

## Monthly Economic Briefing Number 16: April 2010

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### Introduction

*"Overall, some welcome news. But the big picture of a fragile and unbalanced recovery is unchanged"*

Jonathan Loynes, Capital Economics, 30 March 2010

### International Context

- The UK economy is forecast to outstrip its G7 peers in the second quarter of this year, according to the Organisation for Economic Co-operation and Development. The OECD predicts that the UK will grow at an annualised rate of 3.1% in the second quarter of 2010. Such a rate would put the UK ahead of the US, Japan, Germany, France and Italy - but not Canada.
- After the sharpest decline in more than 70 years, world trade is set to rebound according to economists at the World Trade Organisation. The WTO predicts that the *volume* of world trade will record growth of 9.5% this year following the fall of 12% in 2009. The *value* of world merchandise exports fell 23% to around \$12.15tn (£8.15tn) in 2009, while world commercial services exports declined 13% to \$3.31tn
- US economic growth has been revised down to an annualised rate of 5.6% for the fourth quarter of 2009. The previous figure was 5.9%. According to the US Commerce Department, the main factors behind the revision were weaker personal and government consumption and lower investment. Nevertheless, the figure is significantly up on the 2.2% annualised growth recorded for the third quarter of 2009 and is the strongest growth reported since the third quarter of 2003.
- US consumer spending rose in February at its slowest pace since September last year, providing further evidence of a fragile economic recovery. Spending rose by only 0.3%, following a revised figure of 0.4% for January.
- Unemployment in the US in March was little changed at 15.0 million and the unemployment rate remained at 9.7 percent. Job growth continued in temporary help services and in health care. Federal government employment increased due to the hiring of temporary workers for Census 2010. Job losses continued in financial activities and in information. The number of long-term unemployed (those jobless for 27 weeks and over) increased by 414,000 over the month to 6.5 million. In March, 44.1 percent of unemployed persons were jobless for 27 weeks or more.
- Revised figures have shown that the eurozone's economy failed to grow at all in the final quarter of 2009. Eurostat, the EU's statistics office, said that quarter-on-quarter growth in the three months to December had proved to be zero, down from a previously reported 0.1%. Year-on-year, the economy of the 16 countries using the Euro fell by 2.2%.
- Greek Prime Minister George Papandreou has asked for activation of a debt rescue mechanism, to help pull the country's economy out of its current crisis. It follows negotiations with eurozone nations and the International Monetary Fund over the details of an emergency

rescue package and comes a day after data showed a worse-than-expected budget deficit of 13.6% of gross domestic product. Eurozone nations have agreed to provide up to €30bn (\$41bn; £27bn) in the first year of a three year loan package to help debt ridden Greece. The Greek government had until now been reluctant to accept the loan, hoping instead that an extensive package of austerity measures would help cut its debt. However, these austerity measures have not only failed to provide the positive response required from international financial markets, but have also been resisted, with tens of thousands of Greece's civil servants staging strikes across the country.

- The eurozone seasonally-adjusted unemployment rate was 10.0% in February 2010, compared with 9.9% in January. It was 8.8% in February 2009. The EU27 unemployment rate was 9.6% in February 2010, compared with 9.5% in January. It was 8.3% in February 2009. For the eurozone area this is the highest rate since August 1998 and for the EU27 since the start of the series in January 2000. Eurostat estimates that 23.02 million men and women in the EU27, of whom 15.75 million were in the eurozone, were unemployed in February 2010. Compared with January 2010, the number of persons unemployed increased by 131,000 in the EU27 and by 61,000 in the eurozone; whereas, compared with February 2009, unemployment went up by 3.14 million and 1.84 million respectively.

EU Unemployment rates	
Highest: - Latvia	21.7%
- Spain	19.0%
- Lithuania	15.8%
Lowest: - Luxembourg	5.5%
- Austria	5.0%
- Netherlands	4.0%

- Japan's industrial output fell for the first time in a year in February, providing further evidence of the country's fragile economic recovery. Industrial production fell by 0.9%, following strong growth in January. The fall was bigger than expected and comes as the economy struggles against deflation, with prices which have been falling for the past 12 months.
- The World Bank has raised its 2010 growth forecast for China to 9.5% from 9%. Consumption by businesses and households is expected to grow strongly even though government stimulus measures are being pared back. However, the country is facing mounting international pressure to revalue its currency (the Yuan), amidst criticism that continue undervaluation of the Yuan is giving China an unfair advantage in world trade by helping to boost exports.
- Australia's central bank has raised interest rates to 4.25% from 4% as it attempts to cool inflation and slow the rise in house prices. The move is the fifth rate rise since October with Australia faster than other countries in raising interest rates following the global economic downturn. Australia narrowly missed out on falling into recession, recording only one quarter of negative growth at the end of 2008.

