

Economy Monitoring – Monthly Update

February 2009

Summary

Across the UK the data shows an increase in both the claimant count and unemployment. House prices continue to fall and mortgage lending is still on a downward trend. Construction orders have also declined in line with a reduction in output of the production industries. In contrast, retail sales have increased both on a quarterly and monthly basis.

The Bank of England and the Financial Services Authority have both analysed the economic situation. They concur in considering the downturn to be severe though understandably do not predict how severe or the duration. Comparison with previous downturns in the economy indicate the severity of the situation. The ONS in its monthly update state that *'the early evidence suggests that manufacturing will experience a recession more reminiscent of the early 1980s than the early 1990s.'* They also indicate that *'the slump in service sector output during the last two quarters of 2008 is fairly unprecedented in UK economic history'*. (Chamberlin, 2009, Economic and Labour Market Review).

Trends for Cornwall are following UK trends with an increase in the claimant count (JSA), fewer vacancies and falling house prices. The SW RDA consider that in relation to other parts of the SW, Cornwall may not suffer as much.

Introduction

This report sets out a number of indicators which show what is happening in the economy, relating to claimant count, unemployment, house prices and repossessions. Some of these relate to Cornwall, others show what is happening across the UK. Not all indicators/reports are issued monthly, hence updates will vary in coverage. Each update will only include new data.

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Cornwall

1 Monthly economic indicators

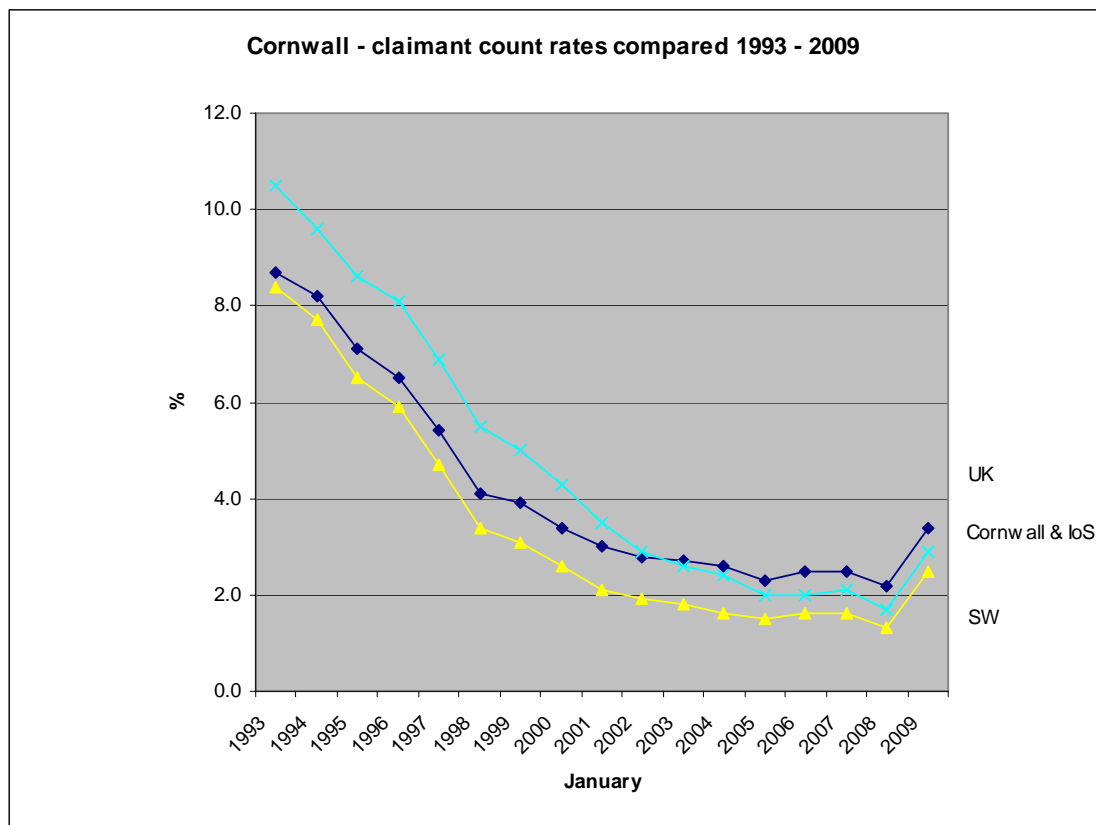
Claimant Count (JSA)

