



Economy Monitoring

Monthly Update, August 2009

28 Aug 2009

Environment, Planning and Economy

Economy Monitoring Summary, August 2009

- There appears to be a consensus that the **global economy is moving forward** rather than backward, though this varies by country, with some bottoming out and others showing small increases in output. The Governor of the Bank of England's letter to the Chancellor stating that "The world economy remains in recession, though there have been increasing signs that output in the UK's main export markets is stabilising. Financial market strains have eased and banks' funding conditions have improved a little, although financial conditions remain fragile. Household and business confidence has picked up, albeit from the very low levels experienced in the wake of the financial crisis last autumn."
- Economic analysts have expressed concern over the strength of recovery with the IMF highlighting the **need for structural changes** to ensure sustainable growth.
- **Confidence levels amongst both consumers and businesses have risen across the UK.** This links in with actual changes in the economy. There has been a slowing down in the rates of decline for production and service output, while car registrations have risen.
- **Baked beans sales growth is diminishing**, an indicator that consumers are feeling less negative than previously.
- **Improvements in the housing sector continued.** Housing starts were up as were mortgage lending figures while possessions fell. Despite upward movements, however, lending was well down on the same period a year previously. House prices across England and Wales increased for the third month running.
- **Retail sales and volume continue upwards**, contrary to earlier expectations.
- Across the UK, **unemployment and the claimant count continue up**, which is expected as they are both lagging indicators.
- On the output front, for the third successive month the July **Purchasing Managers Index rose** across the SW.
- In Cornwall, the **jobseeker total fell again**, though this is in line with seasonal expectations. Against the overall trend, house prices fell.
- The usual health warning with data should be borne in mind. The NIESR indicating that their June estimate that the economy had stopped contracting in April was incorrect, while the Eurostat GDP figures are provisional and could be revised.

Introduction	3
Cornwall	3
1. Labour market analysis	3
2. House Prices	6
3. Other	7
South West	7
4. Overview	7
United Kingdom	8
5. Overview	8
6. Quarterly economic indicators	10
7. Output	10
8. Labour Market	13
9. Housing	14
10. Household	17
11. Inflation and prices	18
12. Finance	19
13. Reviews	20
International Perspective	21
14. Reports	21

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, some to the South West, while others indicate what is happening across the UK and on an international basis. Not all indicators/reports are issued monthly; hence updates will vary in coverage. Each update will only include new data though quarterly summaries will be shown where appropriate.

Cornwall

1. Labour market analysis

Claimant count - July 2009 data

The latest claimant count data for July was released on 12th August 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. NB Not seasonally adjusted. Figures for Cornwall cover the unitary area only].

The total for Cornwall is now 8,099. The last time Cornwall's July figure was higher than this was in 2000 when it equalled 8,342. Since June numbers in Cornwall have decreased by 59. Within the SW, 8 of the 16 County/Unitary areas saw a decline in numbers from the previous month. The largest falls in percentage terms (excluding IoS), were Torbay (-4%), Swindon (-3.3%), and Devon and Gloucestershire (-1.3%). Conversely, other areas saw an increase in numbers, North Somerset (+4.2%), and Plymouth (+2.8%). The UK had an increase of 1.3%, while across the SW the situation was stable. Since July 2008 the number of claimants in Cornwall has risen by 3,780 or 88%. This compares to an increase of 81% across the UK and 116% across the South West. Figure 1 illustrates the number of claimants on a monthly basis for 2007, 2008 and 2009. Full details of the number of claimants and changes are shown in Table 1.

