

Monthly Economic Briefing Number 17: May 2010

Introduction

"The key test facing the coalition is whether it can maintain a stable government over a significant period of time that delivers large cuts to public spending, and whether it can generate policies across all areas that genuinely supports business and economic growth"

Miles Templeman, Director General, Institute of Directors, 12 May 2010

International Context

- According to the International Monetary Fund's *Fiscal Monitor* for May 2010, while global activity is rebounding faster than projected earlier, the fiscal outlook is not improving commensurately. The overall fiscal deficit for the world is projected to decline from 6.7 percent of GDP in 2009 to 6 percent of GDP in 2010. However, this improvement is smaller than that anticipated in November 2009 despite an upward revision in *World Economic Outlook (WEO)* growth projections (by 1.1 percentage points). In advanced economies the average gross government debt to GDP ratio is projected to rise from almost 91% at the end of 2009 to 110% in 2015, bringing the increase from pre-crisis levels to 37 percentage points.
- US economic growth increased 3.2% in the first quarter of 2010 after increasing 5.6% in the final quarter of 2009. The slower growth of GDP mainly reflected a slowdown in inventory investment. Over the same period, increases in the prices of goods and services purchased by US residents also slowed, rising 1.7% after rising 2.0% in the fourth quarter. Excluding food and energy, prices rose 1.1% after rising 1.5%.
- US retail sales increased by 0.4% in April, following a large 2.1% rise in March. Sales of building materials and garden equipment and supplies jumped 6.9% following a similarly large gain in March. Analysts had expected a small decline of 0.1% in total sales in April. The gains in consumer spending are yet another indication that the outlook for sustained economic growth is improving. An associated indicator, the US personal saving rate – personal saving as a percent of disposable personal income – was 3.1% in the first quarter, compared with 3.9% in the fourth quarter.
- The US unemployment rate rose in April, even though more jobs were created than in any month in the last four years. The jobless rate rose to 9.9%, up from 9.7% in March, despite the creation of an extra 290,000 jobs mainly in the manufacturing, healthcare and hospitality sectors. The total number of unemployed in April increased to 15.3 million. The reason that overall unemployment increased was due to the high volume of new job seekers boosting the size of the labour force.
- The eurozone economies made a weak start to 2010 posting growth of only 0.2% between January and March. Compared with the same quarter in 2009, the combined economies of the 16 countries that use the Euro grew by 0.5%. The figures released by Eurostat showed that Greece's economy shrank by 0.8% in the first quarter of 2010; Italy, on the other hand, posted the fastest growth of 0.5%. Throughout the 27 nation EU as a whole, which includes the UK, growth for the first quarter was also 0.2%.
- Spain's economy has edged out of recession, reporting a 0.1% growth for the first quarter of 2010. The Spanish economy has been one of the hardest hit by the global economic downturn (contracting by 3.6% in 2009) and is the last of the major European economies to

emerge from recession after six successive quarters of contraction. Nevertheless, the outlook remains bleak with government figures showing that Spain's jobless rate hit 20% for the first time in 13 years earlier this month.

- The EU has agreed an emergency stability package worth €750bn (\$975bn; £650bn) to help prevent the Greek debt crisis from affecting other eurozone countries. The 16 members of the single currency bloc will have access to €440bn of loan guarantees and a further €60bn of emergency European Commission funding. The International Monetary Fund will also contribute up to €250bn. European shares and the value of the Euro initially responded well to the EU loan deal. Fears have recently crept back in, however, over the strength of the eurozone economy with the Euro hitting a four year low against the dollar amidst concerns that severe fiscal austerity will crush growth in the region.
- The eurozone seasonally-adjusted unemployment rate was 10.0% in March 2010, the same as in February. It was 9.1% in March 2009. The EU27 unemployment rate was 9.6% in March 2010, unchanged compared with February. It was 8.5% in March 2009. Eurostat estimates that 23.13 million men and women in the EU27, of whom 15.81 million were in the eurozone, were unemployed in March 2010. Compared with February 2010, the number of persons unemployed increased by 123 000 in the EU27 and by 101 000 in the eurozone. Compared with March 2009, unemployment went up by 2.55 million in the EU27 and by 1.39 million in the eurozone.

| EU Unemployment rates | |
|-----------------------|-------|
| Highest: - Latvia | 22.3% |
| - Spain | 19.1% |
| - Lithuania | 15.8% |
| Lowest: - Luxembourg | 5.6% |
| - Austria | 4.9% |
| - Netherlands | 4.1% |

