

Monthly Economic Briefing Number 12: December 2009

Introduction

"[T]here's not much to suggest it's going to be a vibrant rebound. It's sluggish."

Ross Walker, UK Economist, RBS, * December 2009

International Context

- The economies of the 30 members of the Organisation for Economic Co-operation and Development (OECD) grew by 0.8% in July to September, the group has said. This is the first time that the OECD economies have expanded since the first quarter of 2008. Japan, the world's second biggest economy, delivered the strongest growth, expanding by 1.2%; while the UK posted the weakest, contracting 0.4%. The UK was the only G7 country not to grow in the quarter. Over the period the Eurozone grew by 0.4%, while the US expanded by 0.9%. OECD members account for 61.3% of world GDP.
- Nevertheless, unemployment remains a significant danger for rich countries according to the OECD's economic outlook. In the US, people are expected to continue to lose their jobs at a faster rate than new ones are created until sometime in the first part of next year. For the European Union, the picture is even worse. Unemployment may continue to rise in the region until 2011. A very different outlook is forecast for key emerging nations, the BRIC countries: Brazil, Russia, India and China. OECD forecasts suggest that China can expect to grow by 10%, India by more than 7% and Brazil and Russia by almost 5% after stagnating this year.
- The US unemployment rate fell in November to 10% from 10.2% in October, according to figures released by the Labor Department. Employers in November cut the lowest number of jobs since the recession began in December 2007. In all, 11,000 jobs went over the month. That was far fewer than the 130,000 expected by most analysts. Revised figures for October also showed an improving trend. Originally, official estimates said 190,000 jobs were lost, that was revised down to 111,000.
- US consumer confidence edged higher in November after a big drop in October, as fewer Americans felt the economic situation was likely to worsen. The closely watched Consumer Confidence Index from the Conference Board rose to 49.5 from a revised 48.7 in October. Consumer spending accounts for about 70% of overall economic activity in the US, so weak spending in the run up to Christmas could have serious implications for the US economy. A reading of 90 on the Conference Index is the minimum to indicate a healthy economy.
- Eurozone economic activity rose at its fastest pace in November for 2 years, according to an influential survey. The latest Purchasing Managers Index (PMI) figure rose to 53.7, up from 53 in the previous month, confirming the bloc's recent economic recovery. The growth was driven by manufacturing output, which scored 54.6, its fastest growth since September 2007.
- The Eurozone seasonally-adjusted unemployment rate was 9.8% in October 2009 the same as in September. It was 7.9% in October 2008. The EU27 unemployment rate was 9.3% in October 2009, compared with 9.2% in September and 7.3% in October 2008. Eurostat estimates that 22.5 million people in the EU27, of whom 15.6 million are in the euro area,

were unemployed in October 2009. By comparison with October 2008, unemployment has risen by 5 million in the EU27 and by 3.15 million in the euro area.

EU Unemployment rates	
Highest: - Latvia	20.9%
- Spain	19.3%
- Estonia	15.2%
Lowest: - Cyprus	6.0%
- Austria	4.7%
- Netherlands	3.7%

- The French economy grew by 0.3% between June and September, confirming its exit from the recession, according to the French Finance Minister, Christine Lagarde. Europe's third largest economy grew by the same amount in the second quarter, joining Germany and Japan in ending year long contractions.
- Japan's exports fell at their slowest annual rate in a year in October, providing further evidence of the country's emergence from recession. Exports from the world's second largest economy totalled 5.3tn yen (\$60bn; \$36bn), a fall of 23.2% from the same month a year earlier. The main reason for the improvement was higher demand in Asia. While demand from Japanese products overseas improved, domestic demand for goods made outside of Japan remained weak, falling by 35.6% in October. This resulted in an overall trade surplus of 807bn yen.