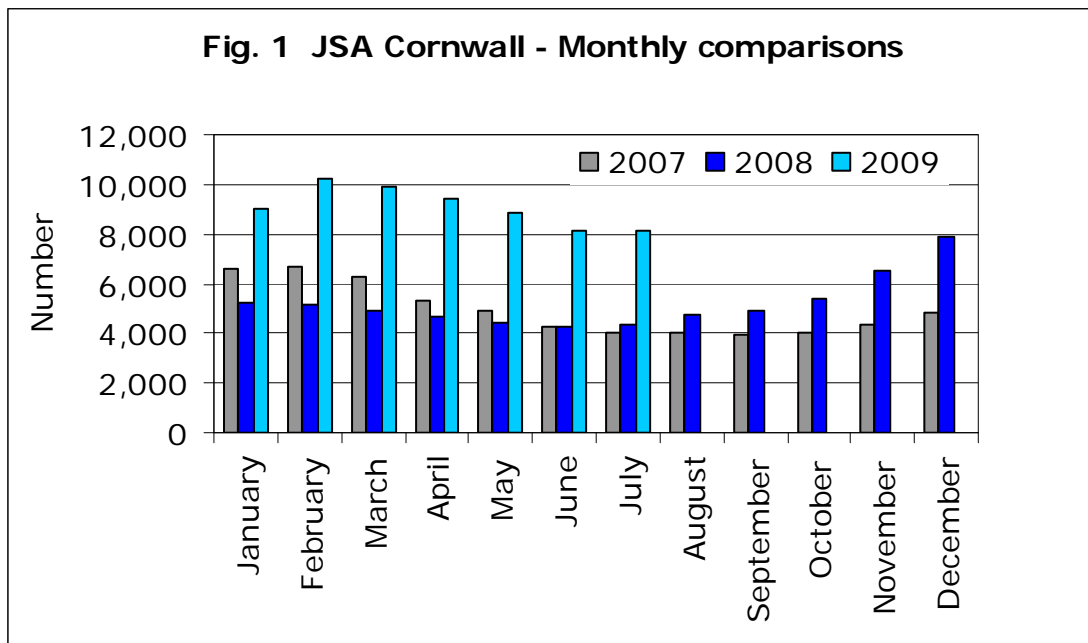


Table 1: JSA numbers and percentage changes across the SW

Area	Jul-08	Jun-09	Jul-09	July comp June		July 09 comp July 08	
	Count	Count	Count	No	%	No	%
Bath and North East Somerset	1,053	2,379	2,437	58	2.4	1,384	131.4
Bournemouth	1,736	3,874	3,962	88	2.3	2,226	128.2
Bristol, City of	5,601	11,281	11,508	227	2	5,907	105.5
Cornwall	4,319	8,158	8,099	-59	-0.7	3,780	87.5
Devon	4,967	10,522	10,387	-135	-1.3	5,420	109.1
Dorset	1,875	4,539	4,537	-2	0	2,662	142
Gloucestershire	5,714	12,622	12,453	-169	-1.3	6,739	117.9
Isles of Scilly	#	3	3	0	0	-	-
North Somerset	1,314	3,093	3,224	131	4.2	1,910	145.4
Plymouth	3,723	6,558	6,744	186	2.8	3,021	81.1
Poole	948	2,377	2,434	57	2.4	1,486	156.8
Somerset	3,548	7,910	7,874	-36	-0.5	4,326	121.9
South Gloucestershire	1,399	3,886	3,931	45	1.2	2,532	181
Swindon	2,567	6,575	6,356	-219	-3.3	3,789	147.6
Torbay	1,752	3,328	3,195	-133	-4	1,443	82.4
Wiltshire	3,092	7,242	7,202	-40	-0.6	4,110	132.9
South West	43,610	94,347	94,346	-1	0	50,736	116.3
England	722,897	1,298,572	1,311,098	12,526	1	588,201	81.4
Great Britain	843,888	1,504,117	1,521,709	17,592	1.2	677,821	80.3
United Kingdom	871,288	1,553,256	1,573,139	19,883	1.3	701,851	80.6

The claimant count rates were Cornwall 2.6%, UK 4.2% and SW 3%. At 2.6% Cornwall lies amongst the bottom half of authorities in the South West. Between July 2008 and July 2009, Cornwall's rate increase, from 1.4% to 2.6% equals a rise of 86%. This is the third lowest rise for authorities across the SW. The highest rate increase, of 178% was recorded in South Gloucestershire.

Since 1993, with some exceptions, a drop in claimant count numbers in Cornwall between June and July is common. This is in contrast to the UK figures which invariably increase. This years fall of 59 is however one of the smallest since 1993. Figures for 2005, 2006 and 2007 were 105, 83 and 217. NB in 2008, there was actually a rise of 88. The main difference is not the size of the decline but that the total claimant count figures are at a far higher level than previously.

Vacancies

The latest vacancies data was released on 12th August 2009. There were 2,325 notified vacancies in Cornwall in July. This represents a decrease of

365 since June (- 14%). This fall contrast with the increases across Britain and SW England both at 5%. Compared to July 2008, vacancies are down by 13%. [Survey data for the UK suggests that of all external vacancies, only a minority, 35% are advertised through Jobcentres. This figure has declined since 2005].

The vacancy to claimant count ratio, which shows the number of vacancies per claimant, is a crude measure of how buoyant the jobs market is. A ratio below 1.0 indicates there are fewer vacancies than claimants. Currently Cornwall is performing better than GB and SW with a ratio of 0.29, (SW 0.25, and Britain 0.17) – Table 2. The July 2009 figures are all below the figures for July 2008.

Table 2: Vacancy to claimant ratio comparisons									
	Great Britain			South West			Cornwall		
Date	Claimant	Vacancies	Ratio	Claimant	Vacancies	Ratio	Claimant	Vacancies	Ratio
Jul-08	843,888	316,569	0.38	43,610	27,634	0.63	4,319	2,672	0.62
Jun-09	1,504,117	253,363	0.17	94,347	22,528	0.24	8,158	2,690	0.33
Jul-09	1,521,709	266,020	0.17	94,346	23,681	0.25	8,099	2,325	0.29

[NB. Notified vacancies for the month covers the inflow of newly notified vacancies to Jobcentre Plus].

All data derived from NOMIS - claimant count and jobcentre vacancies.

Unemployment

The current unemployment data, (released 30th April), indicates that both the numbers and rate fell compared to the previous period. However, the figures were up on the same period a year previously. Source: NOMIS.

Employment news

Mixed news for Cornwall. The Dorothy Perkins store in Market Street, Falmouth closed, while Allied Carpets announced potential closures They have a store in Truro. On the job creation front, Select Yachts of Rock, which collapsed last November but was later bought out, has seen its workforce rise from 10 in January to 23. The former Powercut factory which was bought by Multimarine Composites after it went into voluntary liquidation is recruiting an additional four workers to its current 11. In St. Ives, a crab processing factory expansion has led to the creation of 10 jobs.

