



Economy Monitoring

Monthly Update, July 2009

31 July 2009

Environment, Planning and Economy

Economy Monitoring Summary, July 2009

- Both recent data and commentaries present a mixed picture. The IMF considers that the global economy is **beginning to pull out of recession though recovery will be weak**. Both the IMF and European Central Bank believe that policy interventions have played a significant role in assisting conditions.
- On the down side, preliminary **GDP** data for the UK (Q2 2009) indicated a **decline in output** of 0.8%, a lower figure than the -2.4% for Q1 but higher than the 0.3% expected by analysts. An ONS report indicated that UK output is falling faster than during the early 1980s recession.
- Household consumption data for the UK showed that over the year **net tourism expenditure fell by 43%**.
- UK **unemployment is increasing** and is likely to rise further; however, a rise in part-time working may have offset potential job losses.
- **Swine flu** makes an appearance on the economic scene with the Item Club suggesting potential reductions in GDP as a result.
- On a more positive note, the **June Purchasing Managers Index figures suggested a second month of output growth** across the SW.
- Various reports highlighted **improvements in the housing market during June**, attributed to largely to seasonal factors. Land Registry data showed the first increase in prices across England and Wales since January 2008.
- **June retail sales were up in both volume and value** over June 2008 while the Nationwide consumer confidence index rose again.
- In Cornwall the **jobseeker total fell again**, in line with a number of other areas, however, vacancy numbers decreased in contrast to May figures, and were also lower than a year earlier.
- **House prices in Cornwall rose** for the first time since April 2008

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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 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

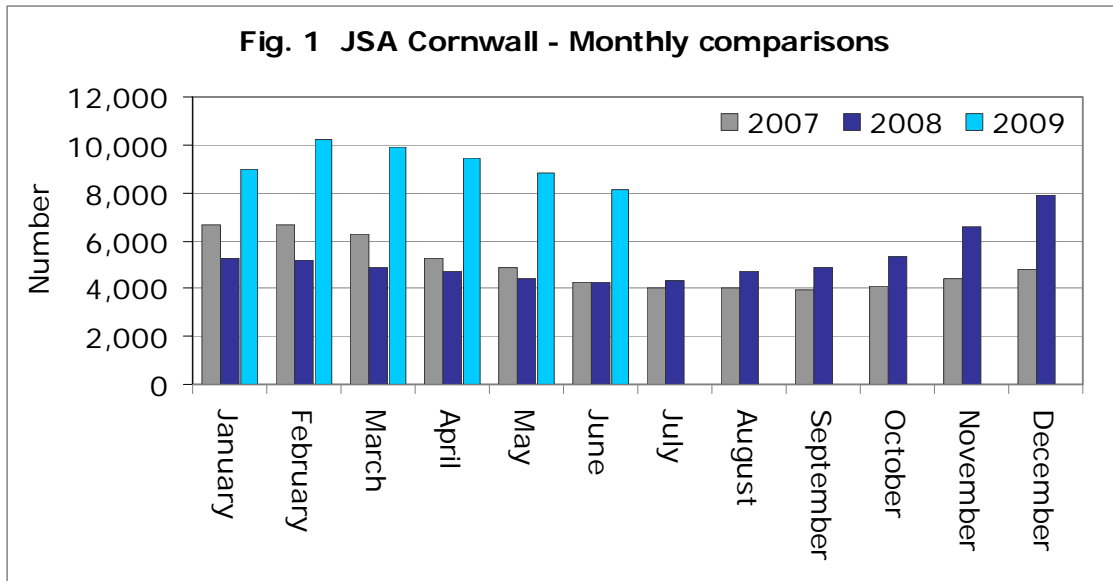
1. Monthly

Labour market analysis – June 2009 data Claimant count

The latest claimant count data was released on 15th July 2009. The figures relate to those claiming Jobseekers Allowance¹.

The total for Cornwall is now 8,158. The last time Cornwall's June figure was higher than this was in 2000 when it equalled 8,832. The claimant count rates were Cornwall 2.6%, UK 4.1% and SW 3%. Figure 1 illustrates the number of claimants on a monthly basis for 2007, 2008 and 2009.

