

Monthly Economic Briefing Number 18: June 2010

Introduction

“The upside for consumer spending, and hence growth, will be limited for some time to come as households still face very challenging conditions”

Howard Archer, Chief UK economist, IHS Global Insight, 27 May 2010

International Context

- According to the Organisation for Economic Co-operation and Development (OECD), the recent debt crisis poses a threat to Europe’s weak recovery and “bolder measures” need to be taken to ensure the crisis is brought under control. The OECD has forecast growth for the eurozone of 1.2% this year which is better than the 0.9% growth estimate the OECD made in its last economic outlook in November. Growth across all 31 members comprising the OECD was forecast at 2.7% this year and 2.8% in 2011; growth for the UK was forecast at 1.3% this year and 1.5% next year.
- US economic growth was lower than initially estimated in the first three months of 2010 according to revised estimates. The US Commerce Department now estimates that the economy expanded at a rate of 3.0% during the first quarter rather than the 3.2% that was announced last month. The data surprised many analysts, amongst whom the consensus view was for an upward revision of the data to 3.4%. Consumer spending was also revised downwards from 3.6% to 3.5%, as was the rate of increase in business spending on equipment and software from 13.4% to 12.7%.
- The US manufacturing sector expanded for the tenth consecutive month in May, albeit at a slower rate than previously. The institute for Supply Management’s purchasing manager’s index fell to 59.7 points last month, slightly down from 60.4 in April. A figure of 50 or above indicates growth and, despite the fall, the results suggest that momentum in the US manufacturing sector remains relatively strong.
- The US unemployment rate fell in May but fewer jobs were created during the month than expected. The jobless rate fell to 9.7% last month, from 9.9% in April. According to the US Labor Department some 431,000 jobs were created over the month, including about 411,000 extra workers taken on to help conduct the 2010 census. However, analysts had expected in excess of 500,000 new jobs.
- The major oil spill in the Gulf of Mexico has taken a huge toll on BP’s share value - almost halving it since the spill began in mid-April. BP has also suspended its quarterly dividend to shareholders as the company attempts to pay for a clean up and compensation scheme. The company, which says its finances are sound, has agreed to put aside \$20bn (£13.5bn) to compensate victims of the oil spill and it is expected that the full costs of the spill will have a negative impact on the company’s cash flow for a number of years. All three of the major international credit ratings agencies – Moody’s, Fitch and Standard & Poor’s – have downgraded BP. The impact of the spill and the fall in BP’s share value also has significant implications for UK pension funds – which are already coming under pressure from elsewhere. The National Association of Pension Funds (NAPF), which represents a large part of the UK pension industry, estimates that 1.5% of members’ money is invested in BP.

- Unemployment in the eurozone rose again in April 2010 to a fresh all-time high. The eurozone seasonally-adjusted unemployment rate was 10.1% in April, compared with 10.0% in March. It was 9.2% in April 2009. The EU27 unemployment rate was 9.7% in April 2010, unchanged compared with March. It was 8.7% in April 2009. Eurostat estimates that 23.3 million people in the EU27, of whom 15.9 million were in the eurozone, were unemployed in April 2010. Compared with March 2010, the number of persons unemployed increased by 25,000 in both the EU27 and the eurozone. Compared with April 2009, unemployment went up by 2.4 million in the EU27 and by 1.3 million in the eurozone.

EU Unemployment rates	
Highest: - Latvia	22.5%
- Spain	19.7%
- Lithuania	19.0%
Lowest: - Luxembourg	5.4%
- Austria	4.9%
- Netherlands	4.1%