## National Context

### Growth Prospects

- The UK economy continued to recover from recession in the first three months of 2010, according to figures released by the Office for National Statistics. GDP grew by 0.2% between January and March, quelling fears of a double dip recession. The figure is slightly

weaker than the 0.4% predicted by many economists, but it is normal for the first GDP estimate, issued every three months, to be followed by at least two revisions, which in the previous quarter were in an upward direction. The ONS said the bad weather at the start of the year may have had an impact on output – particularly in the retail and industrial sectors.

- The GDP growth figure for the UK economy has been revised upwards again - to 0.4% - for the final quarter of 2009. The initial estimate released in February said the UK economy had grown by only 0.1%, and this was increased in a second estimate last month to 0.3%. Analysts have cautioned against getting too excited about the upward revisions highlighting that the revised figure was highly influenced by companies restocking at the end of 2009 after running down their inventories at the height of the recession. However, government stimulus and the benefits of restocking will eventually slow, which is one of the chief reasons why analysts remain cautious about the economic outlook.
- UK manufacturing activity grew at its fastest pace for 15 years in March. The purchasing manager's index (PMI) rose to 57.2 last month from 56.5 in February, ahead of analysts' expectations. The UK data was matched by the release of similar surveys showing faster manufacturing growth in the eurozone and in China. The PMI is calculated from data on new orders, production, employment and purchasing; with a reading of 50 or over indicating that activity is rising.
- Retail sales *volumes* during March rose by 0.4% from the month before, a smaller increase than had been expected, official figures have shown. The increase was below the average 0.6% rise predicted by analysts. March's sales volumes were up 2.2% from a year ago, the figures showed. Sales in February had risen strongly, but this came after January's sales had been disrupted by the cold weather. The Office for National Statistics also revised the monthly sales growth seen in February up to 2.5% from its initial estimate of 2.1%. Nevertheless, sales volumes during the first three months of 2010 were down 1.7% from the final three months of 2009.
- Separate figures released by the British Retail Consortium regarding the *value* of UK retail sales paint a more positive picture for last month, boosted by Easter shopping. The total value of sales jumped 6.6% in March from a year ago, while like-for-like sales were up by 4.4%. The Consortium said that when the impact of Easter was stripped out, like-for-like sales were still up by about 2%. A separate survey also found that fewer retailers fell into administration in the first three months of the year.
- People in the UK are saving less than at any time in the past 40 years, according to the Office for National Statistics. The household savings ratio was 1.7% of total resources, the lowest recorded since 1970 and well below the 7.6% long term average. The ONS Social Trends Survey reveals that housing, water and fuel now represent the biggest areas of spending (21% of expenditure, compared with 15% in 1970). Over the same period, the proportion spent on food and drink has fallen from 21% to 9%. Other categories showing large falls in their proportion of total spending between 1970 and 2008 were clothing and footwear, from 10% to 5%, and alcoholic drinks and tobacco, from 8% to 3%. Household spending on services increased from 35% in 1970 to 52% in 2008; whereas, total expenditure on goods fell from 66% to 46%
- A rebound in exports helped to narrow the UK trade deficit in February. The deficit in goods and services shrank to £2.1bn, down from £3.9bn in January. Goods exports jumped 9.5% in February, rebounding after January's exports were affected by heavy snow. Goods imports were barely changed from January's figure.

- The new 50% tax rate for the country's top earners has come into force with the start of the financial year. The new rate will affect the 300,000 highest earners in the UK, out of the 29 million people who pay income tax. The tax will be levied on taxable incomes of greater than £150,000 a year and aims to raise an extra £2.4bn by next year. The 600,000 people who earn more than £100,000 a year will have their personal tax allowance eroded too, raising £1.5bn for the Government. Together with increased tax on pension contributions, which starts next year, the UK's top 600,000 earners are expected to be paying an extra £7.5bn a year in tax.