National Context

Growth Prospects

- The UK economy contracted at a slower pace than originally estimated between July and September, revised figures show. Third quarter economic output shrank by 0.3%, an improvement on the original estimate of a 0.4% contraction. The UK is lagging many of its rivals. France, Germany, Japan and the US have already exited recession.
- UK manufacturing activity slowed in November as new orders fell sharply, a survey has indicated, casting doubts on the strength of the sector's recovery. The Chartered Institute of Purchasing and Supply (CIPS) Index fell to 51.8 from a revised 53.4 in October, while new orders fell to 53 from 58. October's first estimate of 53.7 was the index's highest score in two years. Despite the fall in the rate of activity, the manufacturing sector still expanded in November.
- UK retail sales in October rose at the fastest annual pace since May 2008, government figures have shown. Data from the Office for National Statistics (ONS) showed sales in October were up 3.4% from a year ago. Sales were up 0.4% from September, with the increase being driven by rising sales of clothing and footwear. VAT is set to return to 17.5% on 1st January, up from the current level of 15% where it has been since November 2008.
- Consumer borrowing – excluding mortgages – recorded its biggest month on month fall since Bank of England records began in 1993. This adds further evidence to the likely trend of people paying off loans rather than saving more during a time of low interest rates. Unsecured loans fell by £713m in October compared with September. Borrowing on Credit Cards rose by £134m in October compared with September, but was more than offset by the record fall in other forms of consumer credit such as bank loans, loans for cars and hire purchase agreements.

- Half of all UK employers plan to freeze pay altogether despite signs of economic recovery, a survey suggests. The research by employers group CBI and recruitment firm Harvey Nash also found that only 4% of firms surveyed plan to give above inflation pay rises. But the number of firms not hiring new staff has dropped significantly, from 61% in the spring to 31%.
- Access to finance remains a problem for small and medium sized firms, despite the extra £200bn pumped into the UK financial system. The British Chambers of Commerce (BCC) said a third of the companies it had questioned found access to finance had become harder in the past three months. This compared with just 3% who said the situation had improved, and 64% who said it had not changed.

Inflation

- The Consumer Price Index (CPI) climbed to 1.9% in November, up from 1.5% in October. November's rate was the highest since May this year and the increase was driven largely by higher petrol prices. The inflation rate is forecast to rise further next year when the VAT discount ends. The Retail Price Index measure which includes mortgage interest payments and housing costs rose to 0.3% from -0.8%. This is the first time the Index has been positive since January this year.

Interest Rates

- The Bank of England's Monetary Policy Committee announced on 10 December 2009 that it had decided to keep interest rates at a record low of 0.5%.

Quantitative Easing

- At its meeting on the 10 December the Bank of England also decided it would not expand its programme of quantitative easing. The quantity of assets purchased by the creation of central bank reserves had reached £184.9 billion as of 10 December 2009.