The latest claimant count data was released on 11th February 2009. The figures relate to those claiming Jobseekers Allowance. *[This figure is considered to underestimate the actual numbers unemployed, hence though useful the unemployment figures are taken as a more accurate representation of the situation].*

As expected there has been an increase in the numbers claiming. The total for Cornwall and the Isles of Scilly is now 8,998 or 2.9%. The UK rate is 3.4% and the SW rate 2.5%. Since December numbers in Cornwall have increased by 1,134, a rise of 14.4%. Comparative figures for the UK and SW are 11.2% and 15.1%.

The figure below shows the changes in the claimant rates. In Cornwall, this year shows an upward movement after last years dip when the lowest rate since 1993 of 1.7% was recorded, which with the exception of 2007, was preceded by a period of steady but limited decreases then two years of flat-lining. The UK rate showed a similar pattern.

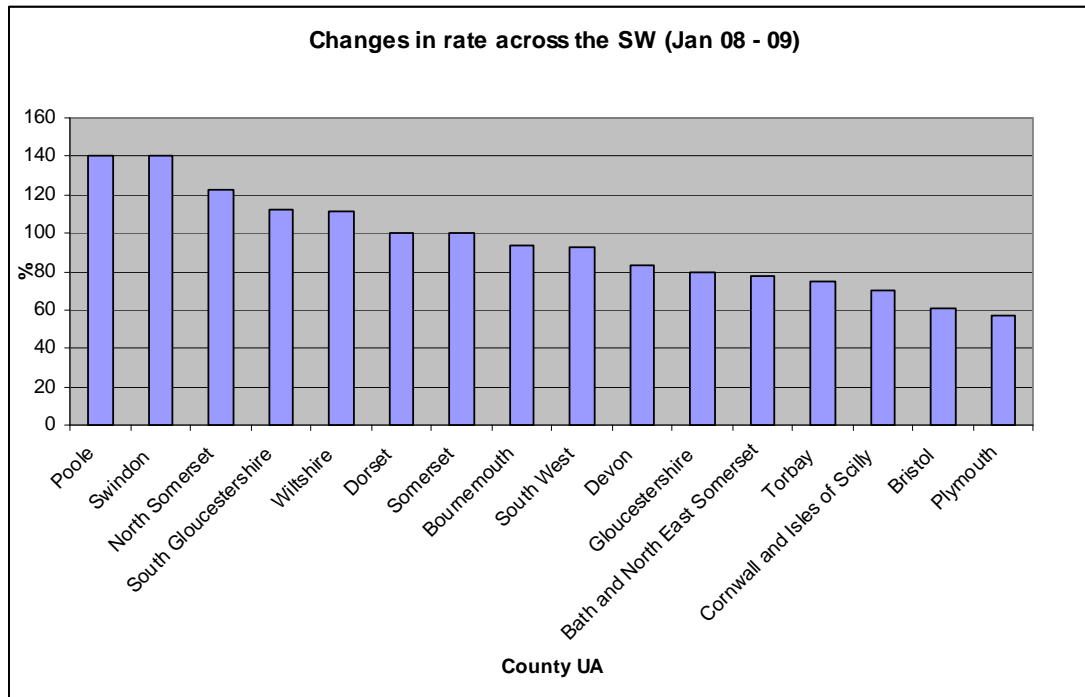
Fig 1: Claimant count



Since January 2008 the number of claimants has risen by 3,746 or 71%. This compares to an increase of 54% across the UK and 87% across the South West. The last time Cornwall's January figure was higher than this

was in 2001 when it equalled 10,369. Figure 2, shows the percentage change in the claimant count rate over the past year. Across SW England the 2009 rate was 92% above the 2008 rate, for Cornwall the figure was 71%.