## Inflation

- The Consumer Price Index (CPI) measure of inflation rose to 3.4% in March, up from an annual rate of 3.0% in February. The rise was greater than analysts had expected, with higher petrol prices the main contributing factor. Despite the sharp rise, it is expected that the rate of inflation will fall in the coming months, dropping back below the Bank of England's 2% target by the end of the year. The Retail Price Index (RPI), which includes housing costs, also rose sharply to 4.4%, up from a rate of 3.7% in February and January

## Interest Rates

- The Bank of England's Monetary Policy Committee (MPC) announced on 9 April 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 9 April the Bank of England decided it would not expand its programme of quantitative easing (QE). This decision had been expected given the economic and electoral uncertainty.

## Unemployment

- The jobless total for the UK (claimants and non claimants looking for work) rose by 43,000 over the quarter ending Feb 2010 to reach 2.5 million. The jobless rate rose by 0.1 to 8.0%, the highest since Sept 1996. Similar jobless figures are not available at local level. The seasonally adjusted claimant count for the UK was 1,543,800 in Mar 2010, down by 32,900 over the previous month, the fourth fall in five months.

## Housing

- UK house prices bounced back in March, rising 1.1%, after having fallen in February, according to the Halifax. The rise means the average home in the UK now costs £168,521, nearly £11,000 (7.0%) higher than a year ago and up by 9.1% on the low point in April 2009.
- Data released by the Nationwide building society suggests a more sluggish start to the year, with prices rising 0.7% in March. The Nationwide data suggests the average price of a home in the UK is £164,529, some £14,000 higher than a year ago, meaning that the annual rate of house price inflation is higher than that reported by the Halifax at 9.3%.
- Despite rising prices, mortgage approvals have continued with a slow start to the year, falling by just over 1,000 in February to 47,094. This was the third monthly fall in a row and came after a sharp drop last month when the end of the stamp duty holiday hit the market.

- In order to keep the housing market ticking over the Government has abolished, for the benefit of first time buyers only, the 1% stamp duty paid by people buying homes worth between £125,000 and £250,000. The temporary tax holiday lasts for two years until 25 March 2012.

## Economic Outlook for Cumbria

### Unemployment

The March 2010 unemployment and vacancy figures were released by the Office for National Statistics on 21 April 2010. The Job Seekers Allowance (JSA) Claimant Count was taken on 11 Mar 2010 and the vacancy count was for the month to 5 Mar 2010.

- The JSA claimant *count* in Cumbria fell by 339 between Feb and Mar 2010 to 8,452. The claimant count fell in all six districts and also fell regionally and nationally. Between the same two months last year, the count in Cumbria rose by 61 but Easter was later and so it is unwise to compare the trend. The JSA claimant *rate* in Cumbria in Mar 2010 was down -0.1 to 2.9%. The rate was also down regionally (-0.2) and nationally (-0.1).
- Compared to a year ago, the JSA claimant count in Cumbria is 256 higher, an increase of 3.1% over the year (UK increase 6.0%). The claimant *rate* in Cumbria is 0.1 higher than a year ago; the national rate is 0.2 higher than a year ago.

Residence-Based Claimant Count Rates – March 2010						
Area	All Persons		Monthly Change (All Persons)		Annual Change (All Persons)	
	Number	Rate	Number	% of Total	Number	% of Total
UK	1,614,852	4.20%	-42,189	-2.55%	91,370	6.00%
North West	197,494	4.70%	-6,663	-3.26%	6,349	3.32%
Cumbria	8,452	2.90%	-339	-3.86%	256	3.12%
Local Authority Districts						
Allerdale	1,831	3.30%	-66	-3.48%	99	5.72%
Barrow	1,692	3.90%	-17	-0.99%	228	15.57%
Carlisle	2,034	3.20%	-71	-3.37%	-121	-5.61%
Copeland	1,547	3.60%	-54	-3.37%	62	4.18%
Eden	456	1.50%	-72	-13.64%	22	5.07%
South Lakeland	892	1.50%	-59	-6.20%	-34	-3.67%

### Notified Vacancies

- The number of new vacancies notified to JobCentre Plus in Cumbria in the month to 5th Mar 2010 was 2,368, a rise of 515 compared with the number notified in the previous month. The number of notified vacancies rose in all districts except Copeland. There were 441 more vacancies notified compared to the same period last year.

