

Monthly Economic Briefing Number 19: July 2010

Introduction

“The squeeze from higher taxes and lower public spending has barely begun”

Stephanie Flanders, BBC economics editor, 14 July 2010

International Context

- The International Monetary Fund (IMF) has raised its forecast for global economic growth this year, from 4.0% to 4.5%. The organisation reported that the world economy grew strongly in the first part of this year, mainly due to robust growth in Asia. Developed economies maintained a modest but steady recovery in the same period. However the IMF also warned that risks had increased and there had been a setback in progress towards financial stability.
- Despite the upturn in the global outlook, the Fund's economists think that UK growth prospects have got notably worse. Back in April, the Fund was expecting the UK economy to grow by 2.5% in 2011. In July's update that prediction has fallen to 2.1%. The forecast for 2010 has been nudged down as well - from 1.3% to 1.2%. The Fund doesn't spell out why it is now more gloomy about the UK, but last month's Budget is a very likely reason.
- The report also highlights the tightening in fiscal policy which has occurred in the eurozone in recent weeks which it reckons will cut growth in those economies by about 0.25 percentage points in 2011. This means that the Fund is looking at just 1.3% growth for those countries in 2011 - much slower than the UK - with faster growth in Germany and France offset by very weak growth for Spain and others.
- The US economy grew at an annual rate of 2.7% in the first three months of 2010, slower than previously estimated. The US Commerce Department had previously estimated growth of 3.2% and 3.0% versus the same period in 2009. Business investment and consumer spending – important components of GDP – were both revised downwards in the latest estimates, whereas inventory adjustments were revised up.
- There were about 125,000 US jobs lost in June, the Labor Department has said, the first time jobs were shed on a month-on-month basis since October. The overall decline was driven by the departure of 225,000 temporary employees who had been working on the US census in May. The private sector created 83,000 jobs, data which investors will look to for signs of recovery. That was an improvement on May but below March and April's totals. It was also less than analysts had hoped for and less than is needed to keep pace with a growing population. The US unemployment rate fell to 9.5% in June from 9.7% in May. However, that was due to people no longer looking for work and therefore not officially counted as unemployed.
- The US service sector grew in June, but at the slowest pace since February, according to a survey by the Institute for Supply Management (ISM). It was the sixth month in a row that the key component of the US economy expanded. The report followed a flow of recent economic reports that have raised fears the US recovery is faltering. The ISM, a trade group of purchasing executives, said its service sector index fell to 53.8 from 55.4 in May. A reading above 50 indicates expansion in the sector, while a reading below 50 indicates shrinkage.

The ISM's data on employment was less positive, however. That component fell to 49.7 from 50.4, confirming the latest employment figures.

- Sales of previously-owned US homes fell unexpectedly in May despite tax credits designed to encourage homebuyers. Sales fell 2.2% to 5.66 million after a surge in sales in April according to the National Association of Realtors (NAR). Analysts had expected sales to rise, however the NAR said sales were still strong and 19% higher than a year ago. The average price of a home in the US was \$179,600 (£121,400) in May, up 2.6% on a year ago.
- Eurozone and EU27 GDP both increased by 0.2% during the first quarter of 2010, compared with the previous quarter, according to second estimates from Eurostat, the statistical office of the European Union. In the fourth quarter of 2009, growth rates were +0.1% in the eurozone and +0.2% in the EU27. In comparison with the same quarter of the previous year, seasonally adjusted GDP rose in the first quarter of 2010 by 0.6% in the eurozone and by 0.5% in the EU27, after -2.1% and -2.3% respectively in the previous quarter.
- The eurozone seasonally-adjusted unemployment rate was 10.0% in May 2010, unchanged compared with April. It was 9.4% in May 2009. The EU27 unemployment rate was 9.6%, unchanged compared with April. It was 8.9% in May 2009. Eurostat estimates that 23.1 million men and women in the EU27, of whom 15.8 million were in the euro area, were unemployed in May 2010. Compared with April 2010, the number of persons unemployed decreased by 37 000 in the EU27 and increased by 35 000 in the eurozone. Compared with May 2009, unemployment rose by 1.8 million in the EU27, and by 1 million in the eurozone.