National Context

Growth Prospects

- The UK economy grew by 0.5% between February and April according to the National Institute of Economic and Social Research. This is an upward revision to the growth of 0.2% both it and the Office for National Statistics (ONS) estimated for the first three months of the year. The think tank said it now expects the ONS to upgrade its first quarter official growth estimate.
- The ONS has revised down the amount borrowed by the government last year from £163.4bn to £156bn. Borrowing was £5.5bn lower than previously thought in March, the statistics agency added. Borrowing for April was £10bn - also lower than expected by many economists. Total government debt - the cumulative amount borrowed over several decades - also remains high at £893.4bn, equivalent to 62.1% of GDP.
- The UK's trade deficit with the rest of the world widened sharply in March, according to the ONS. The gap rose to £3.7bn (\$5.5bn) in March from £2.2bn in February. Exports crept up by just 1%, whereas imports grew by 5.2%. The figures suggest that the UK is struggling to export goods despite a weaker pound with recent events in the eurozone, the UK's biggest trading partner, blamed for the poor results.
- UK industrial output saw its strongest monthly expansion in over eight years in March. Output rose by 2.0% compared with February, whereas consensus amongst analysts was for a 0.3%

rise. The ONS estimated that the data would add 0.1 percentage points to the UK's first-quarter GDP growth initially estimated at 0.2%. Manufacturing output rose by 2.3% on a month-on-month basis with the transport and metal sectors reporting particularly strong gains.

- UK retail sales fell in April, down 0.2% on a year earlier. Like-for-like sales were down 2.3%. However, analysts have been quick to point out that the timing of Easter this year has impacted negatively on the April figures. The three month average, which counteracts the impact of the Easter timing distortions, showed that like-for-like sales were up by 1.6% on a year earlier, with the total value of sales up by 3.8%.
- A new record high has been recorded for the number of people being declared insolvent in England and Wales. During the first three months of 2010 there were 35,682 personal insolvencies, a 17.9% increase compared with the same period a year earlier. This is the fifth consecutive month in which the number of people being declared insolvent has reached a new high.
- A BBC survey of influential economists has predicted that VAT will rise under the new coalition government. Of 28 independent economists currently used by the Treasury to assist its forecasts, 24 said that they expected the rate to rise in the coming parliament. The majority predicted that the rate would rise from 17.5% to 20% before the end of 2011 in a move that is expected to raise an additional £11.5bn a year.

Inflation

- UK inflation accelerated again in April to hit its highest rate in 17 months, official figures show. On the Consumer Prices Index (CPI) measure, inflation hit 3.7% - well above the target of 2% and the highest rate since November 2008. On the Retail Prices Index (RPI) measure, which includes housing costs, inflation was up from 4.4% last month to 5.3% - its highest rate in 19 years. The ONS said the cost of food in particular had seen sharp rises with prices up by 2.6% thanks, largely, to rising transport costs over the last 12 months. Fuel costs have increased by more than 25% in that time, the ONS said.

Interest Rates

- The Bank of England's Monetary Policy Committee (MPC) announced on 10 May 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 10 May the Bank of England decided it would not expand its programme of quantitative easing (QE). The most recent change in the size of that programme was an increase of £25 billion to a total of £200 billion on 5 November 2009.

Unemployment

- The jobless total for the UK (claimants and non claimants looking for work) rose by 53,000 over the quarter ending Mar 2010 to reach 2.51 million, the highest since Dec 1994. The jobless rate rose by 0.2 percentage points to 8.0%. Similar jobless figures are not available at local level. The seasonally adjusted claimant count for the UK was 1,516,900 in Apr 2010, down by 27,100 over the previous month, the fifth fall in six months.

Housing

- The annual rate of house price inflation reached its highest level since November 2007 last month, according to Government data. Property prices rose by 9.7% year-on-year in March, the 12th consecutive month of annual price rises. The average value of a home in the UK increased by 0.7% compared with February and now stands at £205,598. The average price paid by a first time buyer was £151,749.
- Separate data from the Halifax building society showed that house prices were up by 6.6% year-on-year, with prices falling slightly in April down 0.1% on March. However, according to the Halifax, average prices were significantly lower than those suggested by the Government at £168,202.
- The number of homes being repossessed in the UK fell by 7.5% in the first three months of 2010, according to the Council of Mortgage Lenders. There were 9,800 homes repossessed over the period, compared with 10,600 in the final quarter of 2009 and 13,200 in the first quarter. The number of homes repossessed was at its lowest for two years.

Economic Outlook for Cumbria

Unemployment

The April 2010 unemployment and vacancy figures were released by the Office for National Statistics on 12 May 2010. The JSA Claimant Count was taken on 8 Apr 2010 and the vacancy count was for the month to 2 Apr 2010.