Sources: Various news reports

2. House Prices

House prices across Cornwall fell in July compared to June, down by £1,116, reversing the increase seen in June. This downward movement is against the trend across England and Wales, where prices continue to rise. Since the peak of April 2008, average prices in Cornwall have fallen by 16.7%,

(from £210,451 down to £175,220), the comparative figure for England and Wales is 14.5%.

3. Other

Employment

A major problem in assessing precisely what is happening in Cornwall during the recession is the lack of data. Some work has been done to assess how employee levels may have changed. The approach here was to use the 2007 Annual Business Inquiry data as a base and then plot the change in the number of jobseeker allowance (JSA) claimants since then. Essentially the increase in jobseekers is used as a proxy for employment changes. This can only produce a crude figure as the ABI data only applies to employees and the JSA figures do not cover all those who have lost jobs.

In 2007, there were 199,500 employee jobs in Cornwall (including agriculture). Since then the number of claimants has risen by 3,300. This would suggest that across Cornwall the number of employees would have fallen to 196,200 by July 2009.

South West

4. Overview

South west regional economic task group, Briefing on SW Economic Conditions, July 2009

“Against this background, **the South West economy is relatively well placed**. The message from business surveys is that economic activity may have turned positive in May and several exporters are benefiting from the weak pound. Decisions to reduce stock levels aggressively in the first third of the year now mean a bounce to output as restocking takes hold. The question is whether this is merely temporary or whether it can be maintained.

At the same time, retail footfall is said to be quite good and the housing market appears to be stabilising. Moreover, the SW tourism/leisure sector has been busy since Easter and is expecting a strong summer. Here again, the question is whether that high capacity usage is sustainable through the shoulder months in the autumn.

Generally, business confidence continues to surprise us on the up-side. Also, whilst the labour market is weak, it is not as weak as in several other regions and broadly in line with our output share of the UK economy. Over the last twelve months to June, nearly 54,000 have been added to the SW claimant count total: only 7.4% of the national increase. Within the region, there are some black spots: which tend to be in urban areas and closely tied to the manufacturing/construction shrinkage.”

Source: Nigel Jump, Chief Economist, July 2009.

Robust expansion in South West private sector signalled during July.

“The South West economy continued to expand in July, as the Purchasing Managers Index signalled a third successive month of private sector activity growth within the region. New order levels increased robustly, with output rising markedly to accommodate the volume of new orders. However, economic recovery was still in its early stages, with job cuts remaining heavy. Spare capacity persisted in the region, as backlogs continued to be depleted, and companies were forced to offer price discounts to stimulate demand.

Growth of new business continued in the South West during July, extending the period of sustained expansion to three months. Moreover, the rate at which new orders increased was higher than in the wider UK economy, and was only outpaced by two other regions. Growth was stronger in the service sector, with some firms attributing the rise to improved client confidence. Consequently, output rose within the region to accommodate the higher levels of new business.”

The report states that “Despite increased order levels, the volume of outstanding business within the South West private sector continued to decline” this was partly due to higher efficiency together with a degree of excess capacity. As a result employment levels continued to fall. Input costs continued to rise though output prices fell for the fifth month.

Source: Markit, South West PMI, 10th August 2009.

United Kingdom

5. Overview

Recession in Britain 'at an end'

“Confidence among business professionals has moved into positive territory for the first time in two years, providing further evidence of an improving UK economy. The latest ICAEW UK Business Confidence Monitor (BCM) shows a record rise in confidence from -28.2 to +4.8, the highest since Q3, 2007. Based on this, the ICAEW predicts that GDP will rise 0.5% this quarter.

This quarter’s change is the largest quarterly improvement seen since BCM began. This cautious optimism is underpinned by expected rises over the next 12 months in 13 out of the 14 financial performance indicators detailed within the BCM. This is in contrast to the picture earlier in the year when the majority were expected to contract.”

Source: Institute of Chartered Accountants England and Wales, Business Confidence Monitor.

Consumer confidence broadly stable in July

- “Consumer confidence rose by one point to 60 in July.
- The Expectations Index increased by one point to 89.
- The Spending Index fell by 11 to 94.
- The Present Situation Index fell from 17 in June to 16 in July.
- For the first time in over a year, consumers expect that their house price will rise in the next six months.
- Consumers are forecasting a rise of 0.5% in the value of their homes and this is the highest recorded expectation since December 2007.
- July saw a decline in confidence in the UK’s employment situation, both in the current situation and also for the future.
- In comparison to this time last year, confidence in spending is strong. However the percentage of people believing now is a good time to buy a major item has decreased from 40% to 35% from June to July.”

Source: Nationwide Consumer Confidence Index in partnership with TNS, 5th August 2009.

Baked bean sales signal recovery

“In official statistics and influential surveys, there have been signs that the worst of the recession may be over, and that is reflected in the all-important baked bean sales figures. In the three months from April to June, baked bean sales were up 15% compared with the same quarter of 2008, according to figures prepared for the BBC by the market researchers Nielsen. That sounds impressive, but it shows a slowing in the rate of growth. Every month from November 2008 to May 2009, sales of baked beans grew by about 20%. Then the brakes were suddenly put on, with growth of only 9.9% in June and 8.7% in July.”