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

- A Carlisle haulage firm, which has been in business for more than 50 years, has reached the end of the road and will close next month. Dozens of drivers will lose their jobs when F Brown Ltd, at Cardewlees, closes the haulage side of its operation on April 30.

- The out-of-hours GP call centre at Westmorland General Hospital (WGH) is to close with the loss of 17 jobs. This followed North Lancashire Primary Care Trust's decision to award its out-of-hours contract to the private firm Assura. Fourteen call centre staff and three management and admin staff at WGH have been issued with redundancy notices.
- Allerdale council's management structure has been reduced in a round of redundancies which saw 33 people lose their jobs on March 31.
- A lack of funding has forced the South Lakeland Volunteer Centre at Stricklandgate House, Kendal, to close after 29 years. The centre has provided people across the area with volunteering opportunities for the last three decades by matching them up with volunteering organisations that suited their needs, bringing help to thousands of people in Cumbria.

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

- BAe has been given the go ahead to start building the fifth of a planned seven Astute Class submarines and to begin procurement for the sixth. The news is a great boost to Barrow-in-Furness. The Ministry of Defence has also announced plans to spend £127m to design a new warship for the Royal Navy, awarding the four year contract to develop a design for the new frigate to BAe Systems.
- Around 150 jobs are being safeguarded following £1m of investment at a candle factory. Business support agency Furness Enterprise has injected the cash into Lindal-based Wax Lyrical, formerly Colony Candles. The money is being used to upgrade the factory and will bring in a range of cutting-edge machinery. The investment will also reshape the production line and deliver greater efficiency at the Lindal plant.
- A flourishing discount food and household products chain is to open a second store in Barrow, creating 30 jobs. Home Bargains has signed up to take a 10,000 sq ft store on the Walney Road retail park in Barrow. It will open next month in a £500,000 investment. Work has started on fitting out the shop unit next to Argos, which also created a second Barrow store on the site while retaining its town centre outlet.
- Protective equipment supplier Deltawaite Ltd of Barrow has won a national contract to supply large utility company, British Energy. The contract is likely to lead to more jobs being created in Barrow this year. It means the firm will now supply personal protective equipment to eight nuclear power stations around Britain operated by British Energy.
- Carlisle's nightlife is being given a £1 million boost with the opening of a Las Vegas style superclub, creating 50 jobs. The city's Terminal 1 nightclub will close in the next few weeks and re-open as the Las Vegas Strip, incorporating the former Babylove bar and Jumpin Jaks club in Portland Place. The complex, which has capacity for 3,000 people, will include eight Las Vegas themed bars and 2 nightclubs. Each bar will be different but may be themed like a Japanese garden or a Russian Castle.
- Carlisle's second Aldi supermarket could be open by the end of September. Work has started to build the store on part of the former Cavaghan and Gray bakery site on London Road. The development, being built by Carlisle-based firm Story Construction, will create about 15 full and part time jobs.
- Cumbrian haulage giant Stobart plans to take a share of the burgeoning biomass fuel industry with the launch of a new company. The firm has joined forces with Penrith forestry

products outfit AW Jenkinson to form Stobart Biomass Products Limited (SBPL). The new company will source and distribute biomass fuel, primarily wood, to the UK renewable energy market and has already signed a contract to supply up to 750,000 tonnes a year to ten potential sites over the next 20 years.

