

Monthly Economic Briefing Number 14: February 2010

Introduction

“Even with some revision...we are still talking about an extremely lacklustre recovery.”

Stephanie Flanders, BBC Economics Editor, 26 January 2010

International Context

- The International Monetary Fund (IMF) has raised its projection for how much the global economy will expand in 2010. It now predicts that the worldwide economy will grow by 3.9% this year, up from the 3.1% estimate it published back in October. China is unsurprisingly leading the field with the IMF predicting annual growth of 10%; however the forecast for the US has also been revised significantly upwards from 1.5% to 2.7% for this year.
- The latest official estimates from the US have shown that the country's economy grew at an annualised rate of 5.7% in the final quarter of 2009. The figure, which is a first estimate and liable to further revisions, is a big rise on the previous quarter's annualised growth rate of 2.2%. It suggests the country is growing at its fastest rate for six years but, even with such a sharp rebound, GDP shrank by 2.4% across 2009 as a whole – the worst annual performance since 1946.
- The US unemployment rate unexpectedly fell in January to its lowest level in five months, dropping to 9.7%, down from 10% in December. Yet, at the same time, US employers actually cut 20,000 jobs and, although this was more than analysts had predicted, the figures are a vast improvement over the 779,000 losses in the same month last year. Sectors which performed well included manufacturing, which created 11,000 new jobs in January (its best performance since April 2009) and retail, which created 42,000 new jobs (the most since November 2007). The apparent contradiction between a falling unemployment rate and further job cuts is explained by the fact that the data comes from two different surveys, with the former looking at households and the latter coming from companies.
- Eurozone and EU27 GDP increased by just 0.1% in the fourth quarter of 2009 according to first estimates released by Eurostat. This puts the European areas on a par with UK GDP growth which was also estimated at 0.1% by the Office for National Statistics. In the third quarter of 2009, growth rates for the eurozone and EU27 were +0.4% and +0.3% respectively.
- Despite overall growth across Europe, Germany, the area's largest economy, failed to grow in the final quarter of the year, with GDP unchanged compared with the previous quarter. Meanwhile France, the eurozone's second largest economy, reported a 0.6% rise in GDP for the same period.
- In the eurozone, seasonally adjusted unemployment hit 10% for the first time in December, the highest rate since the single currency was introduced in 1999. A total of 87,000 jobs were lost across the eurozone in December, the lowest increase since May 2008, however some 15.8 million people are now out of work in the eurozone. The unemployment rate across the EU27 has risen to 9.6% with 23 million people unemployed.

EU Unemployment rates	
Highest: - Latvia	22.8%
- Spain	19.5%
- Estonia	15.2%
Lowest: - Cyprus	6.1%
- Austria	5.4%
- Netherlands	4.0%

- Japan's economy grew by a better-than-expected 1.1% in the final three quarters of 2009. However, despite the growth in October to December, the economy contracted by 5% over the whole of 2009. Japanese exports also grew in December for the first time in 15 months, largely boosted by an uplift in demand from China and the rest of Asia. Exports hit ¥5.4tn, up 12.1% on a year ago, and shipments to Asia increased by almost a third. Consumer spending was also up by 0.7% on the previous quarter. Meanwhile, Japan's central bank has kept interest rates on hold at 0.1%
- China has said its economy expanded by 8.7% in 2009, exceeding even the Government's expectations. The pace of change increased as the year went on, with reported growth in the final quarter of 10.7% over the same period a year earlier. China is now on course to overtake Japan as the world's second biggest economy.
- Following hotly on the heels of China, India's rapid annual growth in factory output of 16.8% has led the country to announce that its economy is set to grow by 7.2% in the year to the end of March. In stark contrast, meanwhile, officials in Russian have announced that the country's economy shrank by 7.9% in 2009 compared with 2008, its biggest annual fall in 15 years.

National Context

Growth Prospects

- The UK came out of recession in the final quarter of 2009, although the weak GDP growth of 0.1% is far less than analysts had expected and has been branded as lacklustre by many. However, while the figure is a significant blow to hopes that the UK economy had emerged decisively from recession, the figure is a first estimate based on around 40% of the data available and could still be revised upwards over the coming months as with other recent releases. The ONS figures also showed that over the course of 2009 GDP fell by a record 4.8%.
- Stronger than expected manufacturing figures for December 2009 have raised hopes of an upward revision to the first GDP estimate for Q4 2009. Manufacturing output grew by 0.9% in December and the wider industrial production measure, which includes mining and energy, rose by 0.5%. Over the final quarter of 2009, manufacturing and industrial output were up by 0.8% and 0.4% respectively. Whilst this increase is encouraging, overall output during 2009 was 10.2% lower than in 2008.
- Survey results from the Chartered Institute of Purchasing and Supply's purchasing manager's index, suggest that the upward trend in the manufacturing sector also continued into January with the index increasing to 56.7, up from a revised 54.6 in December. Furthermore, new orders rose at their fastest pace since January 2004 at 60.4. The results, which provide the earliest indication of the state of economic activity in any given month, suggest a strong start

to the sector in 2010 with many analysts pointing out that the continued weakness of the pound is helping companies to take advantage of growth in overseas markets.