Fig 2: Changes in claimant count rate



Redundancies/Job losses

Redundancy data is not readily available at a local level. Hence information here is partial with rapid changes in the situation. There is also not a clear link between news of firms going into administration, redundancies and changes in the claimant count. For a variety of reasons not all those made redundant end up claiming JSA. Though this might be because some people have obtained another job, this factor may not account for all the discrepancies. It is also unusual for job losses at smaller firms to be made public; hence some job losses are unknown.

May Gurney have announced job losses in March or April though they indicate this is due to the end of projects rather than recession related. Fifteen people have lost their jobs after the closure of a Mercedes Benz garage in St Austell. Imerys have announced 43 redundancies starting from March. St Ives Plc, which has a plant at Roche, has announced job losses in the future. A care home in St Austell is experiencing difficulties with 32 jobs under threat, at this stage what the outcome will be is unknown. Although Austin Hinkley at Pool, is in administration, they continue to operate with no known redundancies.

Vacancies

The latest vacancies data was released on 11th February 2009. There were 752 vacancies in Cornwall in January. This represents a decline of 736 since December (-98%). This decline reflects a general fall in vacancies -

Britain (-100%), SW England (-93%). Compared to January 2008 the number of vacancies has decreased by 312 or -29%. Again vacancies fell across Britain (- 39%) and the SW (-38%).

One way of analysing the data is to look at the vacancy to claimant count ratio. This, which shows the number of vacancies per claimant, is a crude measure of how buoyant the jobs market is.

Currently the ratio in Cornwall stands at 0.08, the lowest recorded within the last year. The figure for Cornwall is also lower than for the SW (0.14) and Britain (.10). The January 2009 figures are also all below the figures for January 2008. Actual vacancies were lower in January 2009 than in January 2008 for all areas.

Table 1: Labour market comparisons

Month	Great Britain			South West			Cornwall and Isles of Scilly		
	Claimant (CL)	Vacancies (V)	Ratio (R)	CL	V	R	CL	V	R
January 2008	806,431	194,349	0.24	41,126	16,733	0.41	5,252	1,064	0.20
December 2008	1,117,512	237,386	0.21	66,710	20,021	0.30	7,864	1,488	0.19
January 2009	1,243,064	118,637	0.10	76,814	10,379	0.14	8,998	752	0.08

Source: Derived from NOMIS.

House prices

House prices across Cornwall continue to fall after peaking in April 2008. Since then average prices have fallen by 9.5%. The decline across England and Wales started after the peak of January 2008.

Table 2: House prices

Month	Cornwall		England & Wales	
	Index	Average Price (£)	Index	Average Price (£)
Dec-07	375.9	209,586	293.7	183,659
Jan-08	377.1	210,284	295.5	184,784
Feb-08	377.6	210,545	294.8	184,340
Mar-08	377.1	210,261	292.1	182,638
Apr-08	378.2	210,919	292.3	182,784
May-08	376	209,668	290.5	181,631
Jun-08	371.7	207,260	285.2	178,301
Jul-08	370.2	206,462	283	176,934
Aug-08	362	201,866	276	172,605
Sep-08	358.7	200,046	268.9	168,135
Oct-08	353.5	197,127	264.8	165,582
Nov-08	347.4	193,704	259.3	162,128
Dec-08	342.4	190,917	254.2	158,946

Source: Land Registry. <http://www.landregistry.gov.uk/>

2 Quarterly indicators. No new releases.

United Kingdom data

3 UK Monthly

Mortgage lending

New data from the Council of Mortgage Lenders graphically illustrates the sharp decline in mortgage lending activity over the past year. There were 516,000 house purchase loans in 2008, a decline of 49% from 2007 and the lowest level of activity since 1974. There were 32,000 house purchase loans in December, a decline of 5% from November and the lowest level since monthly records began in 2002. The tightening in credit criteria, falling house prices, and the weakening economy have restricted the number of first-time buyers entering the market. In December, there were 12,100 loans to first-time buyers worth £1.4 billion, the lowest levels since monthly records began in 2002. First-time buyers typically had a deposit of 22% in December, the highest proportion in 34 years of available data.