EU Unemployment rates	
Highest: - Latvia	20.0%
- Spain	19.9%
- Estonia	19.0%
Lowest: - Luxembourg	5.2%
- Netherlands	4.3%
- Austria	4.0%

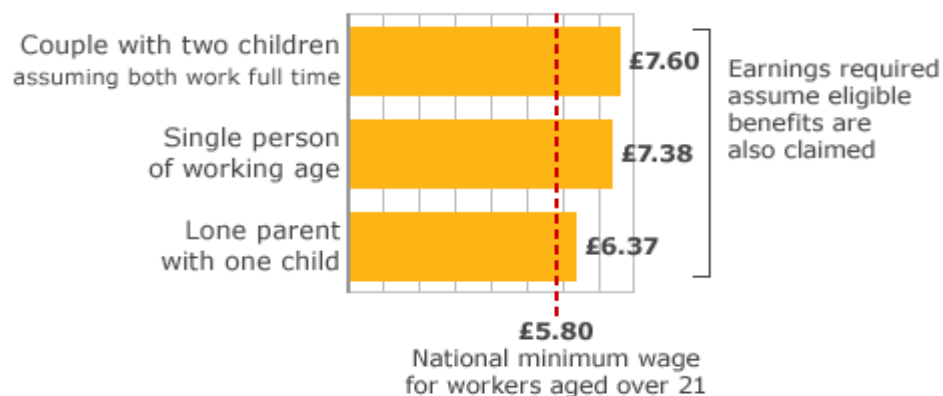
- German imports have risen at their fastest rate since unification in 1990, outpacing a sharp rise in exports. Imports rose by 14.8% in May compared with the previous month, while exports grew by 9.2%. Both figures were much higher than analysts had expected. As a result, Germany's trade surplus narrowed to 10.6bn euros (\$13.4bn; £8.8bn) for the month. The data indicates that Europe's biggest economy is growing robustly on the back of strong demand from Asia and a weakened euro, however the month-on-month import and export figures were also boosted by the comparison with the relatively weak data from April.
- EU finance ministers have given final approval for Estonia to adopt the euro as its currency on 1 January 2011. The Baltic state, population 1.3 million, will become the 17th member of the single currency. It met entry requirements on inflation, debt and deficit levels, interest rates and currency stability. The euro will replace the kroon in Estonia at a final conversion rate of 15.6466 kroon to one euro.
- The Republic of Ireland officially moved out of recession in the first quarter of 2010. Irish GDP rose by 2.7% during that period on the last three months of 2009. The return to growth was the first rise in Irish GDP since the final quarter of 2007, bringing two years of recession to an end. However, the number of people claiming unemployment benefit rose by 5,800 in June to 444,900, giving an unemployment rate of 13.4%.

National Context

Growth Prospects

- The UK economy grew by 0.3% in the quarter from January to March, the latest official figures have confirmed. The revision of the GDP data is unchanged from that issued by the Office for National Statistics in June. The ONS also confirmed that Britain emerged from recession in the fourth quarter of 2009, with the economy growing at a quarterly rate of 0.4%, as earlier estimated. However, as part of a major revision of previous quarters' GDP data, the ONS said that Britain's economy contracted by 6.4% between the second quarter of 2008 and the third quarter of 2009. This is more than the 6.2% reported previously, suggesting that the recession was deeper than first thought.
- The UK economy continued to grow in the second quarter of this year, according to a survey by the British Chambers of Commerce. The organisation, which collected data from 5,600 businesses across the country, predicted growth for the three months to the end of June of between 0.6% and 0.7%. However it warned that serious concerns over sustained recovery remained, with the service sector presenting the biggest worry.
- Official figures suggest the volume of retail sales continues to increase at a modest pace. Sales in May were up 2 per cent over the last year and by 1 per cent comparing the last three months with the previous three. But anecdotal evidence suggests the picture is weaker, with the CBI reporting high street sales fell for a second consecutive month in June. High inflation is restricting households' spending power and consumers may also be worried about a renewed increase in unemployment following the budget.
- The number of people in work rose by 160,000 in the three months to May, the biggest rise since August 2006. However, the increase was due to a record 148,000 rise in the number of part-time workers, while full-time workers increased by just 12,000. The ONS said the percentage of workers in part-time jobs was 27%, the highest since records began in 1992.
- A single person in the UK needs a gross income of at least £14,400 in 2010 to live to an acceptable standard, according to the Joseph Rowntree Foundation. A couple with two children need £29,200 for a minimum acceptable standard of living. The figures indicate a growing gap between the national minimum wage and the minimum income standard.