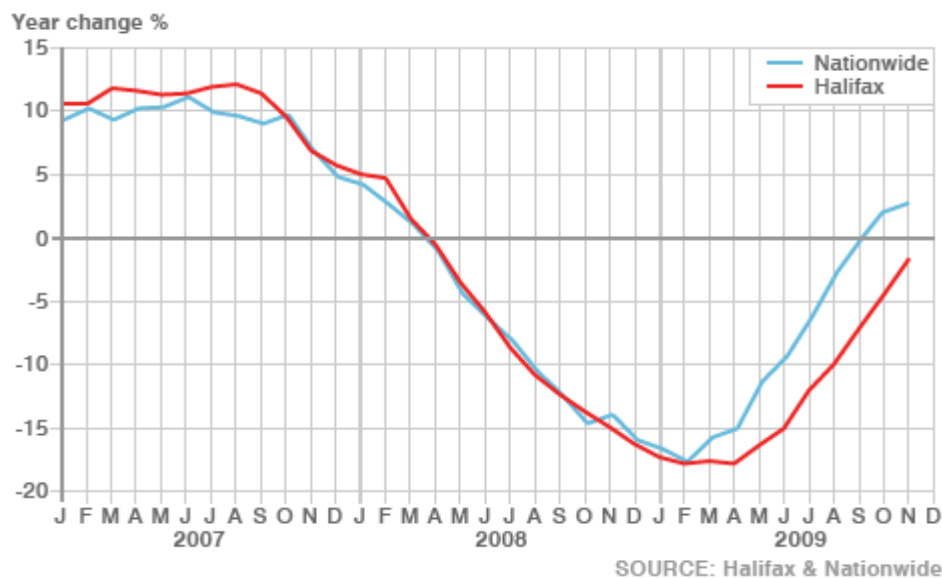
Unemployment

- The number of people unemployed in the UK rose by 21,000 between August and October to 2.49 million, the smallest rise in the jobless total since the March-to-May period in 2008. The unemployment rate is currently 7.9%, according to the ONS figures. However, the number of people claiming unemployment benefit fell by 6,300 in November to 1.63 million, the first fall since February 2008. Unemployment among 16-to-24 year olds rose to 952,000, the highest figure since records began in 1992. The number of people unemployed for more than a year increased by 49,000 in the latest quarter to 620,000, the highest since 1997.
- 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

- According to the Nationwide Building Society, the average home increased in value by 0.5% in November compared with October and now costs £162,764. The typical home was 2.7% more expensive than a year ago, at a similar level to prices in early 2006.

- According to the Halifax, house prices have risen for the fifth month in a row. Its latest survey says prices went up by 1.4% in November, pushing the cost of the average UK home to £167,664. Although that is still 1.6% lower than a year ago, prices are now 4.2% up since the start of the year.
- Comparison of Halifax and Nationwide House Price Data:



- The number of mortgages granted to house buyers hit a 22-month high in October, according to the Council of Mortgage Lenders (CML). The CML said 55,300 mortgages were granted to buyers, the highest number since December 2007. This was a 9% increase from September and up 43% from October last year. The CML also said mortgage lending to buyers had now doubled since its low point in January this year, but indicated that remortgaging was still very subdued. The CML's figures show that first-time buyers are still having to put down average deposits of 25% despite a gentle easing of the industry's mortgage rationing in the past few months.

Economic Outlook for Cumbria

Flood Update

Between Wednesday 18th and Friday 20th November up to 372mm of rain fell over Cumbria. In the 24 hours ending 00:45 on Friday 20th 314mm of rain fell in Seathwaite. This is a record daily rainfall for the UK. Flooding occurred in 5 of Cumbria's 6 district areas, the only one escaping being Barrow. The effect on properties was concentrated in Allerdale and South Lakeland with most significant infrastructure damage occurring in the former district.

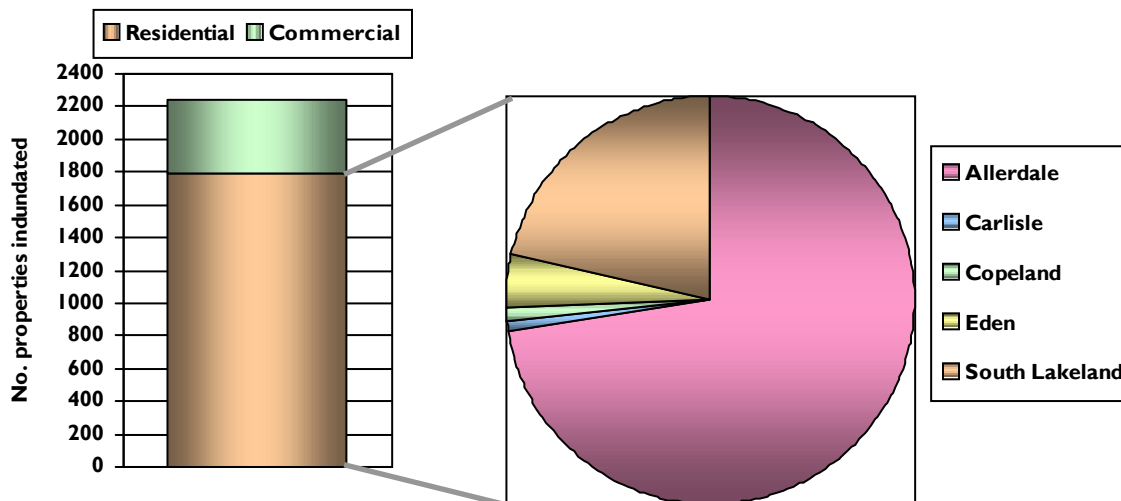
Records to 6 December 2009 show that a total of 2,239 properties were inundated by flooding with the split falling as follows: 80.1% (1,794) residential; 19.9% (445) commercial. Properties in Allerdale experienced the most flooding (1,721 properties, 76.9% of the total), followed by South Lakeland (402, 18.0%), Eden (79, 3.5%), Copeland (22, 1.0%) and Carlisle (15, 0.7%). Of the 1,721 properties flooded in Allerdale, 917 were in Cockermouth. Of these, 691 were residential properties.