- UK retail sales rose by just 0.3% between November and December according to official figures from the Office for National Statistics. This rise in sales *volumes* in the run up to Christmas was lower than the expected 1% rise, with rising prices blamed for the slow increase. However the resulting rise in retail sales by *value* was stronger in December, rising by 0.9% on November. Compared with December 2008, sales were up by 3.6%. Online sales, however, have continued to grow strongly up 17% over the year and up 3.8% from November.
- Early results from a survey by the CBI business group indicate further depressing news for the UK high street with sales falling at their sharpest annual rate for five months in January. The CBI survey reinforces concerns over the likely strength of the recovery. Some 28% of retailers said sales had risen in the past year, while 36% said they had declined, leaving a resulting balance of -8%. The rise in VAT and the wintry weather conditions were blamed for a fall in consumer demand.
- The Institute for Fiscal Studies (IFS) has said an extra £13bn in tax rises or spending cuts is required by 2015-16. Nevertheless, the think tank has cautioned against any extra budgetary tightening in 2010 because of the fragile state of the economy. The IFS predicts growth of 2% a year for the next five years, lower than the Treasury's suggested 3%.
- Clothing retailer Ethel Austin has gone into administration for the second time in two years. Sister company, homeware retailer Au Naturelle, has also gone into administration. Administrators MRC said it could not rule out redundancies at either retailer's 276 stores nationwide. The company's headquarters is based at Knowsley, Merseyside, where it employs 401 staff.

Inflation

- The Consumer Price Index (CPI) measure of inflation rose to 3.5% in January, up from an annual rate of 2.9% in December. This is the highest the rate has been for 14 months with price rises largely due to the VAT increase and increases in petrol prices. Most economists expect that this rise in inflation will be temporary, with the rate expected to fall back below 2% later in 2010.
- The Retail Price Index (RPI), which includes housing costs, rose to 3.7%. This was a rise from 2.4% in December.

Interest Rates

- The Bank of England's Monetary Policy Committee (MPC) announced on 4 February 2010 that it had decided to keep interest rates at a record low of 0.5%. Rates have been on hold since March 2009.

Quantitative Easing

- Also at its meeting on the 4 February the Bank of England decided it would not expand its programme of quantitative easing (QE) beyond £200bn, a total which has now been reached.

Unemployment

- The jobless total for the UK (claimants and non claimants looking for work) fell by 3,000 over the quarter ending Dec 2009 to reach 2.46 million. The jobless rate was unchanged at 7.8%. The seasonally adjusted claimant count for the UK was 1,635,600 in Jan 2010, up by 23,500 over the previous month, the largest increase since July last year and the highest total since April 1997. Comparative data are not available at local level.
- The Chartered Institute of Personnel and Development has said that almost one in three public sector employers are planning on shedding jobs in this quarter. The Institute's latest quarterly survey found that the jobs outlook had worsened despite the UK emerging from recession, with firms in all sectors planning to cut their workforce by 6.2%, compared with 3.8% in the previous quarter. In the public sector, defence and public administration look set to be hit particularly hard.

Housing

- House prices rose by a further 0.6% in January, the seventh consecutive month according to the Halifax. The average home was valued at £169,777, 3.6% higher than in January 2009, and almost 10% higher (£15,287) than the nadir in April 2009. In the corresponding survey from the Nationwide, house prices were reportedly up by 1.2% in January, pushing the annual rate of increase up to 8.6%, with the average home worth £163,481. According to the Land Registry's annual survey, average house prices in the North West of England were down by 0.9% over the year to £117,959.
- Sales of homes below the temporary stamp duty threshold of £175,000 rose sharply in the last three months of 2009. Transactions in areas where the average price was below £175,000 increased by 10.2% compared with the previous quarter; whereas, in areas where the average price was above £175,000, transactions only increased by 2.2% over the same period. The stamp duty threshold fell back to £125,000 on 1 January.
- The number of mortgages approved for house purchases rose at the end of year according to figures from the British bankers Association. Some 45,897 home loans were approved in December although, over the year, mortgage approvals were down 27% on 2008.