Similar trends have been noted with supermarket budget lines sales growth rates slowing while conversely, sales of organic food continue to decline, down “by 12.9% between April and June compared with the same period last year.” They fell again, by 12.9% between April and June compared with the same period last year.” [Other reports indicate that chocolate sales, regarded as a comfort food have risen!]

Source: BBC, Baked bean sales signal recovery, Thursday, 20 August 2009.

6. Quarterly economic indicators

The table below summarises the main quarterly economic indicators.

Table 3: Latest Economic Indicators		
Activity	Period	% change on a year earlier
GDP * 1	Q2 09	-0.7
Service sector output * 1	3m to Apr	-1.2
Industrial production	3m to June	-11.8
Manufacturing output	3m to June	-12.5
Manufacturing productivity	Q3 08	2.4
Households' consumption	Q4 08	-0.8
Whole economy investment	Q4 08	-3.1

Source: HMT – Pocket databank - Latest Economic Indicators. *1 ONS.

7. Output

UK output, income and expenditure 2nd quarter 2009

“In the second quarter of 2009, UK gross domestic product (GDP) in volume terms fell by 0.7 per cent compared with the previous quarter (revised from a fall of 0.8 per cent published in the preliminary estimate). The level of GDP is 5.5 per cent lower than the same quarter of 2008... from a fall of 5.6 per cent published last month.”

Source: ONS, UK output, income and expenditure, Statistical Bulletin, 28th August 2009.

National Institute of Economic and Social Research - estimates of monthly GDP

“Our monthly estimates of GDP suggest that output fell by 0.4% in the three months ending in July, after the decline of 0.8% reported for the second quarter by ONS. Our June estimate that the economy had stopped contracting in April was incorrect but the pattern emerging supports our view that output is now stabilising and that, in the absence of further shocks, the period of sharp recession is over; we are hopeful that May will prove to be the trough of economic activity. Nevertheless, as the experience of the second quarter estimate of GDP showed, the relationship between short-term indicators of economic activity and movements in GDP is by no means precise. In the three months to June 2009 UK GDP was around 5¾ per cent below its peak in March 2008.”

Source: National Institute of Economic and Social Research, estimates of monthly GDP, 5th August, 2009.

Index of production – June 2009

“In the second quarter of 2009, the seasonally adjusted chained volume index for the output of the production industries decreased by 0.6 per cent compared with the previous quarter and was 11.8 per cent lower than the same three month period a year earlier. In the latest quarter, manufacturing output decreased by 0.2 per cent, mining and quarrying output decreased by 0.7 per cent and output of the electricity, gas and water supply industries decreased by 3.7 per cent, compared with the previous quarter.

Between May and June, output of the manufacturing industries rose by 0.4 per cent (note that monthly growth rates are volatile).” Significant increases in output were in transport equipment industries (+4.1%), and electrical and optical equipment (+2.5%). Significant decreases were in chemicals and man made fibres industries (-3.6%).

Source: ONS Index of production, Statistical Bulletin, 5th August 2009.

Index of Services May 2009

“In the three months to May the seasonally adjusted chained volume index for the output of the Service sector decreased by 1.0 per cent compared with the previous three months. In the latest three months, four of the five components of the Service sector decreased in output. The most significant decrease was in Business services and finance. Between April and May, Service sector output decreased by 0.2 per cent. The most significant decrease was in Distribution.” Sector details in Table 4 below.

Table 4: Sector Breakdown

Sector – changes March to May	Change
<u>Distribution</u> Decrease driven by Wholesale. Motor trades also decreased while Retail increased.	-1.4
<u>Hotels and restaurants</u> Most significant decrease was in Licensed and unlicensed restaurants. Most significant increase was in Bars.	0.0
<u>Transport, storage and communication</u> Most significant decrease was in Land transport. The next most significant decrease was in Other transport services.	-2.7
<u>Business services and finance</u> Most significant decrease was in Other business services. The next most significant decrease was in Computer services.	-1.2
<u>Government and other services</u> Most significant decrease was in Public administration and defence. The most significant increase was in Health and social work.	-0.1

Source: ONS Index of services, May 2009, Statistical Bulletin, 20th August 2009.

New orders in the construction industry, June 2009.

“Orders in the three months to June 2009 rose by 18 per cent compared with the previous three month period. Orders in the 12 months to June 2009 fell 27 per cent compared with the previous 12 months and orders in the three months to June 2009 fell by 21 per cent compared with the same period a year earlier. In the three months to June 2009 compared with the same period a year earlier, private housing orders fell by 33 per cent and public and housing association housing orders fell by 19 per cent. All orders figures quoted are seasonally adjusted and in constant (2005) prices.” Changes by sector in Table 5.

Table 5: Changes by Sector			
Sector	Three months to June compared to previous quarter	Same quarter a year ago	In the year to June compared to previous 12 months
Private housing	25%	-33%	-50%
Public housing	20%	-19%	-16%
Infrastructure	4%	27%	14%
Public non housing	44%	2%	6%
Private commercial	8%	-46%	-41%
Private industrial	6%	-41%	-37%

Source: ONS, New orders in the construction industry, Statistical Bulletin, 6th August 2009.

New car registrations and vehicle production

Car registrations in July 2009 were up 2.4% on July 2008 (157,149 compared to 153,420), the first growth in 15 months, while year to date figures were down 22.8% (1,082,104 compared to 1,400,899). Total vehicle production in July 2009 fell by a quarter compared to July 2008; yearly figures fell by half, full details in Table 6.