Volunteers from the Red Cross have been collecting information from residents who have experienced flooding. The most commonly occurring need is for accommodation (24.8% of

residents), with advice about insurance ranking second (9.5%), business support (8.5%), council tax advice (8.2%) and information about the Cumbria Flood Appeal (7.8%).

Socio-economic analysis of the communities affected across Allerdale, using the ACORN dataset, indicates that older residents have been disproportionately affected. Around 63% of residents are from older social groups compared to only 17% in the wider population.

Affected Properties Split by Usage and Area



A group has been established by Cumbria County Council to assess the impacts of the floods on businesses and to offer support to those affected. Significant impacts of the flood include:

- 80% of businesses affected in Cockermouth (inc. James Walker and Jennings Brewery).
- Some businesses in South Lakeland badly damaged (inc. National Trust Information Centre, Windermere Marine, and Windermere Lake Cruises).
- Very few businesses in Workington directly affected but businesses losing trade due to the collapse of bridges. Cost estimated at £2m per week due to increased travel time (Cumbria County Council). Both road bridges across the lower Derwent are impassable cutting off the deprived community of Northside from the rest of the town. Road diversions are causing damage to highway network through increased traffic.
- Other businesses not directly affected are losing business due to the negative message in the media that Cumbria is closed for business.
- Survey by Cumbria Tourism noted that 67% of respondents had been affected by the floods, and 4% having to close their business.
- Between 140 and 150 farms have been affected by the flooding with 22 seriously affected. Fallen stock, loss of feed and damage to fields and walls are among the reported impacts.
- Business Link data suggests that 3,057 businesses are affected in Allerdale (1,606 in Workington, 693 in Cockermouth, and 758 in Keswick)
- Dunmail Park reporting 90% loss in revenue; Debenhams reporting 80% reduction in footfall.

- Residents from the relatively affluent Seaton area unable to get through to Workington, which was having a big effect on the Workington economy.
- Cockermouth Market extended to between 25 and 35 stalls, with additional stalls being taken by local businesses.

Progress to date includes:

- A Business Recovery Grant Scheme utilising NWDA funding has been established by the Cumbria Chamber of Commerce and Cumbria County Council. The Programme offers between £3,000 and £10,000 to meet the costs of legal and professional advice, input from architectural and design professionals and support for marketing and promotion for businesses. Funding is now available and application forms have been distributed and in excess of 200 businesses are in the process of preparing applications.
- The 'Cumbria is open for business' campaign has been established. This has been funded by local partners and has involved adverts in national newspapers, local supplements across the country and in the local press to encourage people to shop locally and continue to visit and do business in the area.
- A Business Link helpline number has been established as a single point of access for advice to businesses. In addition, advisers from Business Link, Cumbria Chamber of Commerce and the Enterprise Agencies have been present in the Flood Support Centres and actively meeting with businesses on the ground to provide advice.
- Cumbria Chamber of Commerce locally and nationally has been encouraging flexibility from the banking sector to help businesses through this difficult period. Banks are aware of the support package and are promoting its take up by customers. Cumbria Asset Reinvestment Trust (CART) is available to provide flexible loan facilities to affected businesses.
- Cumbria Chamber of Commerce, Story Construction, Pirelli, and partners in the Nuclear industry, plus a number of other organisations have all worked to assist James Walker, the largest employer in Cockermouth to return to normal operations.
- Links have been provided on the websites of Cumbria County Council, Cumbria Chamber of Commerce and Business Link to the West Cumbria Development Agency and Invest in Cumbria for businesses to access databases of vacant property.
- Temporary trading facilities to accommodate 14 businesses have been provided at Mitchell's Auction House. This has been funded by Northwest Regional Development Agency and facilitated by the Cumbria Chamber of Commerce and contractor Story Construction.
- Cumbria County Council is working hard to ensure the Port of Workington is fully open to all shipping. The commercial Port has re-opened to shipping along with the Tidal Harbour. In addition, the Port remains operational for cargo handling and remains fully accessible by road (A596 from the north) and by rail (from north and south). An emergency dredging campaign will commence on 20th December 2009 to remove large volumes of material deposited by the River Derwent in the Port's turning basin and access channel. It is expected there will be a return to full operations by mid-January 2010.