Minimum hourly earnings needed



Source: Joseph Rowntree Foundation

Key findings from the report include:

- The minimum household budget needed to rise by 3% to 4% in the year to April - broadly in line with inflation.
- In the last 10 years, inflation had risen by 23%, but key essentials cost 38% more.
- This included food prices (up 37%), bus fares (up 59%), and council tax (up 67%).
- 600,000 jobs are expected to be lost in the public sector over the next six years according to the new Office for Budget Responsibility (OBR). The OBR has forecasted 490,000 job losses by 2015 and 610,000 by 2016. However these losses will be more than compensated for by the predicted creation of 1.34 million new jobs overall across both the public and private sectors by 2016.
- UK new car sales rose 10.8% in June compared with the same month last year, industry figures have shown, despite the end of the scrappage scheme. The Society of Motor Manufacturers and Traders (SMMT) said 195,226 new cars were sold in June, adding that the performance was "above expectations". June registrations were boosted by a rise of more than 25% in fleet sales. In addition to the rise seen in the fleet market, the business sector also enjoyed an 18.4% increase in sales. Private sales, on the other hand, were 3.3% lower than in June last year. In the six months from January to June, there were 1,208,662 new registrations, a 19.9% rise on the first half of 2009.
- The nine regional development agencies (RDAs) across England are to be scrapped. Budget documents show that the quangos, set up by the labour government, will be replaced by Local Enterprise Partnerships in a process that will begin with a White Paper to be published later in the summer. RDAs were established to work with local government, businesses and other partners to help regeneration, employment, business efficiency and skills development. Nationally, they employ around 3,400 people.
- Home Secretary, Theresa May, has said that the number of skilled workers allowed into the UK from outside the EU is to be cut. The number admitted will decrease to 24,100 in the year to April 2011, 5% less than last year. Ministers say the temporary measure will cut the flow of immigrants while a consultation is held regarding a permanent cap on the level of immigration.

Inflation

- UK inflation slowed for a second month in June, to 3.2% from 3.4% in May. Falling clothes and fuel prices helped weigh the headline inflation rate down. However, CPI inflation has remained above the Bank of England's 2% target since December. The Retail Prices Index (RPI) inflation measure also fell to 5% from 5.1% May.

Interest Rates

- The Bank of England's Monetary Policy Committee (MPC) announced on 8 July 2010 that it had decided to keep interest rates at a record low of 0.5% for the 16th consecutive month. Rates have been on hold since March 2009. However, minutes from the June meeting, released on the 23 June, show that MPC member Andrew Sentance voted to raise the rate to 0.75%, the first call by a MPC member to increase the rate since August 2008. Mr Sentance had argued the rate rise was needed to curb inflation in the absence of significant spare capacity in the economy.

Quantitative Easing

- Also at its meeting on the 8 July 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) fell by 34,000 over the quarter ending May 2010 to reach 2.47 million. The jobless rate also fell, by 0.1 of a percentage point to 7.8%, the lowest since January. The seasonally adjusted claimant count for the UK was 1,460,100 in June 2010, down by 20,800 over the previous month. Similar seasonally adjusted figures are not available at local level.
- Unemployment among recent graduates has risen significantly, with men worse affected than women, according to a leading education think tank says. The Higher Education Policy Institute said unemployment among graduates aged under 24 rose by 25% from 11.1% in December 2008 to 14% in December 2009. In terms of gender differences, the think tank said that at the end of 2009 17.2% of male graduates were out of work compared with 11.2% of women, however men still earned more on average once in work. In addition, the Higher Education Careers Service has claimed that because so many college leavers join the public sector, they were especially vulnerable to cuts, stating that if only a fifth of the 39,000 graduates joining the public sector each year lost their jobs, then graduate unemployment would be pushing 25%. As already noted above, some 600,000 public sector jobs are forecast to be lost by 2016