Table 6: Vehicle Production				
Production	July 08	July 09	Change	% Change
Total	152,076	116,075	-36001	-23.7%
	YTD July 2008	YTD July 2009	Change	%
Total	1,098,174	569,989	-528,185	-48.1%

Source: Society of Motor Manufacturers and Traders Limited. 6th and 21st August 2009.

8. Labour Market

United Kingdom Labour Market Statistics - July 2009

“The number of unemployed people, the unemployment rate and the claimant count have increased. The employment rate and the number of employed people have fallen. There are fewer vacancies. There are more inactive people of working age and the inactivity rate is up. Earnings growth, excluding bonuses, has fallen. Earnings growth, including bonuses, has increased.” All details in Table 7.

Table 7: Labour market indicators				
Activity	Period	Period	Comparisons	
		3M to May 09	3M to Feb 09	Year earlier
Working age employment	Rate	72.9	-0.9	-2
In employment	No	29 million	-269,000	-543,000
Full-time employment	No	21.47 million	-273,000	
Average hours per week	No	31.7	31.7	
Workforce jobs	No	31.19 million	-108,000	-455,000
Unemployment	Rate	7.60%	0.9	2.4
Unemployment	No	2.38 million	281,000	753,000
Redundant		301,000	31,000	182,000
Total hours worked	No	918.8 million	-9	
Average hours per week	No	31.7	31.7	
Working age inactivity	No	7.92 million	64,000	46,000
Working age inactivity	Rate	20.9	0.1	20.9
Average earnings	%		-0.1	2.6
Activity	Period	Period	Comparisons	
		March	3M to Feb 09	Year earlier
Full-time	No	21,470,000	-273,000	
Workforce jobs	No	31.19 million	-108,000	-455,000
Activity	Period	Period	Comparisons	
		June	Previous month	Year earlier
Claimant count	No	1.56 million	23,800	716,800
Claimant count	Rate	4.8	0.1	2.2
Activity	Period	Period	Comparisons	
		3M to June 09	3M to Mar 09	Year earlier
Vacancies	No	429,000	-35,000	-222,000
Per 100 employee jobs		1.6	-0.1	-0.9

Source: Office for National Statistics, Labour Market Statistics July 2009, Statistical Bulletin, 12th August 2009.

9. Housing

House prices

House prices across England and Wales increased for the third month in succession. The average is now £155,885 compared to the low of £152,840 in April 2009. The high point was reached in January 2008 of £184,362.¹ Land Registry trends are now more in line with those from the Nationwide who stated that UK house prices rose in August, (+1.6%), for the fourth month in a row. According to the Nationwide's chief economist Martin Gahbauer, the rise in prices can be attributed to a fall in debt servicing costs due to low interest rates. However, future rises in interest rates could impact on the potential for price increases, resulting in a 'bumpy' housing market recovery.

Table 8: House Prices, Land Registry

Month	Cornwall		England and Wales	
	Index	Average Price (£)	Index	Average Price (£)
Apr-08	378.3	210,451	291.6	182,308
May-08	375.9	209,149	289.9	181,297
Jun-08	371.2	206,537	284.5	177,899
Jul-08	369.9	205,805	282.4	176,559
Aug-08	361.7	201,228	275.5	172,258
Sep-08	358.3	199,370	268.4	167,830
Oct-08	353	196,401	264.6	165,447
Nov-08	346.1	192,576	259.3	162,117
Dec-08	339.9	189,136	252.6	157,957
Jan-09	333.3	185,440	251.1	157,033
Feb-09	326.2	181,498	246.1	153,911
Mar-09	322.5	179,452	244.8	153,078
Apr-09	321.2	178,731	244.4	152,840
May-09	315.9	175,746	244.6	152,974
Jun-09	317.0	176,366	245.2	153,303
Jul-09	314.9	175,220	249.3	155,885

Source: Land Registry. House Price Index, 28th August 2009. [Index Jan 1995 = 100].

Nationwide material from BBC news.

House Building: June Quarter 2009, England

¹ Figures are revised with each new release; hence figures may differ from those in previous editions of EMMU. The survey measures the change in prices of completed sales rather than mortgage data and hence is seen as a more accurate measure.

"There were an estimated 29,980 seasonally adjusted housing starts in England in the June quarter 2009, up 63 per cent on the previous quarter but nine per cent lower than the June quarter 2008. This is the second successive quarterly rise in seasonally adjusted housing starts.

- Annual housing starts figures for England continued to decline. They totalled 87,190 in the 12 months to June 2009, down 41 per cent compared with the 12 months to June 2008 and 53 per cent below their 2005-06 peak.
- Housing completions in England were up by 24 per cent to an estimated 39,320 (seasonally adjusted) in the June quarter 2009 compared to the previous quarter. Compared with the June quarter 2008, completions were up by seven per cent.
- Annual housing completions in England totalled 136,140 in the 12 months to June 2009, down by 16 per cent compared with the 12 months to June 2008."

Source: Communities and Local Government, Housing Statistical Release, August 2009.