Economic Output

The 2007 Gross Value Added (GVA) data were released by the Office for National Statistics on 9th Dec 2009. ***The data for Cumbria covers the period to the end of 2007 and therefore does not include the period of economic instability which began during 2008.***

GVA represents the incomes generated by economic activity within the UK economy and comprises, firstly: compensation of employees (wages and salaries, national insurance contributions, pension contributions, redundancy payments etc); and, secondly: gross operating surplus (self-employment income, gross trading profits of partnerships and corporations, gross trading surplus of public corporations, rental income etc).

The bullet points below identify the key points of relevance to Cumbria:

- Total GVA for Cumbria in 2007 was 7,379m which is 6% of the NW total and 0.6% of the UK.
- Over the long term (1995-2007) Cumbria was the slowest growing of the 37 county-type areas in the UK, with an overall growth rate of 51.4% compared to 71.2% in the Northwest region and 90.5% for the UK as a whole.
- The growth rate for the county over the past 5 years (2002-2007) is 30.2% which is faster than the region (NW 24.4%) and the same as nationally (UK 30.2%) making Cumbria the 13th fastest growing county type area (out of 37) and the fastest in the NW.
- Since 2006 Cumbria has grown at 5.1% which is faster than the region (NW 4.6%) but a little slower than the UK (UK 5.5%) and is the 19th fastest in the UK and the fastest in the region.
- GVA per head of population in the county now stands at £14,848 compared with £16,967 in the NW and £20,430 in the UK. This is 74% of the UK average (unchanged from 2006).
- There is significant disparity in total GVA between East Cumbria (Carlisle, Eden, South Lakeland) and West Cumbria (Allerdale, Copeland, Barrow). Total GVA in 2007 in East Cumbria was £4,261 and in West Cumbria it was £3,117m.
- Over the long term (1995-2007) total GVA in East Cumbria has grown by 63.8% compared with 37.2% in West Cumbria. East Cumbria's growth rate since 1995 puts it 98th out of 133 sub-county areas whilst West Cumbria's is the third slowest at 131st.
- In the medium term (2002-2007) the growth rate for East Cumbria is 34.6% compared with 24.5% in West Cumbria making them 30th and 96th respectively.
- Over the latest year (2006-2007) the gap in growth rates has narrowed almost completely and East Cumbria's growth rate stands at 5.2% while West Cumbria's is 5.1%. This ranks them as 63rd and 68th respectively out of 133 in the UK (5.5%) and puts both areas ahead of the NW (4.6%).
- GVA per head of population in East Cumbria now stands at £16,374 (82% of the UK average) while for West Cumbria it is £13,171 (66% of the UK average).

Unemployment

The November 2009 unemployment and vacancy figures were released by the Office for National Statistics on 16 December 2009. The Job Seekers Allowance (JSA) Claimant Count was taken on 12 November and the vacancy count was for the month to 6 November 2009.

