store at the former Somerfield in Lancashire Road, Millom, will create 20 extra jobs.

Summary

Although the release of negative GDP data for quarter three was a surprise to many analysts, with house prices on the up again and factory activity registering its most rapid growth for years, signs are good for the beginning of the final quarter. The trend in unemployment is also beginning to slow raising expectations that even these lagging indicators may have turned a corner.

In Cumbria the balance of news stories has tipped in favour of the positive and unemployment has fallen again this month. In the words of Mick Knowles, new area commercial director at HSBC's Carlisle headquarters at Hilltop Heights: "Cumbria is beginning to overcome its traditional economic challenges and is well placed to profit when recovery comes". The Barnsley born banker said that he has been pleasantly surprised at the robustness of the Cumbrian economy and the positive approach of the business community.