Housing

- House prices in England and Wales fell by 0.2% between April and May, according to the Land Registry. The annual rate of price change also fell, with prices 8.2% higher in May from a year ago, against 8.5% in April. The average property value in England and Wales is now £165,314 according to the Land Registry's figures.
- Separate figures from the Halifax show a continued fall in UK house prices in June. Property values dropped by 0.6% compared with May, following a 0.5% fall the previous month, the Halifax said. This meant prices in the second three months of the year were 0.1% lower than the first quarter. More properties coming onto the market and less activity from house buyers has caused the fall, the lender said. The average home in the UK is now valued at £166,203 according to Halifax figures.
- However, according to further figures produced by the Nationwide building society, house prices are still on the up, having risen, albeit slightly, by 0.1% in June. This rise follows a 0.5% increase in May, with the average property now costing more than £170,000, giving an annual rate of house price inflation of 8.7%
- The number of loans made for house purchases rose slightly in the UK in May as low interest rates continued, lenders have said. About 42,000 home loans were granted in May, up 2% on the previous month and 15% higher than May 2009, according to the Council of Mortgage Lenders (CML). The Council, which predicts mortgage borrowing would slow in the rest of 2010, also added that mortgage interest payments accounted for the lowest proportion of home movers' expenditure for 35 years.

Economic Outlook for Cumbria

Unemployment

The June 2010 unemployment and vacancy figures were released by the Office for National Statistics on 14 July 2010. The JSA Claimant Count was taken on 10 June 2010 and the vacancy count was for the month to 4 June 2010.

- The JSA claimant *count* in Cumbria fell by 329 between May and June 2010 to 7,572. The claimant count fell in all districts 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 June 2010 was down 0.1 of a percentage point to 2.6%. The rate was also down regionally (by 0.2) and nationally (by 0.2) but remains higher than locally at 4.2% and 3.8% respectively.
- Compared to a year ago, the JSA claimant count in Cumbria is 264 lower, a decrease of 3.4% over the year (UK annual decrease 7%). The claimant *rate* in Cumbria is down 0.1 from a year ago, the national rate is 0.3 lower.

Residence-Based Claimant Count Rates – June 2010						
Area	All Persons		Monthly Change (All Persons)		Annual Change (All Persons)	
	Number	Rate	Number	% of Total	Number	% of Total
UK	1,444,096	3.8%	-58,059	-3.9%	-109,160	-7.0%
North West	177,275	4.2%	-6,566	-3.6%	-17,063	-8.8%
Cumbria	7,572	2.6%	-329	-4.2%	-264	-3.4%
Local Authority Districts						
Allerdale	1,597	2.9%	-58	-3.5%	-61	-3.7%
Barrow	1,514	3.5%	-127	-7.7%	33	2.2%
Carlisle	1,914	3.0%	-79	-4.0%	-171	-8.2%
Copeland	1,463	3.4%	-9	-0.6%	18	1.2%
Eden	377	1.2%	-22	-5.5%	-1	-0.3%
South Lakeland	707	1.2%	-34	-4.6%	-82	-10.4%

Notified Vacancies

- The number of new vacancies notified to JobCentre Plus in Cumbria in the month to 4 June 2010 was 2,386, a fall of 765 compared to the number notified in the previous month. The number of notified vacancies fell in all areas of the county. There were 578 more vacancies notified compared to the same period last year. The ratio of claimants to *live unfilled* vacancies in Cumbria was 3.31 in June 2010 (GB 4.67). The ratio is especially high in Copeland (where it is 7.78) due to a significantly lower number of unfilled vacancies compared to other parts of Cumbria.