- Work is set to start this month on a £4m affordable homes and children's centre scheme in Penrith. Builders will move in on the construction site after securing £1.8m of housing agency backing for the project. Impact Housing Association is spearheading the development, ploughing £1.5m into the project to build 27 flats on land off Old London Road. A new children's centre will also be created for families with youngsters aged five and under. It will be managed by the charity Barnados and has been backed by a £1m grant from Cumbria County Council.
- Workington has celebrated the opening of a new £4.6m temporary road bridge this month to replace the collapsed Northside and closed Calva bridges. The town has been split in two since November, with residents living in Northside, Seaton and Barepot facing hour-long detours to get from one side of the river to the other. The replacement bridge will remain in place until the town again has two permanent crossings over the river.
- West Cumbria will soon enjoy a jobs boost when coach company Reays expands to the area. The Wigton-based firm has won a four-year contract to handle on-site transport at Sellafield, and will be opening an office nearby. Ten new drivers will be taken on to cope with the demand and Reays is inviting applications. Further jobs will come in the creation and administration of the office, on a site yet to be chosen. The firm will also offer private hire and contract work.
- A discount book shop has opened its doors in Workington town centre, creating 6 jobs. Bargainbooktime has taken over the former Autonomy clothes shop building on Risman Place. The unit, which was also used as a temporary base for bridal shop Dresses and Dreams, and by J Edgar and Son car dealership and community groups, has stood empty for more than a year but it is now being fitted out and stocked with 20,000 books. Bargainbooktime is owned by Kendal company PR Books Ltd which has stores in Ambleside, London and Wales.
- Workington's new £300,000 pet store has opened its doors, creating 11 jobs. Pets at Home was officially opened at Derwent Howe Retail Park on Friday, by two dogs – Bob and Jay Jay – and their owner from Keswick.
- A new housing development on Workington's Moss Bay estate has been given a £1.46million funding boost by the Government. Housing Minister John Healey turned the first sod of earth on the Casson Road site yesterday and announced the funding, which will enable the building work to go ahead. Sixteen two and three bedroom houses and four bungalows will be built on the site. Thirty-six flats were demolished to make way for the new homes.
- Councillors have given permission for Cumbria's third academy school to be built. The decision by the county council's development control panel clears the way for advance works to begin next Tuesday in Egremont, on the site of the existing West Lakes Academy. Almost £25 million will be spent building the academy's new state-of-the-art complex over the next two years. It will replace the former Wyndham School buildings which were originally constructed in 1964.
- Work on the £8.15million Lakeland Business Park in Cockermouth is now complete having begun three-and-a-half years ago. Development began on the business park in Lamplugh Road after the Northwest Regional Development Agency (NWDA) made the land available

for employment use. Cumbrian development company Latimer Homes Ltd has developed the vacant site in phases, phase one being high-quality offices and a car showroom. In 2007 a Travelodge hotel was developed on the park and the final land was transferred from the NWDA. In February 2010, following the development of a care home for The Priory Group with space for up to 60 new residents, a further office building was completed.

- Flood-hit Cockermouth was given another substantial boost recently when its biggest employer pledged its future to the town. Manufacturing firm James Walker said confirmation by the NWDA of funding for flood defences at its Gote Brow plant had persuaded it to stay. The factory suffered extensive damage in last November's deluge and there were fears the company may pull out of the town, taking 350 jobs with it, unless steps were taken to avoid a repeat. But the firm revealed, during a visit by the Prince of Wales, that it plans to invest in new equipment to develop the site and safeguard jobs there.
- Almost 50 jobs have been created and filled thanks to a scheme which aims to get young people back into work. The 48 positions in Copeland have been filled by people aged from 18 to 24 who have been out of work for nearly a year. The jobs are part of the nationwide Future Jobs Fund scheme which aims to create 170,000 jobs in the UK. The 48 successful applicants will receive 12 months paid work and on the job training which could result in a qualification.

## Summary

The good news this month is that the national economy has continued to grow in the first quarter of 2010, helping to put aside widespread fears that output may have slipped back in to the red, particularly given the wintry weather back at the start of the year. The further upward revision (to 0.4%) for GDP growth for the final quarter of 2009 is also good news, however a closer look at the makeup of the figures reveals that business investment fell by 4.3% and, were it not for a 1.0% rise in Government consumption expenditure, growth would have been significantly weaker. With government stimulus continuing to exert such a significant influence and tightening pressure on public spending for the next parliament, economists remain cautious about the outlook, particularly whilst forward indicators of growth remain relatively weak.

In Cumbria, unemployment has fallen quite substantially, and across all six districts, which is to be expected at this time of year – especially with the early Easter – as the impact of seasonal jobs begins to exert a positive influence on the number of jobs. Certainly the balance of news stories continues to fall on the positive side which offers hope that the county, and indeed the nation, is over the worst of the recession. However, the reigning in of public sector spending remains a key election battle line and, whilst the electoral outcome remains uncertain, it continues to be difficult to predict how the recovery may pan out.