Gross mortgage lending reached an estimated £12.6 billion in December, down 11% from £14.2 billion in November and 47% on December 2007, This is the lowest monthly figure since April 2001. Lending totalled £256.4 billion over 2008 as a whole, down 30% on £363.7 billion in 2007 and the lowest annual figure since 2002. Recent mortgage approval figures from the Bank of England indicate lending will decline further in the coming months, so improvements in lending are unlikely to be seen in completion levels until the second half of the year at the earliest.

Fig 3. shows mortgage lending since 2000, while Fig 4. shows 2008 monthly data.

Fig 3: UK Gross mortgage lending

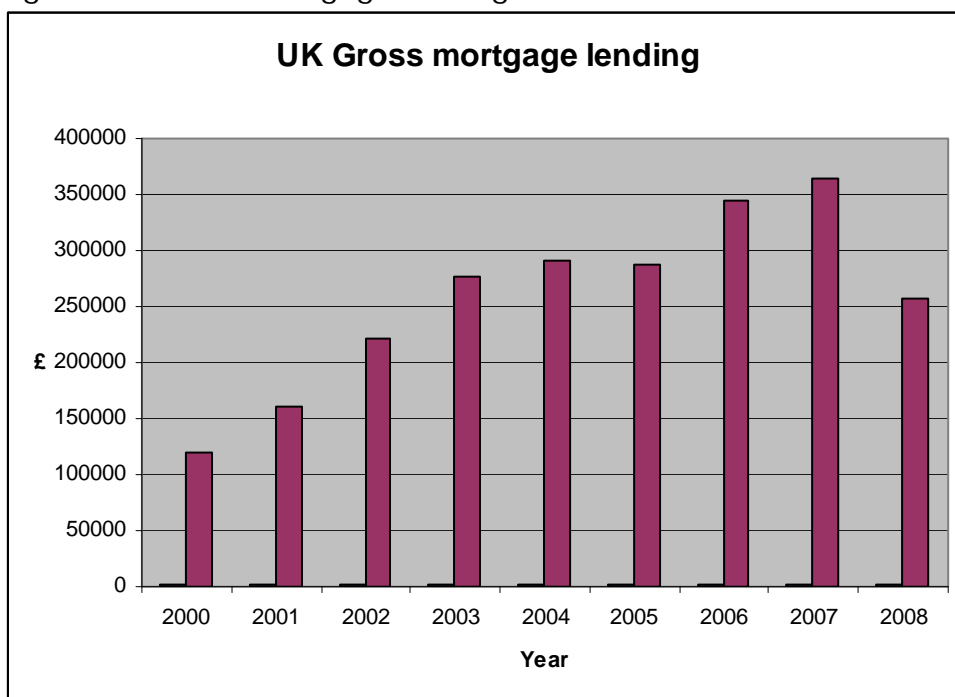
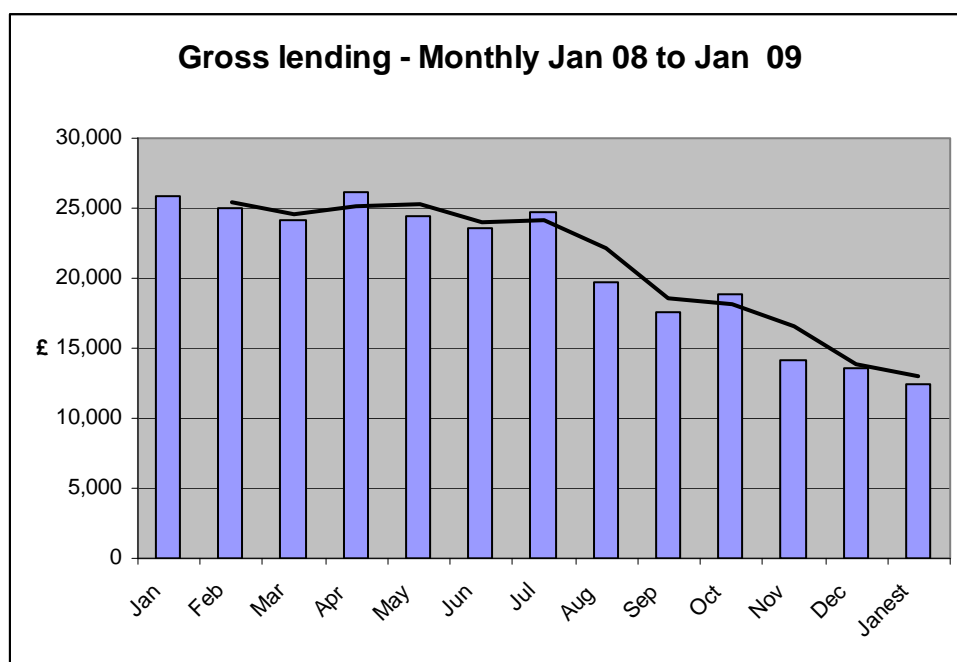