The Budget

Since last month's briefing the coalition government have announced a raft of new measures in their emergency budget. Chancellor George Osborne has argued that a radical budget is needed to avoid financial disaster in the UK similar to that being felt in continental Europe. His resulting budget is certainly aggressive and will result in an enormous fiscal squeeze totalling 8.4% of GDP over six years.

Scale of the task:

The Office for Budget Responsibility expects the government deficit to be 10.1% of GDP this year. Of that figure, 4.8% is the so-called structural deficit that the budget is intended to tackle. This structural deficit is the part that is expected to be impervious to economic growth or, in other words, is the part that doesn't shrink naturally once the economy begins to recover. On the other hand, 2.7% is the cyclical deficit which should disappear of its own accord through, for instance, increased tax revenues and reduced unemployment benefit, as the economy recovers. In an effort to tackle the deficit, the Chancellor has set out cuts of £40bn by 2014-15 on top of the £73bn of cuts already outlined by the previous Labour government. The resultant fiscal tightening of £113bn by 2014-15 is unprecedented.

Tax Rises:

Approximately 25% of the deficit reduction measures will come via additional taxation. Of this, the increase in VAT to 20% is the most significant, and is forecast to bring an extra £13bn into the government coffers by 2014-15. The next largest earner will be the proposed bank levy, which will generate an additional £2.4bn per year by 2014. However, the bulk of the extra revenue brought by the increase in taxes will be offset by tax cuts elsewhere, for example: £4.1bn will be returned to businesses through reductions in corporation tax and the small profits rate; £3.7bn through the partial reversal of Labour's planned National Insurance hike and £3.9bn through the rise in the personal allowance by £1,000. The resultant net change in tax revenue once cuts have been taken into account comes in at £8.2bn by 2014-15.

Spending Cuts:

80% of George Osborne's planned savings are expected to come from spending cuts. This compares with a 71% share under the former Labour government's plans. Mr Osborne plans a massive £31.9bn annual net spending cut by 2014-15. Of this figure, £11bn will come from cuts to welfare benefits and another £2.2bn from reductions in government investment programmes. However it won't be clear where most of the pain will be felt until the Comprehensive Spending Review in October. Nonetheless, government departments are already being told to plan for 25-40% reductions in their budgets, with only International Development and Health exempt from spending cuts. Departmental cuts are expected to net £20.9bn per annum by the 2014-15 tax year.

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

- Sixty nuclear jobs are to be axed in west Cumbria. The Nuclear Decommissioning Authority (NDA) has announced the posts will go at its headquarters on the Westlakes Science Park, near Whitehaven. The agency has begun a 30-day consultation with staff and it says it hopes the bulk of the redundancies will be voluntary. The agency will now move into a new role as a watchdog, holding nuclear companies to account, rather than running the industry, the NDA said. Two hundred staff are employed at Westlakes, which became its main base in 2005.
- Staff at Carlisle City Council are facing another wave of job cuts. The council's ruling executive is being asked to release nearly £1.5 million set aside to cover the cost of redundancies. Chief executive Maggie Mooney has spoken on the subject saying that it was "impossible" to say how many jobs might go but the figure would "absolutely" be fewer than 100. The cuts are part of the authority's three-year 'transformation programme' to cut annual spending by £3m over three years. The first phase, last year, saw the senior management team slashed from 19 to eight.