Mortgages and lending

Market commentary

"The housing market has continued to improve gradually in recent weeks, as activity picks up further from the lows seen around the turn of the year. But, as the Bank of England has pointed out, the economic backdrop remains challenging and the housing market recovery is fragile. We may see a modest dip towards the end of the year as seasonal factors weaken."

Source: Council of Mortgage Lenders, 20th August 2009.

Gross mortgage lending up 26% in July

"Gross mortgage lending totalled an estimated £16 billion in July, a 26% increase from £12.7 billion in June but down 36% from £24.9 billion in July 2008. This is further evidence of a modest improvement in the market over the summer after an exceptionally weak winter. However, activity is still subdued on any historic comparison; this is the lowest July lending figure since 2001 and £11 billion lower than the July average over the previous seven years of £27 billion. Lending volumes remain consistent with our forecast for £145 billion in gross mortgage lending this year. Advances have picked up in June and July as anticipated. There is typically a strong seasonal rise over the summer months as a whole. The increase is likely to have been driven mainly by a rise in house purchase activity, rather than remortgaging activity, as low reversion rates continue to limit the attraction of refinancing."

Source: Council of Mortgage Lenders, Gross mortgage lending, 20th August 2009.

Market stabilising but not yet 'normal'

"New data ... shows further signs of stabilisation in the mortgage market, but transactions are still weak on a historic basis. Lending for house purchase and remortgaging both increased in June, albeit from very low levels. There were 45,000 house purchase loans, worth £5.9 billion, up 23% from 36,500 loans in May. However, this is less than half the average number of loans in June over the last seven years. A total of 116,700 house purchase loans were advanced in the second quarter, a 50% increase from the preceding three months but down 22% from the second quarter of 2008."

Source: Council of Mortgage Lenders, 11th August 2009.

Possessions fall and arrears flatten in second quarter

"... the number of mortgage possessions fell in the second quarter of the year, while cases of arrears levelled off. A combination of factors has helped keep mortgage arrears and possessions in check, despite the recession.

... there were 11,400 cases of possession (equivalent to one mortgage in 1,000) in the second quarter of 2009, 10% fewer than the 12,700 in the first quarter of the year but 14% more than the 10,000 cases of possession in the second quarter of last year. Today's figures mean that the total number of possessions in the first half of 2009 stands at 24,100, compared with our forecast for the whole year of 65,000.

The data also shows only a modest deterioration in arrears during the second quarter. ... the number of loans in arrears by 2.5% or more of the outstanding mortgage balance totalled 205,600 (1.85% of all loans). That compares with a total of 203,900 at the end of the first quarter, and 139,700 at the end of the second quarter of 2008. The level of arrears of three months or more is somewhat higher. At the end of June, the number ... stood at 270,400 (2.43% of mortgages), compared with 264,700 (2.38%) in the first quarter and 152,700 in the second quarter of 2008."

Source: Council of Mortgage Lenders, 14th August.

Buy-to-let activity Q2 2009

"The buy-to-let market showed the first signs of stabilising in the second quarter as arrears improved significantly and the decline in new lending began to slow... There were 21,600 new buy-to-let loans advanced in the second quarter, a relatively modest 4% decline from 22,400 in the preceding three months.

By value, buy-to-let gross advances totalled £1.9 billion in the second quarter, which was 5.6% of total gross mortgage lending (compared with £8.9 billion in the second quarter of 2008, which was 11.9% of total gross mortgage lending). Buy-to-let now represents 11.5% of the total value of mortgages outstanding in the UK.

Buy-to-let arrears showed considerable improvement in all measures. There were 29,400 mortgages in arrears of three months or more, down 17% from 35,600 in the previous quarter. The peak in buy-to-let arrears seems

to have passed, with the number of loans more than three months in arrears including those with a receiver in place, falling 10% from the previous quarter to 40,200."

Source: Council of Mortgage Lenders, 14th August.

Statistics on mortgage and landlord possession actions in the county courts – second quarter 2009

Seasonally adjusted data for the second quarter saw 26,215 mortgage possession claims issued, 32% lower than in the second quarter of 2008 and 14% higher than in the first quarter of 2009. 19,064 mortgage possession orders were made, 31% lower than in the second quarter of 2008 and 1% lower than in the first quarter of 2009.

34,421 landlord possession claims were issued using the standard and accelerated possession procedures, 7% lower than Q2 of 2008 and 3% lower than in Q1 of 2009. 23,580 claims led to orders being made through the standard and accelerated possession procedures, 7% lower than in the second quarter of 2008 and 1% lower than in the first quarter of 2009.

NB "In this release the number of possession claims that lead to an order has replaced the old number of possession orders count. The new measure is more accurate, removing the double-counting of instances where a single claim leads to more than one order. It is also a more meaningful measure of the number of homeowners who are subject to court repossession actions."

Source: Ministry of Justice Statistics bulletin, 14th August 2009

Bankstats - mortgages

The most recent data from the Bank of England showed a total of 47,584 mortgages approved for house purchases in June, the highest figure since April 2008. (June 2008 35,196, June 2007 112,174). Net lending in June at £343 million, was above the rise in May £331 million, however, this should be compared with figures of £2,858 in June 2008 and £9,757 million in June 2007.

Source: Bank of England, Monetary & Financial Statistics (Bankstats) July 2009, 29th July 2009.