Fig 4: Gross lending - Monthly



Gross mortgage lending declined to an estimated £12.4 billion in January, an 8% fall from £13.5 billion in December and a 52% fall from January 2008, according to the Council of Mortgage Lenders. A slight decline is typically experienced between December and January. However, this is the lowest monthly total since April 2001. Bob Pannell, CML head of research, commented: "Mortgage lending activity continues to be very weak and while people are searching eagerly for some signs of recovery, it would be unrealistic to expect a meaningful revival in lending in coming months. Even when conditions do improve, gross lending will be one of the later measures to recover."

Source: Council of Mortgage Lenders, (2009).

January retail sales

Data from the British Retail Consortium indicated a rise in sales during January. This follows the reported rise in retail sales data, for December, from ONS, where the volume of non-seasonally adjusted sales rose by 1.8 per cent compared to the same period a year earlier. However, Stephen Robertson, Director General, British Retail Consortium, stated - "the fundamentals haven't changed. Job fears are mounting. Consumer confidence is at record lows. It remains to be seen whether January's discount driven growth was just a blip."

The BRC report states:- UK retail sales values rose 1.1% on a like-for-like basis, and 3.2% on a total basis, from January 2008. By both measures, this was the best performance since May, when sunny weather had boosted sales. Food sales showed stronger growth. Non-food sales remained down on a year ago, though by less than in December. Sales were driven by widespread heavy discounting in clearance sales. Despite this clothing, footwear, homewares and health and beauty sales remained down on a year

ago. After a good start to January, sales growth then weakened as clearances ended. Shoppers took advantage of good deals, but many purchases were replacements and essentials rather than discretionary extras. Non-food non-store sales in January were 19.2% higher than a year ago. This was weaker than the 30.0% gain in December, when people increasingly used the internet for their Christmas shopping.

Source: BRC-KPMG Retail Sales Monitor January 2009

4. UK Quarterly

Quarterly labour market data UK – (October-December 2008).

There has been a fall in both the number of people in employment and the employment rate. The number of unemployed people, the unemployment rate and the claimant count have all increased. The number of inactive people of working age and the inactivity rate have fallen. The number of vacancies has fallen. Growth in average earnings, both including and excluding bonuses is unchanged.

The working age employment rate was 74.1 per cent in the three months to December 2008, down 0.3 percentage points on the three months to September 2008 and down 0.7 percentage points from a year earlier. The employment level was 29.36 million in the three months to December 2008, down 45,000 from the three months to September 2008 and down 37,000 on a year earlier.

The unemployment rate was 6.3 per cent in the three months to December 2008, up 0.4 percentage points from the three months to September 2008 and up 1.1 percentage points from a year earlier. The unemployment level was 1.97 million in the three months to December 2008, up 146,000 from the three months to September 2008 and up 369,000 from a year earlier.