- India's economy grew at an annual rate of 8.6% for the first three months of the year, largely thanks to growth in the manufacturing sector which saw its fastest growth for 15 years in April. This was a significant improvement over the – still impressive – 6.5% growth seen in the previous quarter. However the country is also facing inflationary pressures, with inflation at a two year high of 10.16% in May, meaning that interest rises are likely to rise over the coming months.
- The Bank of Canada has raised its key lending rate by a quarter of a percentage point to 0.5% making Canada the first member of the G7 group of industrialised nations to raise interest rates since the global financial crisis. The increase comes after Canada posted strong growth, growing at an annualised rate of 6.1% for the first three months of the year. Canada has been shielded from the worst of the financial crisis because of its stricter rules for mortgage lending, with no major Canadian lender requiring a bail-out from the Government.
- Australia's economy grew for a fifth successive quarter in the three months to March, albeit at a slower rate than the previous quarter. Official figures show GDP grew by 0.5% over the period, with revised figures for quarter four 2009 showing a 1.1% growth. Annual growth for the year to March was 2.7%. Australia was one of the few developed nations which avoided falling into recession last year, largely thanks to continued demand for its natural resources from China. Mining makes up about 9% of the Australian economy, however new proposals to increase taxes on mining have provoked a severe backlash from major mining companies who claim it will drive investment elsewhere and potentially impact on supplies to China.

National Context

Growth Prospects

- The UK economy grew slightly faster in the first three months of the year than first thought, according to revised figures from the Office for National Statistics (ONS). The economy grew by a revised 0.3% between January and March, up from the original estimate of 0.2%. Output was boosted after a strong rebound in industrial production which was revised up to 1.2% growth from the previous estimate of 0.7%. However, household spending showed no

growth in the quarter. Although the quarterly figure has been revised up it is still lower than the 0.4% growth seen in the fourth quarter of 2009.

- The new independent fiscal watchdog has downgraded the economic growth projections for the UK economy. The Office for Budget Responsibility (OBR) predicts the economy will expand by 2.6% in 2011, down from the 3-3.5% estimate given in Labour's last budget. The lower figure provides additional impetus on the coalition government to cut public spending, as lower growth means less tax revenue. Yet the OBR also predicts that the deficit and debt will not be as bad as forecast by the previous Government. The OBR figures suggest that the UK's public deficit will fall, down to 10.5% of GDP in 2010-11, from the 11.1% estimated by Labour. For overall net Government debt – the sum of all borrowing – the OBR estimates this will decline to 62.2% of GDP in 2010-11 from the previous estimate of 63.6%. However the OBR also says that the structural deficit – the part of the deficit that is not automatically reduced by economic growth and the most difficult to tackle – will widen from Labour's prediction of 7.3% of GDP in 2010-11 to 8.0%.
- UK industrial output fell unexpectedly in April, down 0.4% compared with March. Experts said the figure should not cause undue concern and that the drop should be seen as a correction after a particularly strong jump in output in March of 2%. Over the year output is still rising, with levels 2.1% higher than in April 2009. Manufacturing output also fell by 0.4% on the month but was up 3.4% year-on-year.
- A survey has suggested that business confidence amongst UK firms has seen its biggest drop since 1995 due to the government's rhetoric on spending cuts. The Business Trends survey from accountants BDO fell to 97 in May from 103.3 the previous month. The survey covers 11,000 companies from a range of industries. However, despite the fall in confidence, the survey also found that order book growth was strong in May.
- UK retail sales fell to a 14-month low in May, according to the CBI business group. Its monthly distributive trades survey reported a disappointing sales balance of -18, down from +14 in April. The CBI blamed bad weather in early May and a slowdown in the housing market for the fall in consumer demand.
- A survey by the CBI has reported that the average UK worker took 6.4 days off through sickness last year, the lowest number since 1987. The average number of days of sickness per year was 6.7 in 2007 when the survey was last run. As is usual, reported absences were more prevalent in the public sector with an average of 8.3 days off per employee, compared with 5.8 days per year in the private sector. The estimated cost of the 180 million sick days to the UK economy is £16.8bn, with approximately 15% or £2.5bn not actually due to genuine sickness according to the survey.

Inflation

- UK inflation fell to 3.4% in May from 3.7% in April, but remains well ahead of the Bank of England's 2% target. The fall was bigger than the 3.5% analysts' forecast, and could mean that April's 17-month high marks a peak. The Office of National Statistics said the drop was helped by lower food prices, as well as slower rises in the price of petrol, alcohol and tobacco. The retail prices index - a measure widely used in pay talks - rose by 5.1% in May, down from 5.4% in April the ONS said.