- The JSA claimant count in Cumbria rose by 18 between Oct and Nov 2009 to reach 8,013. The count fell in Allerdale, Carlisle and Eden, but rose in Barrow, Copeland and South Lakeland. In the same month last year, the count in Cumbria rose by 503. The JSA claimant *rate* in Cumbria in Nov 2009 was unchanged from Oct at 2.7%. The rate in the NW is 4.6% and nationally it is 4.1%.
- Over the year to Nov 2009 the JSA claimant count rose in Cumbria by 2,111, an increase of 36% over the year (UK increase 49%). The claimant *rate* rose in Cumbria over the year by 0.7 which is lower than the national increase of 1.3.

Residence-Based Claimant Count Rates – November 2009						
Area	All Persons		Monthly Change (All Persons)		Annual Change (All Persons)	
	Number	Rate	Number	% of Total	Number	% of Total
UK	1,569,446	4.10%	-13,109	-0.83%	513,301	48.60%
North West	195,741	4.60%	-1,603	-0.81%	58,105	42.22%
Cumbria	8,013	2.70%	18	0.23%	2,111	35.77%
Local Authority Districts						
Allerdale	1,755	3.10%	-6	-0.34%	404	29.90%
Barrow	1,565	3.60%	5	0.32%	408	35.26%
Carlisle	2,001	3.20%	-19	-0.94%	562	39.05%
Copeland	1,466	3.40%	26	1.81%	290	24.66%
Eden	448	1.50%	-7	-1.54%	192	75.00%
South Lakeland	778	1.30%	19	2.50%	255	48.76%

Notified Vacancies

The number of new vacancies notified to JobCentre Plus in Cumbria in the month to 6th Nov 2009 was 2,516, a rise of 324 compared to the number notified in the previous month. The number of notified vacancies rose in all districts except Carlisle and South Lakeland. There were 118 fewer vacancies notified in the month to 6th Nov 2009 compared to the same month last year. The ratio of claimants to *unfilled* vacancies in Cumbria was 3.80 in November (GB 5.89).

There has been some bad news for the Cumbrian economy this month:

- Morrisons superstore in Penrith caught fire on Thursday 3 December. The blaze has left half of the store in ruins. Fortunately nobody was hurt and staff at the store have been praised for their handling of the crisis. Morrisons have built an 8,000sq ft building (around a third of the size of the original store) in the car park which opened on Friday 18 December. Around 140 staff will be employed at the temporary Penrith site, with the remainder of the 320-strong workforce being relocated at the Morrisons stores in both Carlisle and Kendal.
- Fifty staff are to lose their jobs at the Rural Payments Agency in Carlisle. Staff losing their jobs in Carlisle all work on processing single farm payment claims and are on temporary

contracts of between 2 and 4 years. Their contracts are due to come to an end between January and March.

- More Cumbrian jobs are at risk after an off-licence company collapsed into administration. First Quench, the owner of Threshers, The Local, Wine Rack and Haddows has hit financial difficulty and staff at Thresher stores in Penrith and Grange-over-Sands and Wine Rack in Keswick will be affected.
- Big changes at South Lakeland District Council (SLDC) will result in the loss of 50 jobs by April next year. The staff reductions are part of SLDC's restructuring process to modernise the authority and save around £1.2m per year – mostly from wages and pensions.
- Carlisle has suffered yet another jobs blow with news that 150 posts are at risk at the Christian Book Operation STL Distribution. They are the biggest group among 490 jobs under threat across the Country as Bible Charity IBS-STL UK looks to sell its British Operations. In Carlisle, jobs in warehousing, accounts and finance, IT, customer service and a call centre are at risk.
- Five drivers have been made redundant at a transport firm in Barrow. A total of 29 job losses have been announced by TDG across the three sites in Barrow, Carnforth and Northfleet in Kent after the transport firm lost half of the Kimberley Clark transport contract.
- Cumbria's fledging university has an £8.4m hole in its budget as directors prepare to step up efforts to safeguard its future, new figures reveal. The recession hit University of Cumbria has confirmed its trading deficit for the year ending July 31 – its second year of operation – stands at £8.4m. Compulsory redundancies have not been ruled out.