- Cumbria County Council has introduced a recruitment freeze in response to last month's Budget statement. Only essential posts will be filled when staff leave or retire, and only then on the say so of chief executive Jill Stannard. Councillor Stewart Young, the Labour deputy leader of the county council, said the authority was already tightening its belt in anticipation of a financial squeeze.
- Carlisle Renaissance, the much-criticised initiative to revive Carlisle after the 2005 floods, is dead. Its board agreed to disband yesterday and the name 'Renaissance' has been dropped with immediate effect. Instead, a new joint cross-party working group of six city and county councillors will take on the job of regenerating Carlisle, reporting to their respective councils. Some of Renaissance's 10 staff will transfer to Carlisle City Council. Others are set to lose their jobs. Carlisle Renaissance claims to have attracted £5m of public-sector investment in Carlisle as well as £0.5m investment in training and business support and the creation of 45 new businesses, 150 jobs and getting 500 people into work.
- Looming cuts could "significantly change" the role of the Lake District National Park Authority. The LDNPA already has to pay back five per cent (£354,000) of this year's £7 million Defra grant, but may have to wait until February to find out what further cuts there might be. Over the next four years, the authority could lose as much as £1.75m from its annual grant. Officials from the authority are drawing up spending plans for a variety of scenarios but have ruled out any staff cuts this financial year. A final decision on cuts and savings will be made by the full authority in September. The authority employs 220 staff and is the statutory planning authority for the National Park.
- The University of Cumbria is on the "at risk" register for the Higher Education Funding Council for England (HEFCE), a list of institutions whose existence is seen to be under threat. The University has built up an accumulative deficit of £30m in its first three years and it has recently been announced that seven members of the 21-strong board of directors, including the chairman, will leave.
- House prices in Cumbria fell in May, official figures show. The Land Registry, which records every property sale, says prices dropped by 1.1% in May – more than wiping out the 0.6% rise it reported the month before. The average home in the county was worth £131,428, compared with £132,847 in April. Despite the fall, prices are 2.2% higher than a year ago when the typical home was worth £128,607. But values are still 9.4% below the market peak in March 2008. Although Cumbrian house prices have fallen in two of the past three months, more homes are now changing hands with an average of 384 properties sold each month between January and March, compared with 307 a month in the same period of 2009.

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

- Kingmoor Park industrial estate in Carlisle is pushing ahead with a major expansion, despite the economic downturn. The £50m scheme to build on 104 acres of agricultural land at Brunthill could eventually create 3,500 jobs. There would be 175,000sq ft of new office space plus 946,000sq ft of general industrial, warehousing and storage space. The completed scheme would link the existing Kingmoor North and Kingmoor Central developments to create one of the biggest industrial estates in the North West.
- Ministry of Justice officials confirmed this week that plans to build new prisons have not been hit by controversial proposals to jail fewer criminals and use more community sentences. Land at Carlisle's Kingmoor Park industrial estate is among the sites that have been put forward for the Government to consider. The Government will announce later this year whether Carlisle is in the running to house a new prison, potentially creating 600 jobs.

- One of the country's largest suppliers of car and van parts has handed a jobs boost to Carlisle. Euro Car Parts has created 19 new jobs with the opening of a branch on the city's Kingstown Industrial Estate. Among the people just taken on are drivers, warehouse workers, office staff and sales people.
- A thousand more students could be recruited to the cash-strapped University of Cumbria after the government agreed to lift admissions restrictions. The enrolment boost could provide a desperately-needed financial lifeline in tuition fees. The cap was lifted by universities minister David Willetts, and campaigners hope it may lead to a re-think of the proposal to close the university's Ambleside campus. The university currently has 6,715 full-time students.
- Maryport is in line for an employment boost after plans were lodged to build a new fish factory, creating 50 jobs. Details about the jobs were revealed as Glendawn Seafoods submitted an application for a new salmon processing plant. It is the latest expansion from the firm after it revived an important employer in the town. Just last month, 30 jobs were created when the company reopened the Glendawn Fish Factory, which closed after Cumbria Seafoods moved to the north east. Allerdale council's development panel will meet later this year to discuss the proposal.
- A £20 million nuclear research centre has been given the go-ahead at Westlakes, creating 40 jobs. Copeland council planners approved plans for the centre, by the University of Manchester, at Westlakes Science and Technology Park, near Whitehaven. Building work is expected to start in the autumn on the 2,000 square-metre facility and within 12 months time, 40 staff and postgraduate researchers will move onto the site. Jointly funded by the university and the Nuclear Decommissioning Authority (NDA), the university says the facility will lead the way in radiation science and nuclear engineering decommissioning research.
- A summer festival has been organised in a bid to fill the void left by the cancellation of Brampton Live. Brampton Festival will be held on the weekend that would have hosted the three-day showcase before it fell victim to a lack of funding. A group of local businesses who were concerned about the impact of the loss of Brampton Live on the town came up with the idea for the new festival which will see a 30-stall street market, live music, dancers, bands and children's activities line the streets.
- Another Cumbrian festival success story - Kendal Calling - has sold out four weeks ahead of opening. The festival takes place at Lowther Deer Park, near Penrith, between July 31 and August 2 and is set to be the biggest yet with 8000 tickets sold. Headline acts include Calvin Harris, Doves, The Coral and Kendal band Wild Beasts.
- Around 250 people responsible for maintaining the M6 and A66 in Cumbria are to move into new premises on the outskirts of Penrith. For the past seven years, routine inspections and winter salting of more than 400km of Cumbria and Lancashire roads — known as Area 13 — has been carried out by AmeyMouchel. But from next week that task will fall to Enterprise-Mouchel, which was awarded the contract for this work by the Highways Agency earlier this year. The deal is worth around £150 million over five years. The 250 workers will officially be transferred from the Skirsgill depot to a new building erected by Enterprise-Mouchel on the nearby auction mart site, safeguarding the jobs to the local economy.
- An Eden-based bakery firm is creating at least 20 new jobs as a result of a successful new venture. Bells of Lazonby has set up a new division focusing on supplying coffee shops and