- The JSA claimant *count* in Cumbria fell by 236 between Mar and Apr 2010 to 8,216. 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 fell by 110, although the earlier Easter this year makes direct comparison unwise. The JSA claimant *rate* in Cumbria in Apr 2010 was down -0.1 of a percentage point to 2.8%. The rate was also down regionally (-0.1) and nationally (-0.1).
- Compared to a year ago, the JSA claimant count in Cumbria is 130 higher, an increase of 1.6% over the year (UK increase 0.7%). The claimant *rate* in Cumbria is unchanged from a year ago, as is the national rate.

| Residence-Based Claimant Count Rates – April 2010 | | | | | | |
|---|-------------|------|------------------------------|------------|-----------------------------|------------|
| Area | All Persons | | Monthly Change (All Persons) | | Annual Change (All Persons) | |
| | Number | Rate | Number | % of Total | Number | % of Total |
| UK | 1,568,128 | 4.1% | -46,724 | -2.9% | 10,512 | 0.7% |
| North West | 191,828 | 4.5% | -5,666 | -2.9% | -3,291 | -1.7% |
| Cumbria | 8,216 | 2.8% | -236 | -2.8% | 130 | 1.6% |
| Local Authority Districts | | | | | | |
| Allerdale | 1,747 | 3.1% | -84 | -4.6% | 86 | 4.9% |
| Barrow | 1,677 | 3.9% | -15 | -0.9% | 224 | 13.7% |
| Carlisle | 1,985 | 3.1% | -49 | -2.4% | -240 | -12.1% |
| Copeland | 1,527 | 3.6% | -20 | -1.3% | 80 | 5.2% |
| Eden | 400 | 1.3% | -56 | -12.3% | -42 | -10.5% |
| South Lakeland | 880 | 1.5% | -12 | -1.4% | 22 | 2.5% |

Notified Vacancies

- The number of new vacancies notified to JobCentre Plus in Cumbria in the month to 2 Apr 2010 was 2,180, a fall of 188 compared to the number notified in the previous month. The number of notified vacancies fell in Allerdale, Barrow, Eden and South Lakeland but rose in Carlisle and Copeland. There were 213 more vacancies notified compared to the same period last year. The ratio of claimants to *unfilled* vacancies in Cumbria was 4.41 in Mar 2010 (GB 6.19).

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

- Bosses at Sellafield have confirmed that jobs will go at the site as part of an efficiency drive. Management started formal redundancy consultations with unions this week and it is believed hundreds of jobs could be at risk. Briefings have been given to Sellafield's 12,000-strong workforce with both permanent company posts and agency jobs thought to be in the balance. Bosses have stated that "the objective of the consultation process will be to minimise any job losses".
- A Cumbrian farmer has won his legal fight to overturn planning approval for the £25 million redevelopment of Carlisle Airport. The Court of Appeal has quashed a decision by Carlisle City Council to allow Stobart Air to build a haulage depot and create a passenger and freight hub at the site. Stobart said it was now looking at sites outside Cumbria for the depot, which could lead to hundreds of jobs leaving the county.
- Up to 12 jobs could be lost in a health shake-up which will see screening for cervical cancer moved out of Cumbria. Tests are to be sent to a specialist centre in Manchester in a move health bosses say is being done to meet government standards. But the future for the 12 staff who currently work in the cytology department across the Cumberland Infirmary and the West Cumberland Hospital is not yet known.
- Thirteen jobs are at risk at a Carlisle shoe shop after its owner slumped into administration. The Faith store, in The Lanes shopping centre, is among 78 branches across the country threatened with closure after the debt-ridden firm called in the administrators. The company also operates a concession in the Debenhams department store, also in The Lanes. A buyer is being sought for the business.

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

- More than £1 million has now been offered to Cumbrian firms hit by last year's floods. The Flood Recovery Grant Scheme, which has now closed, has approved payouts worth £1,088,000 for 217 small and medium-sized businesses affected by last November's disaster. A total of £360,000 has already been paid out. Businesses who have been approved but are yet to claim their cash have until December to decide when they want it. The fund was paid for by the Northwest Regional Development Agency (NWDA) and administered by Cumbria Chamber of Commerce in partnership with Cumbria County Council, Business Link Northwest and the West Cumbria Development Agency.
- A controversial plan to tax holiday cottages, which could have hammered the already flood-hit Cumbrian tourism industry, has been shelved. The Government had intended to scrap tax breaks for owners of holiday cottages to raise extra revenue. The perks had been introduced in the early 1980s and helped a boom in the industry in Cumbria.
- Sixteen young people are the first in Cumbria to start an apprenticeship in youth work. The apprenticeship has been developed by Cumbria Youth Alliance, Carlisle-based RWP Training and Cumbria Youth Support Service. The apprentices have placements with organisations

across the county and receive classroom-based studies at RWP Training's bases across Cumbria. The apprenticeship was developed to help meet the skills shortage in the sector. It is partly funded by the Future Jobs Fund, which aims to create work opportunities for young people facing long-term unemployment. A second intake of apprentices will take place in September.