Interest Rates

- The Bank of England's Monetary Policy Committee (MPC) announced on 10 June 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 June 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 number of people unemployed in the UK increased by 23,000 to 2.47 million during the three months to April, official figures have shown. The unemployment rate was 7.9%, up from 7.8% in the quarter to January. However, the number of people claiming jobseekers allowance fell in May by 30,900 to 1.48 million, the ONS said. When compared with the figures for the three months to March, unemployment has fallen from 2.51 million.
- The ONS added that the number of people classed as economically inactive - those out of work and not seeking employment - rose by 29,000 during the three months to April to 8.19 million, or 21.5% of the working age population. The number of people out of work for more than a year increased by 85,000 to 772,000, while unemployment among 16 to 24-year-olds rose by 11,000 to 926,000. At the same time, the number of people in employment increased by 5,000 to 28.9 million. Some economists have warned that the government's planned spending cuts will further increase unemployment.

Housing

- House prices are still rising according to the latest monthly survey from the Nationwide building society. Prices went up by another 0.5% in May, pushing the price of an average UK home up to £169,162 which is £15,000 more than a year ago. Prices have now gone up in 12 of the last 13 months; however annual house price inflation fell slightly last month, from 10.5% to 9.8%. Nevertheless, the consistent level of price increase has taken many observers by surprise.
- Separate data from the Halifax building society showed that the UK housing market is slowing down again. Its latest monthly survey shows that prices fell by 0.4% in May, after a 0.1% drop in April, taking the average UK house price down to £167,570. The Halifax said that in the past year house prices had risen by just 6.9%.
- Mortgage lending edged up in April compared with the previous month, up by nearly 2% to 49,871 approvals. Nevertheless, this is only 4,300 higher than the number in April 2009 and is still below the average of the last six months. Meanwhile, UK consumers paid back more than they borrowed, with the net level of unsecured loans falling by £136m, the first time the value has fallen since November.
- A new report by the National Housing Federation has said that the number of new affordable homes built this year could slump by 65%. Funding cuts and changes to the planning system could see as few as 20,390 homes built, according to the group.

Economic Outlook for Cumbria

Unemployment

The May 2010 unemployment and vacancy figures were released by the Office for National Statistics on 16 June 2010. The JSA Claimant Count was taken on 13 May 2010 and the vacancy count was for the month to 7 May 2010.

- The JSA claimant *count* in Cumbria fell by 315 between April and May 2010 to 7,901. The claimant count fell in all districts except Carlisle and also fell regionally and nationally. Between the same two months last year, the count in Cumbria fell by 126. The JSA claimant *rate* in Cumbria in May was down 0.1 to 2.7%. The rate was also down regionally (0.2) and nationally (0.2) but remains higher than locally at 4.3% and 3.9% respectively.
- Compared to a year ago, the JSA claimant count in Cumbria is 59 lower, a decrease of 0.7% over the year (UK annual decrease 4%). The claimant *rate* in Cumbria is unchanged from a year ago, the national rate is 0.2 lower.

Residence-Based Claimant Count Rates – May 2010						
Area	All Persons		Monthly Change (All Persons)		Annual Change (All Persons)	
	Number	Rate	Number	% of Total	Number	% of Total
UK	1,502,155	3.9%	-65,973	-4.2%	-62,823	-4.0%
North West	183,841	4.3%	-7,987	-4.2%	-12,271	-6.3%
Cumbria	7,901	2.7%	-315	-3.8%	-59	-0.7%
Local Authority Districts						
Allerdale	1,655	3.0%	-92	-5.3%	-32	-1.9%
Barrow	1,641	3.8%	-36	-2.1%	214	15.0%
Carlisle	1,993	3.1%	8	0.4%	-208	-9.5%
Copeland	1,472	3.4%	-55	-3.6%	47	3.3%
Eden	399	1.3%	-1	-0.3%	-4	-1.0%
South Lakeland	741	1.2%	-139	-15.8%	-76	-9.3%

Notified Vacancies

- The number of new vacancies notified to JobCentre Plus in Cumbria in the month to 7 May 2010 was 3,151, a rise of 971 compared to the number notified in the previous month. The number of notified vacancies rose in all areas of the county. There were 1,010 more vacancies notified compared to the same period last year. The ratio of claimants to *live unfilled* vacancies in Cumbria was 4.24 in May 2010 (GB 5.16). The ratio is especially high in Copeland (where it is 11.07) due to a significantly lower number of unfilled vacancies compared to other parts of Cumbria.