The claimant count in January 2009 was 1.23 million, up 73,800 on the previous month and up 438,100 on a year earlier. The claimant count rate in January 2009 was 3.8 per cent, up 0.2 percentage points from the previous month and up 1.4 percentage points from a year earlier.

There were 504,000 job vacancies in the three months to January 2009, down 76,000 from the three months to October 2008 and down 179,000 from a year earlier. There were 1.9 vacancies per 100 employee jobs, down 0.3 on the previous quarter and down 0.7 over the year.

In the three months to December 2008, 259,000 people reported they had become redundant in the three months before their Labour Force Survey interview, up 104,000 from the three months to September 2008 and up 148,000 from a year earlier. The redundancy rate was 10.2 per 1,000 employees, up 4.1 from the three months to September 2008 and up 5.8 from a year earlier.

Source: Office for National Statistics, (2009) Labour Market Statistics, First Release.

Production output - Index of production

In the fourth quarter of 2008, the seasonally adjusted chained volume index for the output of the production industries decreased by 4.5 per cent compared with the previous quarter. Between November and December output of the manufacturing industries fell by 2.2 per cent (note that monthly growth rates are volatile, see background note 2). There were widespread falls in manufacturing. The most significant decreases in output were 4.3 per cent in the basic metals and metal products industries, 5.0 per cent in the machinery and equipment industries and 2.3 per cent in the food, drink and tobacco industries. There were no significant increases.

In the latest quarter, manufacturing output decreased by 5.1 per cent, mining and quarrying output decreased by 3.2 per cent and output of the electricity, gas and water supply industries decreased by 0.1 per cent compared with the previous quarter. For 2008 as a whole, production industries' output was 2.9 per cent lower than in 2007. Within this, manufacturing output fell by 2.9 per cent, mining and quarrying output (including oil and gas extraction) decreased by 6.7 per cent, but output of the electricity, gas and water supply industries increased by 0.4 per cent.

Source: ONS (2009) Index of production, December 2008, First Release.

Construction industry

Orders in the three months to December 2008 fell by 9 per cent compared with the previous three month period. Orders in the 12 months to December 2008 fell 16 per cent compared with the previous 12 months and orders in three months to December 2008 fell by 26 per cent compared with the same period a year earlier. In the three months to December 2008 compared with the same period a year earlier, private housing orders fell by 57 per cent and public and housing association housing orders fell by 28 per cent. All orders figures quoted are seasonally adjusted and in constant (2000) prices.

Source: ONS, New orders in the construction industry, First Release.

House Building: December Quarter 2008, England

This data covers the period October-December 2008.

Key points from the latest release are:

There were an estimated 16,300 seasonally adjusted housing starts in England in the December quarter 2008, down 27 per cent on the previous quarter and 58 per cent lower than the December quarter 2007. Private enterprise housing starts (non-seasonally adjusted) were 64 per cent lower than the December quarter 2007. Housing starts by Registered Social Landlords (non-seasonally adjusted) fell 5 per cent. Annual housing starts figures for England continued to decline. They totalled 105,000 in 2008, down 37 per cent compared with 2007 and 43 per cent below their 2005-06 peak.

Housing completions in England fell by 3 per cent to an estimated 32,300 (seasonally adjusted) in the December quarter 2008 compared to the previous quarter. Compared with the December quarter 2007, completions

were down by 25 per cent. Private enterprise housing completions (non-seasonally adjusted) were 32 per cent lower in the December quarter 2008 than the December quarter 2007. In contrast, housing completions by Registered Social Landlords (non-seasonally adjusted) rose 10 per cent. Annual housing completions in England totalled 141,900 in 2008, down by 19 per cent compared with 2007.

Source: DCLG, 2009.

Company winding up and bankruptcy petition court statistics – fourth quarter 2008

In the fourth quarter of 2008 the following number of petitions were issued: 3,382 company winding up petitions – an increase of 18% on the same quarter of 2007 and a 6% increase on the previous quarter.