Economic Outlook for Cumbria

Unemployment

The Jan 2010 unemployment and vacancy figures were released by the Office for National Statistics on 17th Feb 2010. The JSA Claimant Count was taken on 14th Jan 2010 and the vacancy count was for the month to 8th Jan 2010.

- The JSA claimant *count* in Cumbria rose by 775 between Dec and Jan 2010 to reach 8,786 with rises in all 6 districts. It is usual to see rises at this time of year as Christmas seasonal jobs come to an end. The count also rose regionally and nationally. Between the same two months last year, the count in Cumbria rose by 999 which indicates a slightly improved picture this year. The JSA claimant *rate* in Cumbria in Jan 2010 rose by 0.3 to 3.0%. The rate also rose in the NW (by 0.3 to 4.9%) and nationally (by 0.2 to 4.3%).
- Compared to a year ago, the JSA claimant count in Cumbria is 1,417 higher, an increase of 19.2% over the year (UK increase 29%). The claimant *rate* in Cumbria is 0.5 higher than a year ago; the national rate is 1.0 higher than a year ago.

Residence-Based Claimant Count Rates – January 2010						
Area	All Persons		Monthly Change (All Persons)		Annual Change (All Persons)	
	Number	Rate	Number	% of Total	Number	% of Total
UK	1,654,025	4.30%	87,020	5.55%	371,380	28.95%
North West	205,916	4.90%	11,139	5.72%	40,920	24.80%
Cumbria	8,786	3.00%	775	9.67%	1,417	19.23%
Local Authority Districts						
Allerdale	1,903	3.40%	118	6.61%	261	15.90%
Barrow	1,684	3.90%	105	6.65%	332	24.56%
Carlisle	2,113	3.30%	189	9.82%	287	15.72%
Copeland	1,601	3.70%	128	8.69%	179	12.59%
Eden	574	1.90%	120	26.43%	184	47.18%
South Lakeland	911	1.50%	115	14.45%	174	23.61%

Notified Vacancies

- The number of new vacancies notified to JobCentre Plus in Cumbria in the month to 8th Jan 2010 was 1,495, a fall of 482 compared to the number notified in the previous month (see note on time periods). The number of notified vacancies fell in all districts except Eden where it rose by 49 and South Lakeland where it was unchanged. There were 566 more vacancies notified compared to the same month last year. The ratio of claimants to *unfilled* vacancies in Cumbria was 6.90 in Jan 2010 (GB 8.53).

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

- BAE Systems Submarine Solutions in Barrow is consulting its workers about making 230 of them redundant. A 90 day staff consultation period has begun with the firm seeking volunteers as well as “exploring all feasible mitigation opportunities”. However, it is predicted that after retraining staff into other roles still being recruited for, the result will largely net-out. Furthermore, graduate recruitment continues this year, as the company remains focussed on delivering quality products on schedule for its customer
- The University of Cumbria is to bid for a £25 million rescue package to help bail them out of their financial crisis. The emergency aid bid will be submitted to the Higher Education Funding Council for England (HEFCE) in about a month but it will not save jobs, with predictions that up to 200 could be lost. Around 180 staff are interested in taking voluntary redundancy. The University is currently rewriting its business plan which will include revised proposals for its Ambleside and Newton Rigg campuses.
- A dispute over grazing land at Carlisle airport, which has delayed the start of its £25m redevelopment, has led to the loss of 45 jobs.
- GlaxoSmithKline is expected to announce up to 4,000 further job cuts despite strong sales in Q4 2009 of swine flu vaccine Pandemrix. It is not yet known if workers at the Ulverston plant – where there are already 180-220 redundancies in the pipeline – will be affected.
- Furmanite International, based in Kendal, has begun consultation with employees over proposed job cuts. It is believed the company could shed up to 50 jobs throughout the UK.

- Hertel UK, a major maintenance contractor at Sellafield, has made 33 staff redundant in two separate lay offs, firstly of 17 and then a further 16 employees.
- Cumbria Constabulary is set to reduce its number of officers by 30 in a bid to save £9.1m by the 2013/14 financial year. The Constabulary has not ruled out further job cuts amongst its civilian staff.
- ROMAR Workwear based at Hensingham is making 8 workers redundant after losing a £600,000 clothing contract with Sellafield. 36 people currently work at the factory which has annual turnover of around £7 million.
- A Solway Coast nature reserve has had to lay off 6 workers. Bank Mill Nurseries near Mawbray has seen visitor numbers plummet after January's freezing weather.
- Lakes Training Services based in Kendal has been forced out of business with the loss of five jobs.
- Job losses have not been ruled out at Ethel Austin and sister firm Au Naturelle. The retailer, which went into administration earlier this month, has stores across Cumbria, with branches in Kendal, Penrith, Workington, Whitehaven and Carlisle.