10. Household

Retail sales 3.3 per cent higher than in July 2008

"Total sales volume in the three months to July was 1.6 per cent higher than the same period a year ago. Sales volume for predominantly food

stores increased by 1.4 per cent, the highest increase since 2007. Predominantly non-food stores increased by 1.0 per cent. Sales volume in the three months May to July 2009 increased by 1.2 per cent when compared to the previous three months. Three-monthly growth increased by 1.3 per cent for predominantly food stores while predominantly non-food stores increased by 1.1 per cent.

Year on year, the volume of retail sales in July was 3.3 per cent higher than in July 2008. Predominantly food stores increased by 2.0 per cent compared to the same period a year ago. Predominantly non-food stores increased by 3.4 per cent. Between June and July, total sales volume increased by 0.4 per cent. Predominantly food stores decreased by 1.0 per cent."

Source: ONS, Retail Sales, News Release, 20th August 2009.

The impact of the recession on retail sales volumes

This article in the Economic and Labour Market Review (ELMR), examined how the changing structure of the economy over the last decade impacted on retail sales volumes, comparing the current pattern of retail sales to that found in the recession of the 1990s. It looked at why non-food stores have managed to outperform food stores, whereas in the 1990s non-food store sales fell sharply.

The conclusion was that the growth in retail sales "has been supported by falling retail prices and a flexible labour market that has limited the effect of unemployment on household consumption." Real earnings have continued to rise, albeit slowly while the cost of debt servicing has fallen. Although unemployment has risen a high proportion have been unemployed for under six months. This group generally exhibit small changes in consumption. The changing structure of UK store types and relative price changes are considered to explain why "non-food stores have performed more strongly than food stores in the recession."

Source: Anagboso, M., and McLaren, C. ELMR, Vol 3:8, August 2009.

11. Inflation and prices

CPI inflation unchanged while RPI rises to -1.4

"Consumer Prices Index (CPI) annual inflation was 1.8 per cent in July, the same as June, which is below the Government's 2 per cent target. Figures published today by the Office for National Statistics also reveal that annual inflation as measured by the Retail Prices Index (RPI) – which includes housing costs such as mortgage interest payments and council tax – was -1.4 per cent, compared with -1.6 per cent in June."

Downward pressure came from changes in prices for meat and vegetables, bread and cereals together with restaurants and cafes. Some upward pressure came from games, toys and hobbies.

"The main factors affecting the CPI also affected the RPI. Additionally, there was an upward pressure from housing with the largest effect coming from house depreciation. Depreciation is excluded from the CPI."

Source: ONS, News Release, 18th August 2009.

Producer prices, July 2009

"The output price index for home sales of manufactured products fell 1.3 per cent in the year to July, compared with a fall of 1.0 per cent in the year to June. The index rose 0.3 per cent between June and July, mainly reflecting rises in prices of other manufactured, chemical and tobacco and alcohol products. These were partially offset by a fall in food product prices. The output price index excluding excise duties fell 2.1 per cent in the year to July. The index rose 0.3 per cent between June and July. The output price index excluding food, beverages, tobacco and petroleum rose 0.2 per cent in the year to July. The index rose 0.5 per cent between June and July."

Source: ONS, Producer Prices, Statistical Bulletin, 7th August 2009.

12. Finance

Public sector finances July 2009

In July 2009:

"The **public sector current budget** was in **deficit** by **£5.1** billion; this is a **£13.0** billion **higher deficit** than in July 2008, when there was a **surplus** of **£7.8** billion.

public sector net borrowing was **£8.0** billion; this is **£13.2** billion **higher** net borrowing than in July 2008, when net lending was **£5.2** billion.

In financial year 2009/10:

the **public sector current budget** was in deficit by **£40.1** billion; this is a **£31.2** billion **higher** deficit than in the same period of 2008/09, when there was a deficit of **£8.9** billion;

public sector net borrowing was **£49.8** billion. This was a **£33.9** billion **higher** net borrowing than in the same period of 2008/09, when there was net borrowing of **£15.9** billion."

Source: ONS and Treasury, 20th August 2009.

Bank of England, Trends in Lending, August 2009

The latest data shows that total net lending to businesses fell in Q2 across most sectors. Actual lending fell while capital issuance rose as companies sought to repair their balance sheets. "The availability of finance for

smaller businesses, without access to the capital markets, remained more subdued."

"Official data for June showed that the flow of total net mortgage lending remained close to its lowest level since the monthly series began in April 1993. And the major UK lenders reported that weak net lending continued into July. In line with rising mortgage approvals, gross lending for house purchase has continued its recovery since the beginning of the year, but remortgaging activity remains very subdued.

Total net consumer credit flows appear to have stabilised at very low levels. The major UK lenders had yet to detect any significant signs of an increase in demand for consumer credit. And the proportion of applications accepted by the major UK lenders fell further in July. There was a further widening in the spread over Libor on credit card lending in July, partly reflecting increases in actual and expected default rates."

Source: Bank of England, Trends in Lending, August 2009.

Household debt

Consumer spending was one factor influencing growth in the boom years, financed partly by increased borrowing resulting in increased household debt. Households are now paying back debt and increasing savings with the consequent impact on spending, though falling mortgage rates have led to cuts in housing costs and lower inflation has created some scope for spending. In the future the probability is that consumer spending trends will be lower as households continue to pay back debts and save. Rising unemployment will also lead to a reduction in spending.