4,722 creditors' petitions – an increase of 3% on the same quarter of 2007 and a 15% decrease on the previous quarter.

15,358 debtors petitions – an increase of 32% on the same quarter of 2007 and a 12% increase on the previous quarter.

Source: Ministry of Justice Statistics bulletin, (2009).

Statistics on mortgage and landlord possession actions in the county courts – fourth quarter 2008

A new mortgage pre action protocol (MPAP), approved by the Master of the Rolls, was introduced for possession claims in the County Courts with effect from 19 November 2008. The MPAP gives clear guidance on what the courts expect lenders and borrowers to have done prior to a claim being issued. Evidence from administrative records from October to December 2008 suggests that this date coincided with a fall of around 50% in the daily and weekly numbers of new mortgage repossession claims being issued in the courts. It therefore seems highly likely that the launch of the MPAP has led to a marked fall in the number of new claims being issued during the latter part of the period covered by this bulletin. However, given the apparent cause, users should exercise caution in drawing broader inferences from the fall in mortgage possession claims issued in Q4 2008.

Mortgage Possession actions

During the fourth quarter of 2008:

26,008 mortgage possession claims were issued on a seasonally adjusted basis, 29% lower than in the fourth quarter of 2007 and 32% lower than in the third quarter of 2008.

29,095 mortgage possession orders were made on a seasonally adjusted basis, 14% higher than in the fourth quarter of 2007 and broadly the same as in the third quarter of 2008.

Landlord Possession actions

During the fourth quarter of 2008:

36,118 landlord possession claims were issued using the standard and accelerated possession procedures on a seasonally adjusted basis, 3% lower than in the fourth quarter of 2007 and 2% lower than in the third quarter of 2008.

27,715 landlord possession orders were made through the standard and accelerated possession procedures on a seasonally adjusted basis, 2% lower than in the fourth quarter of 2007 and 1% lower than in the third quarter of 2008.

In Cornwall, the number of mortgage possession claims issued rose by 12% in 2008 compared to 2007, while the number of Landlord possession claims issued fell by 5% in 2008 compared to 2007. [NB 2008 figures are provisional).

Source: Ministry of Justice, (2009).

Retail sales

In the three months to January the seasonally adjusted index for the volume of retail sales increased 1.5 per cent over the previous three months. Growth increased in the three months to January compared with the same three months a year ago by 3.2 per cent. Between December and January, the volume of retail sales rose by 0.7 per cent. The rise was driven by an increase in textiles, clothing and footwear stores and other non-food stores.

Source: ON, (2009), Retail Sales, First Release.

5. Other reports

FSB calls for more action to stimulate the economy

The FSB poll of more than 4,000 small businesses showed that over half have seen their trade decrease in the last two months - despite a cut of 2.5 per cent in VAT last November. In a separate FSB poll, 97 per cent of small businesses said the VAT cut from 17.5 per cent to 15 per cent, as announced in the Chancellor's Pre-Budget Report in November, has had no impact on their trade at all.

Source: Federation of Small Businesses. FSB News Release PR/2009/11

Bank of England Inflation report

The latest report issued this month provides an overview of the economic situation. It states *The global economy has suffered a sharp and synchronised downturn. Business and household sentiment in many countries has deteriorated markedly, and the global banking and financial system has remained fragile. In the United Kingdom, an adjustment process is under way, as private saving rises and banks restructure their balance sheets.* This together with deterioration globally has resulted in falling GDP. The Bank foresees output continuing to fall but then to recover - *reflecting the building stimulus from easing monetary and fiscal policy, the substantial depreciation of sterling, past falls in commodity prices, and actions by authorities at home and abroad to improve the availability of credit.*

A number of factors are expected to reduce consumers propensity to spend - *Falling employment, lower financial wealth and tight credit conditions ... together with households' desire to reduce indebtedness and increase savings will probably also weigh on consumption. In coming quarters, those*

factors are likely to more than offset the boost to households' spending power from past falls in commodity prices, the low level of Bank Rate and the temporary reduction in VAT.