catering outlets on a national basis. Orders have been secured which will add at least 20 new permanent jobs to the company's 200-strong workforce.

- Sainsbury's has issued a promise to the people of Penrith that it will build out all elements of the New Squares shopping and housing development responding to fears from townspeople that the company's plans to delay building the Common Garden Square and surrounding retail units will result in it never happening. However, all elements of the scheme must be completed within five years and Sainsbury's has an obligation to build the 141 housing units within 12 months of the supermarket being completed.
- A new Booths supermarket could be under construction at the northern end of Penrith by September, if Eden councillors give it the go-ahead. Outline approval for redevelopment of the former Rickerby's and Bowman's sites on Brunswick Road into a 30,000sq ft supermarket was granted by the council in November. Booths has now submitted a detailed application to Eden Council, which looks set to go before the planning applications committee in August.
- Cumbria's bid to become the Adventure Capital of the UK has been officially backed by outdoors guru Julia Bradbury. "Adventure Capital" status could bring in as much as an extra £75 million tourism spend into the county and could see new tourism businesses flourish, new jobs being created and new visitors all helping the county's fragile economy. Cumbria is already home to more than 100 outdoor activity businesses and many more outdoor retailers, but there is belief this section of the tourism industry could grow. Currently the sector employs around 1,500 to 2,000 people countywide.

Summary

Whilst the IMF believes that the global outlook is improving led by the resurgence of Asian and other major developing economies, many economists are worried that US growth is faltering. This has been further highlighted this month with the downward revision to US growth in the early part of the year as well as job losses in June and a slowdown in services growth and the housing market. The outlook for the UK is also fairly weak, with the forecast from the IMF and worries about the strength of the services sector painting a worse picture than that over the previous couple of months.

The Chancellor's proposal to eliminate the structural budget deficit over the next four years is founded on a key assumption: that private spending is being held back by worries about the scale of government borrowing. He firmly believes that by bringing the deficit under control through taxes and spending cuts, he will encourage households to spend and companies to invest and that this extra activity will offset contraction in the public sector. However, with confidence still low after the recession, the risk is that households may react to the increase in VAT and the prospect of public sector job losses with *more* caution, not less. Consequently, if household spending remains subdued and if growth in the eurozone – the UK's biggest export market – also fails to materialise, then there is a very real danger that companies will actually remain reluctant to invest.

The continued fall in the unemployment rate in Cumbria (as well as nationally and regionally) is encouraging although there is no room for complacency with widespread fears for the scale of public sector job losses over the coming months and years. As regular readers of this briefing will know, Cumbria has not been as hard hit by the recession when compared with many other parts of the country. However, it is also the case that Cumbria has struggled, historically, to attract inward investment – particularly without public sector support – so there is a danger that, with the government pinning its hopes on a private sector driven recovery, the impact of the forthcoming public sector recession could be far more damaging to Cumbria's economy than what has gone before.