Source: Lloyds TSB, Corporate Markets, UK households start to save, August 2009.

13. Reviews

Deja vu – same old inventory-led economic downturn

"Many assumptions about economic and financial market performance have been shattered in the 2 years since the global credit market crisis started. Not least amongst these assumptions was the view that 'lean production' methods – including manufacturers keeping stocks to a minimum and producing on demand to customer specification – would reduce the impact of the stock or inventory cycle on economic growth. But this economic downturn has, as always, been led by investment cut backs and falls in manufacturing output, driven by the inventory cycle."

A large drop in demand in 2008 together with increasing energy costs and a tightening of credit conditions restricted company cash flows. Consequently stocks were reduced. As manufacturing firms were carrying high stock inventories the cutback was quite rapid. Inventory declines contributed 40% to the decline in GDP. In theory when demand rises, stocks would increase

adding to overall growth. However, inventory levels are relatively high, with the potential to fall further and impact on economic growth. The report suggests "that if stocks are cut further then investment spending could also be cut,... Such an outcome implies that economic recovery could be long and slow, and output could even fall back from current levels." In conclusion, "the next few months will therefore be critical in deciding whether the current halt to the economic downturn, and some hopeful signs of a pick up, can become a sustained economic recovery."

Source: Trevor Williams, Chief Economist, Corporate Markets, Lloyds TSB.

International Perspective

14. Reports

Composite Leading Indicators show stronger signals of improvement in economic outlook

"OECD composite leading indicators (CLIs) for June 2009 point to stronger signs of improvement in the economic outlook of OECD economies compared with last month's release. This is typified by stronger recovery signals in Italy and France and clearer signals of troughs in Canada, Germany, the United Kingdom and the United States. In Japan tentative signs of improvement have also emerged. Troughs can also be observed in China and India, with tentative trough signals now appearing in Brazil and Russia."

Source: OECD, Paris, 7th August 2009 OECD Composite Leading Indicators News Release.

European Union GDP, 2nd quarter 2009. NB Flash estimates.

Provisional data from Eurostat indicated that compared to the first quarter, growth fell by 0.1% in the Euro area and 0.3% in the EU27. Some economies however, saw an increase, with France and Germany both rising by 0.3% prompting hopes that they were emerging from recession. Compared to the same quarter in 2008, Euro area GDP fell by 4.6% and EU27 by 4.8%. In the first quarter of 2009, growth rates were -2.5% in the euro area and -2.4% in the EU27. US GDP fell by 0.3% compared with the first quarter, following a decline of -1.6% in the first quarter.

Source: Eurostat, newsrelease, euroindicators 117/2009 - 13 August 2009

European Central Bank, Monthly Bulletin August.

The ECB state that "While uncertainty is still high, there are increasingly signs that the global recession is bottoming out. As regards the euro area, recent surveys suggest that the pace of contraction is clearly slowing down. However, economic activity over the remainder of this year is expected to remain weak. Looking ahead into next year, after a phase of stabilisation, a gradual recovery with positive quarterly growth rates is expected. The significant policy stimuli in all major economic areas should support growth globally, including in the euro area."

In common with previous bulletins the upside and downside risks are considered to remain balanced. On the upside are the impact of policy stimuli while "on the downside, concerns remain relating to a stronger or more protracted negative feedback loop between the real economy and the turmoil in financial markets, renewed increases in oil and other commodity prices, the intensification of protectionist pressures, more unfavourable than expected labour market conditions and, lastly, adverse developments in the world economy stemming from a disorderly correction of global imbalances."

Source: European Central Bank, Monthly Bulletin, August 2009.

Developing economies lead the way out of recession.

The August Lloyds TSB report on Corporate markets examined the role played by developing countries in the global economy. There was a belief that the developing countries had decoupled their economies from the advanced economies. However, the dependence on global trade resulted in a greater decline in GDP as the recession spread, suggesting that decoupling had not taken place. Despite this more recent data shows that developing economies are recovering faster, with China taking the lead. Various factors have been responsible for this, including rebuilding of inventories, a rise in global trade, combined with policies to stimulate domestic demand. The articles conclusion is that "the recent signs of improvement in China and other developing economies provide cautious grounds for optimism that these countries may lead the world out of recession over the coming year."

Source: Lloyds TSB. (Adam Chester, Senior UK Macroeconomist, Corporate Markets).

Sustaining a Global Recovery, IMF

"Sustaining the nascent recovery is likely to require delicate rebalancing acts, both within and across countries. An understanding of the issues and the dangers, and some coordination across countries, is likely to be as crucial during the next few years as it was during the most intense part of the crisis."

This report highlights the issues facing and options for the global economy post recession. It refers to rebalancing, with a shift from public to private spending and in relation to demand, whereby countries such as the US reduce their current account deficit while countries in surplus, particularly China reduce their surpluses. Hence demand in the US would shift from domestic to foreign (i.e. increasing exports and reducing imports), with a reverse shift in Asian economies, particularly China. Concern is expressed over whether recent increases in demand, a consequence of fiscal stimulus and inventory restocking can be transformed into sustainable recovery.

Source: IMF, Olivier Blanchard, 19th August 2009.

Please note text in *quotation marks* is a direct quote from the source.

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Economic Development

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