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

- ASDA has announced that up to 350 jobs will be created at a new Workington supermarket. The retailer will move into the town's Dunmail Park in a new 38,000 square feet store by this winter.
- Nuclear engineering firm James Fisher Nuclear Limited has awarded Kier Construction a £1.5 million contract to design and build a test centre in Egremont. Thirty people will be employed during the construction phase. Regeneration agency Britain's Energy Coast West Cumbria has awarded £300,000 to support the project, through the North West Development Agency.
- Up to 128 new jobs are to be created for 18-24 year olds in Cumbria thanks to a Government scheme which will offer firms a £6,500 contribution towards a new worker's salary if they are given a six month minimum contract. Cumbria County Council has been given £900,000 by the Department for Work and Pensions (DWP) to boost employment and it is anticipated that many of the new jobs will be involved in flood recovery work.
- Around 60 new jobs are to be created by the opening of a new care home in Cleator Moor. The 68 bedroom Wyndham Manor Care Home is due to open next month.
- Grants totalling over £170,000 are creating more than 60 new jobs in South Cumbria. The grants were agreed by a panel of experts set up by Furness Enterprise in Barrow, with the money coming from the North West Development Agency and from money donated by GlaxoSmithKline in the wake of its current redundancy programme.
- An energy services company based on the Westlakes Science Park has tripled its workforce over the past 12 months, providing opportunities for a number of young people. Doosan Babcock now employs more than 100 staff in the area as a result of new contracts and projects underway for its main client Sellafield.
- A major development to create 825 homes and 2,750 jobs on land to the west of Carlisle has been given the green light by planners after 15 years of delays. The resultant development

will be a balanced community with housing, employment and facilities and will be built in three phases over ten years. The land will now be sold to a developer who will take the project forward.

- More than 60 homes are poised to be given the go ahead at the former Marchon site in Whitehaven. The prices of the houses will begin at £75,000 for a two bedroom home, giving people the chance to upgrade their homes without moving out of the area. The larger, more expensive houses are designed to raise the image and social standing of the area.
- Plans have been unveiled for major makeovers of two parts of Carlisle city centre. Plans for Court Square in front of the railway station will see the area pedestrianised; and £800,000 plans for the historic core around Carlisle's cathedral will see improvements to the public realm, including new pavements and seating.
- A review has been launched into the use of employment land in Carlisle to assess whether the city is maximising its potential for job creation. The study by real estate advisor DTZ, will give particular focus to developing land along the "M6 corridor" adjacent to Carlisle's motorway interchanges.
- A new scheme to boost tourism spending in Cumbria has been launched. Businesses are being offered the chance to get involved in the initiative which will offer pre paid discounts, suggested itineraries and incentives. The Freedom of the Lake District pass is based on successful schemes which have generated hundreds of thousands of pounds in sales in other destinations. The pass will be widely promoted with Visit Britain providing information in 16 different languages and selling passes to customers worldwide.

Summary

Despite the first estimate for quarter four GDP showing positive growth for the first time in a year and a half, improving figures from the manufacturing sector indicate that the estimate is more likely to be adjusted upwards in future revisions than downwards.

Elsewhere in Europe, the problems currently being experienced in Greece are likely to ripple across the continent and, although it is not yet clear what leaders of eurozone nations have agreed to do, one thing is certain: any assistance will come at a cost that will ultimately have to be borne by taxpayers in the nations that contribute. This, in turn, is likely to stifle the European recovery and the reasons why people outside Europe should care are broadly the same as the reasons why the Greeks should care. Going forth, they too are likely to face slower wage growth, rising taxes and rising retirement ages as governments everywhere – in the eurozone, the UK, the US and Japan – start slashing their debts.

In Cumbria, the unemployment figures have risen quite significantly although it is usual to see rises at this time of year as Christmas seasonal jobs come to an end. Nevertheless, there also appears to be a rising trend in the number of news stories relating to real and proposed redundancies and this will be something to keep a close eye on in coming months. Although the November floods may now seem like a distant memory to some, Business Link's advisors continue to work with businesses affected by flooding and over two and a half thousand advisor hours have been committed to this work. As of the end of last week, 123 grants, totalling £644,426, have been offered to small and medium sized businesses severely affected by the flooding, enabling them to recover quickly. The grant scheme is being administered by Cumbria Chamber of Commerce, working in partnership with Cumbria County Council, Business Link Northwest and West Cumbria Development Agency.