Tourism Update

- The tourism industry in Cumbria has endured a very difficult six months. About one in five (21%) businesses have had more visitors during October to March than the same period a year ago, and just over one quarter (28%) have had the same level. However, about half (51%) have had fewer visitors. Extreme weather has been the main reason behind reduced visitor numbers.

- Profitability is also significantly down for the six month period. About one in six (16%) businesses have increased their profitability for the period and just under a third (29%) have maintained the same level. Over half (55%) of businesses, however, have experienced reduced profitability.
- About one in five (21%) businesses have had more visitors during Easter than last year, and about two in five (39%) have had the same level. Two in five (40%) businesses have had fewer visitors.
- The last minute booking trend which was prevalent throughout the whole of last year in both Cumbria and the rest of the UK has continued through this period. About two in five (42%) businesses have had more last minute bookings in the past six months than normal, and nearly half (47%) have had the same level. Only about one in ten (11%) report a decrease.
- There are signs that the industry is getting back on its feet, and advance bookings are looking reasonable considering the fairly extreme last minute booking trend and the difficult period just endured. About one quarter (24%) of businesses are up on advance bookings for April to June, and nearly half (47%) have the same level as normal. The outlook for July to September is similar.
- Confidence is high considering how difficult the winter has been. About half (51%) of operators say that business for the next six months is 'looking good' and over one third (36%) say that business is looking 'ok'. Only a minority (13%) say business is 'not looking great'. These figures are nearly identical to the same results this time last year.
- Self catering accommodation continues to struggle, with occupancy rates in general down on last year. There does seem to be some improvement as the year has gone on. January figures were down -10%, February the worst at -16%, but March figures were up 2% on last year and April down by -1%, so not too bad. However, as 2009 figures were for the most part also down on 2008, this is not a particularly strong performance.
- Serviced accommodation started badly, with January occupancy rates down -11% on last year. However, since then, performance has been exceptional, with room occupancy rates in February, March and April up by 11-13% on 2009 figures. Figures for these three months are also the highest since records began. February room occupancy was 50%, March 53% and April 64% (this is more like the figure we would usually expect for May and June).
- Provisional figures for caravan and camping show that March was on a par with last year and April looks significantly up.

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

- Almost 80 people are to lose their jobs at the British Cattle Movement Service in Workington. The Rural Payments Agency, who administers the scheme, has announced that the first 39 staff will leave on 6 August with the remaining 39 jobs being cut sometime in September. The staff are all on temporary contracts; however, with the pressures facing the public sector, many permanent employees also fear for the future of their positions. 543 staff currently work at the RPA site in Workington
- Staff at Carlisle College have been offered voluntary redundancy as public sector cuts take hold. All staff – full and part time – were given one week to put themselves forward for voluntary redundancy as the college attempts to save 3.5% on staff costs. A spokesman for

the college has said that they need to save around £300,000. The college employs 250 staff and caters for approximately 1,200 students.