To conclude the Bank indicates that - *The prospects for economic growth remain unusually uncertain, reflecting the exceptional economic and financial factors affecting the outlook. The risks around the central projection are judged to be weighted heavily to the downside. This in large part reflects the possibility that, over the forecast period, the authorities at home and abroad are only partially successful in improving the availability of credit and restoring business and consumer confidence.*

Source: Bank of England, Overview of the Inflation Report, February 2009

Recession Scenarios

Research commissioned by the SWRDA 'UK Recession Scenarios: Impact on SWE Sectors & Places' gives three possible scenarios – 'baseline', 'worst' and 'adverse'. With the first two, negative GVA growth in 2009 is replaced by positive growth in 2010, with the latter negative GVA growth continues in 2010. Employment growth rates are negative in both 2009 and 2010 for all three scenarios. In all three Cornwall is considered to suffer least in terms of annual growth rates for both output and employment.

Table 3: Labour market comparisons

		Annual growth rates %					
		GVA			Employment FTE		
Scenario	Area	2008	2009	2010	2008	2009	2010
Baseline	Cornwall	1.2	-0.2	1.8	0.6	-0.7	-0.3
	SW	1.3	-1	1.5	0.0	-1.5	-0.6
Worse	Cornwall	1.4	-0.7	1.3	0.5	-1.5	-1.4
	SW	1.2	-1.5	0.9	-0.2	-2.2	-1.8
Adverse	Cornwall	1.2	-1.7	0.0	0.5	-2.3	-3.5
	SW	1.1	-2.5	-0.4	-0.2	-3.0	-3.9

Source: 'UK Recession Scenarios: Impact on SWE Sectors & Places'

The view of the Financial Services Authority

Over the last 18 months, and with increasing intensity over the last 6, the global financial system has suffered its greatest crisis in more than 70 years. At the core of that crisis was a collapse of confidence in some major banks in several countries. Intervention by the authorities in a wide range of countries – recapitalisation, funding guarantees and central bank liquidity – prevented a collapse of the banking system, successfully protected retail depositors, and avoided the failure of systemically important commercial banks. But, the ability of banks to perform their essential function of lending to the real economy is still impaired and deleveraging of banks, other financial institutions and households is exerting deflationary pressure on the

real economy, making the scale and length of the economic downturn very difficult to predict.

Although the origins of the current financial crisis are likely to continue to be the subject of much research and debate in the coming years, some key factors are already clear. At the core of the crisis was an interplay between macroeconomic imbalances, which have become particularly prevalent over the last 10 to 15 years, and financial market developments which have been underway for 30 years but intensified over the last decade under the influence of these imbalances. A failure to develop appropriate macro-prudential policy responses exacerbated these trends.

Source: Financial Services Authority, Financial Risk Outlook 2009

6 International perspective

European Commission news

The Commission estimates that economic growth fell to about 1% in 2008 in both the EU and the eurozone (down from just below 3% in 2007). The latest forecast projects that real GDP will contract by almost 2% in both regions in 2009, before growing again by about 0.5% in 2010. These figures are lower than the autumn forecast. With the EU economy expected to shed some 3.5m jobs this year, unemployment is set to rise. The rate is forecast to reach 8¾% in the EU in 2009 (9¼% in the eurozone), with a further increase in 2010.

Public finances will be hit, too. The headline deficit for EU countries – a raw measure of budget shortfalls – is expected to more than double this year, from 2% of GDP in 2008 to 4½ % in 2009 (from 1¾ % to 4% in the eurozone). As a result, several EU countries are projected to breach or stay over the EU deficit cap of 3% of GDP. A further worsening of the budgetary outlook is expected for 2010. On the positive side, inflationary pressures are abating rapidly amid faltering commodity prices. Consumer-price inflation is now expected to fall – from 3.7% in 2008 in the EU (3.3% in the eurozone) to about 1% in 2009 and just below 2% in 2010 (both EU and eurozone).

Source: European Commission, (2009), Economy - Economic policies.

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