- Carlisle's economy got its traditional spring boost this month when thousands of motorsport fans descended for the Pirelli Rally. Rally fans from across Britain and Europe packed out hotels, B&Bs and restaurants for the annual money-spinning event. Tourism chiefs have hailed the contribution the rally makes to the area's economy, with previous estimates putting its worth at £1.75m.
- A £10 million redevelopment of Carlisle's St Nicholas Gate retail park is poised to go ahead. City councillors approved the scheme in London Road, which could create 200 jobs and almost double the amount of floorspace. The plans were tabled last year only for councillors to demand a rethink after conservation officers branded the contemporary design "an appalling prospect". Savills, the agent for the site, has come up with new plans that won enthusiastic support from councillors.
- Eighteen jobs have been saved despite the closure of a Carlisle haulage firm after another transport company stepped in. F Brown (Carlisle) based at Cardewlees shut its transport business on April 30 to concentrate on its storage operation, putting 35 jobs at risk. But Ascott Transport Limited, which operates on the same trading estate, has now taken over one of the fallen firm's contracts saving 10 drivers, four garage workers and four office staff from redundancy. Derby-based Palletline member Ascott Transport will carry out the haulage work from the Nestlé Dalston site, which was previously done by F Brown.
- Garden giant Dobbies wants to build a larger store near Carlisle, creating up to 120 jobs, which could open next year. The company slashed its original scheme for a £10 million store in the wake of the economic crisis but now says business is strong enough for a bigger store. The company is planning to almost double their proposed centre at Orton Grange from 31,000 sq ft to 50,000 sq ft.
- Penrith's New Squares scheme has cleared a major obstacle on the long path to rehabilitation. Eden councillors met to give their blessing to Sainsbury's plans to tweak the design of the major town centre redevelopment ahead of funding its completion. The supermarket has agreed to exercise its legal right to step in to complete the long-running scheme, but wanted to make amendments to the original design. These included reducing the number of homes involved in the scheme from 174 to 141, and cutting the number of car parking spaces from 1,131 to 750 through a reduction in the size of the car park. The changes mean that the scheme must still go back through the planning process, but it is hoped that contractors will return to the site by November this year, and the first phase of work should be complete in two years.
- Young people in Copeland could soon be set for another jobs boost. Due to the success of the recent Future Jobs Fund scheme, which saw Copeland Council appoint 48 young workers into a variety of organisations, the authority has now been encouraged to apply for more funding which would see another 24 posts created. If Copeland's application to the Department of Work and Pensions is successful, the jobs would begin in July and August. Under the Future Jobs Fund, people aged 18 to 24 get 12 months' paid work, funded by the council. The jobs – part of the Government's Backing Young Britain campaign – are spread across the whole borough and are mostly in the public and the charity/voluntary sectors.
- Plans for a new holiday complex near Cleator Moor have been given the go-ahead. Land at Weddicar Hall and Mill, currently a group of derelict buildings off the road between Whitehaven and Frizington, will be transformed with 19 holiday units and parking. A leisure

facility, featuring hot tubs and a health and beauty unit, will also form part of the development, as well as accommodation for the manager.

- A new convenience store has opened in Workington's Mossbay Road. The store, which used to be JustPine, employs seven staff. The shop opened at the end of March.

Summary

Although, the National Institute of Economic and Social Research have predicted that growth in the first quarter of 2010 will be revised upwards in the coming weeks, the outlook for the UK economy remains uncertain. Exports are failing to provide the boost that was hoped despite the advantages a weak pound provides and Government measures to reduce budget deficits in Europe will cast a cloud over trade with austerity programmes in several eurozone countries weighing heavily on growth in the coming years. However, the scale of the challenge of rebuilding our economy is only just beginning to emerge with spending cut announcements due next week and the next budget already in the diary for the 22 June. On the plus side, the budget deficit may not be quite as large as previously thought.

In Cumbria, unemployment has continued to fall as the impact of seasonal jobs continues to exert a positive influence on the number of jobs. Certainly the number of positive news stories continues to outweigh the negative however the recent announcement of redundancies at Sellafield and the potential scale of the job losses will cast a shadow over many of the more encouraging stories this month.