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

- The new £1.9 million Maryport Business Centre has been officially opened by Steven Broomhead, chief executive of the NWDA. The 30-unit centre, on the site of the former BIP factory on the A596, is made up of six studio and 24 industrial units. Two of the units were occupied last month and the council are in negotiations with eight other businesses.
- A former Allied Carpets manager is to open a new carpet store in Barrow. The Walney Road store closed earlier this year when the national chain went into administration. The Allied Carpets manager has now recruited a handful of his former staff for a new venture at the former Stokers car showroom. The store will be re-opening as All Carpets and Flooring.
- Liberata which, amongst other things, provides a benefits and council tax service for 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 Cockermouth pub moved to larger premises. The family owned Bitter End on Kirkgate launched its new brewery at Derwent Mills Commercial Park after it outgrew premises attached to the pub.
- Fast food giant Mcdonalds will create 25 new jobs in West Cumbria after a £350,000 refit of its Workington restaurant. The Derwent Howe diner has reopened following the work which has given it a fresh minimalist look. The Workington branch saw a 14% growth in 2008.
- Twenty new jobs have been created as new Tesco store opens in Millom.

- A proposed development of Carlisle's St Nicholas retail park could create 200 jobs. Plans submitted to the City council show demolition of three units and the building of four new ones in a bid to rejuvenate the area.
- The former tax office in Penrith town centre is to undergo a £1m transformation after being bought by mental health bosses. The Cumbria Partnership NHS Foundation Trust has purchased Voreda House and plans to turn it into a base and learning network. The latter is a new initiative that will support Cumbrian health staff with education, training and research. More than 70 staff will be transferred to the building from across the county.
- The development of the M-Sport Ford Fiesta S2000 will help safeguard more than 200 jobs at M-Sport's Dovenby Hall headquarters, near Cockermouth. The Fiesta S2000, developed with motoring giant Ford, is the second car to be launched by M-Sport this year – following the Fiesta R2.
- Up to 90 jobs will be created after councillors dramatically about turned to give a retail giant the go ahead to move into Barrow. Dunelm Mill is now set to open a soft furnishing store inside the former Barrow Superbowl in Hollywood Park by the summer of next year.
- Plans for a £10m garden centre near Carlisle which would create 130 jobs are poised for approval. Council planners have been recommended to accept proposals for the Dobbies centre at the site of Westwood Nurseries, owned by Linton Tweeds. Plans for the 60,000sq ft building and 408 parking spaces have divided opinion locally.
- A number of new stores have recently opened in Carlisle including the Cotswold Outdoor Shop on English Street; ShakeAway, the UK's biggest milkshake chain in The Lanes shopping centre and dress exchange business The Changing Room in the Lowther Arcade.
- Oswalds Café opened for business on 2 November 2009, situated above the newly expanded Cumbrian food Hall, Cranstons, offering spacious dining from 8am-6pm, 6 days per week.

Summary

The Organisation for Economic Co-operation and Development has announced that growth and recovery are expected in 2010 in just about all world regions. For its member countries, rich nations, including the US and UK, it has more than doubled its growth forecast to 1.9% for next year, from 0.7%. Continued increases to house prices in the UK provide encouragement that asset prices have found a floor and are beginning to recover and evidence also shows that lenders have adjusted to the post-banking crisis world and are starting to relax their lending criteria.

The release of the sub-national GVA data shows that, prior to the recession at least, economic productivity in Cumbria was improving with the slow growth over the long term being replaced by much stronger growth in the short-medium term. This trend was expected although, most encouragingly, growth in GVA in West Cumbria is now on a par with that in East Cumbria and stronger than the NW average.

Nevertheless the big story in Cumbria this month was, of course, the floods which have left many businesses displaced, houses uninhabitable and lives in tatters. Work is being done to assess the impact of the November floods on the Cumbrian economy. This will be an ongoing exercise and the overall impact will only become evident over time. We expect the initial findings to be available soon.