- Carlisle building firm Alan Irving Construction has gone into administration. The business, established in 1980, carries out commercial and domestic building and joinery work in Northern England and Southern Scotland. Around a dozen staff are employed by the firm, although this is only half the number it had five years ago.
- A Carlisle training centre which has given hundreds of youngsters a start in the construction industry is to close. Eleven staff will lose their jobs when Carillion Training, on Port Road Business Park shuts early next year. The centre, which offers courses to school leavers in bricklaying, joinery, plastering and painting and decorating, will undergo a phased closure, eventually shutting its door for the final time in early 2011.
- A luxury Carlisle homeware shop has closed after just six months in business. The owner of Pink Fig in the city's Carlyle Court blamed a combination of extreme weather, the recession and a slightly 'off the beaten track' location for the closure.
- The number of people filing for bankruptcy in Carlisle has seen a sharp rise as the recession continues to bite. Fifty six people presented their own petitions to court in the first quarter of 2010. That compares with 42 in the first quarter of 2009, a 30% increase. However in West Cumbria the opposite was the case, with 30% fewer people applying for bankruptcy at Whitehaven County Court. 31 people filed petitions in the first quarter of 2010 compared with 44 in the same period last year.
- Councils across Cumbria are to lose almost £3.8 million from their budgets this year as the Government seeks to reduce the country's debt. Cumbria county council will lose the lion's share, with their budget being cut by £3.68 million
- A South Lakeland photo shop has closed down. The Kendal branch of UK chain of Jessops was closed without warning due to a lack of footfall. Five jobs were lost after the company said it planned to focus its efforts elsewhere, including the Carlisle store.
- The Kendal branch of express delivery firm DHL is set to close, threatening 19 jobs. The company insists that most jobs will be saved through reassignments to other branches – but all staff are in talks with the new parent company, Home Delivery Network Ltd.
- Sainsbury's plans for a £40 million store in Carlisle are on hold because city councillors dislike the "box-like" design of the store. A decision on the scheme in Caldewgate has been postponed to allow planners to negotiate a better design with Sainsbury's.
- Brampton Live has been cancelled with just a month's warning. Organisers have blamed poor ticket sales, funding cuts and lack of sponsorship for the demise of the north's biggest folk roots festival which had been due to take place on the weekend of 16-18 July.

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

- Work has begun this week on a £2.3 million performing arts centre for Kendal College. The state-of-the-art project, at Wildman Street, will provide professional facilities for development of skills in drama, dance and technical theatre. The building has been made possible through investment by Kendal College and a £1.3 million grant from the North West Development Agency.

- Kendal Riverside, the company behind K Village have announced that the complex is on course to open on July 28 and a topping out ceremony has been held to mark completion of the £100 million outlet. The development was set for a June opening but adverse weather, including last November's floods, and access problems caused by its proximity to the River Kent, hindered progress.
- Eight new jobs have been created with the reopening of a grocery store in Arnside.
- A new academy has been launched in Penrith to train the next generation of tradesman. Two plumbers, with more than 70 years experience between them, have set up the Cumbria Independent Vocational Academy which is based on the Skirsgill Industrial Estate. The centre will offer courses leading to a City and Guilds qualification for apprentices and people keen to switch careers.
- The chief executive of Furness Building Society has been named as the new chairman of Barrow Regeneration. Rob Cairns will assume responsibility for overseeing the delivery of a packed programme of activity that includes the £180m Waterfront Barrow-in-Furness business, residential and leisure development.
- Lowther Castle will reopen to the public next year after a multi-million pound restoration. The castle, near Penrith, has been derelict since World War Two and the trustees of the estate plan to preserve the romantic decay of the castle and gardens. The new attraction is expected to draw more than 160,000 visitors each year, creating new jobs and generating more than £10 million per year for the county's economy.

Summary

The G20 group of finance ministers and central bank governors from 20 major world economies has decided that cutting deficits is now the number one priority. Nearly all of the major European economies have now accelerated their plans to cut borrowing with Germany one of the latest to announce another round of consolidation. But the G20 statement, agreed in South Korea on Saturday, focuses on the importance of "sustainable public finances" - and the need for countries to take "credible, growth-friendly measures" to achieve that. Both the US and the IMF pushed hard for that reference to "growth-friendly" with both worried about the real economic impact of everyone slashing their deficits in 2011. These fears are apparently shared by investors judging by recent movements in world markets.

When seen in the context of 12 months during which the European economy suffered a deep recession, the comparative resilience of the UK is a remarkable economic success story. However back in the UK, changes are afoot and the new coalition government's budget on the 22 June will outline how many of the expected cuts and/or tax rises will take shape. And, although borrowing is lower than we thought - about £3bn lower by 2014-15, the Office for Budget Responsibility thinks we have less room to grow our way out of that debt than before - meaning the structural hole is that much bigger. All eyes are on the public sector and particularly public sector pensions, which have become a real hot potato in recent weeks, being viewed as unsustainable by many.

In Cumbria, while unemployment has continued to fall uncertainty remains, particularly within the public sector. Additionally, the balance of news stories this month appears to have tipped back in favour of the negative with a number of firms going into administration or shedding jobs. With Cumbria historically highly dependent on public sector expenditure, the pronouncements in next week's budget could have a deep and lasting affect on many.