¹ 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



Since May 2009 numbers in Cornwall have decreased by 683. Within the SW, 13 of the 16 County/Unitary areas saw a decline in numbers from the previous month. The largest falls in percentage terms (excluding IoS), were Cornwall (-7.7%), Torbay (-6.3%), and Devon (-6.1%). It is assumed that this is linked to increased tourism employment. Conversely, other areas saw an increase in numbers. Wiltshire and Gloucestershire saw rises of 1.1%, with Swindon showing an increase of 0.6%. The UK had a decrease of 0.7%, while a decrease of 2.3% was recorded across the SW. Full details of the number of claimants and changes are shown in Table 1 (overleaf).

Table 2 (page 6) shows the rates and how they have changed from June 2008 to June 2009. Cornwall's rate increase, from 1.4% to 2.6% equals a rise of 86%. This is the lowest rise for authorities across the SW. The highest rate increase, of 200% was recorded in South Gloucestershire. Since June 2008 the number of claimants in Cornwall has risen by 3,927 or 93%. This compares to an increase of 86% across the UK and 130% across the South West. At 2.6% Cornwall lies midway amongst authorities in the South West.

Table 1: JSA numbers across the SW

Area	May 2009	June 2009	Monthly		June 2008	June 2009		
	No	No	No	%	No	No	No	%
Bath and North East Somerset	2,395	2,379	-16	-0.7	1,018	2,379	1,361	133.7
Bournemouth	3,921	3,874	-47	-1.2	1,646	3,874	2,228	135.4
Bristol, City of	11,472	11,281	-191	-1.7	5,329	11,281	5,952	111.7
Cornwall	8,841	8,158	-683	-7.7	4,231	8,158	3,927	92.8
Isles of Scilly	6	3	-3	-50.0	3	3	0	0.0
North Somerset	3,169	3,093	-76	-2.4	1,215	3,093	1,878	154.6
Plymouth	6,651	6,558	-93	-1.4	3,382	6,558	3,176	93.9
Poole	2,429	2,377	-52	-2.1	888	2,377	1,489	167.7
South Gloucestershire	4,003	3,886	-117	-2.9	1,292	3,886	2,594	200.8
Swindon	6,535	6,575	40	0.6	2,376	6,575	4,199	176.7
Torbay	3,551	3,328	-223	-6.3	1,649	3,328	1,679	101.8
Wiltshire	7,162	7,242	80	1.1	2,890	7,242	4,352	150.6
Devon	11,204	10,522	-682	-6.1	4,552	10,522	5,970	131.2
Dorset	4,702	4,539	-163	-3.5	1,739	4,539	2,800	161.0
Gloucestershire	12,480	12,622	142	1.1	5,424	12,622	7,198	132.7
Somerset	8,006	7,910	-96	-1.2	3,330	7,910	4,580	137.5
South West	96,527	94,347	-2,180	-2.3	40,964	94,347	53,383	130.3
England	1,311,683	1,298,572	-13,111	-1.0	695,550	1,298,572	603,022	86.7
Great Britain	1,516,921	1,504,117	-12,804	-0.8	809,957	1,504,117	694,160	85.7
United Kingdom	1,564,978	1,553,256	-11,722	-0.7	835,317	1,553,256	717,939	85.9

Table 2: JSA claimant count rates across the SW

Area	May 2009	June 2009	June 09 - June 08	
	Rate	Rate	Rate change	% increase
Bath and North East Somerset	0.9	2.1	1.2	133.3
Bournemouth	1.6	3.8	2.2	137.5
Bristol, City of	1.9	4.0	2.1	110.5
Cornwall	1.4	2.6	1.2	85.7
Isles of Scilly	0.2	0.2	0.0	0.0
North Somerset	1.0	2.6	1.6	160.0
Plymouth	2.1	4.1	2.0	95.2
Poole	1.1	3.0	1.9	172.7
South Gloucestershire	0.8	2.4	1.6	200.0
Swindon	2.0	5.5	3.5	175.0
Torbay	2.2	4.4	2.2	100.0
Wiltshire	1.1	2.7	1.6	145.5
Devon	1.0	2.4	1.4	140.0
Dorset	0.8	2.0	1.2	150.0
Gloucestershire	1.5	3.6	2.1	140.0
Somerset	1.1	2.6	1.5	136.4
South West	1.3	3.0	1.7	130.8
England	2.2	4.1	1.9	86.4
Great Britain	2.2	4.1	1.9	86.4
United Kingdom	2.2	4.1	1.9	86.4

NB Claimant count figures commonly referred to at a UK level are for the Claimant count (all aged 18+) seasonally adjusted. This differs from this data which is for the Claimant count (all aged 16+) - (not seasonally adjusted). Hence, UK figures used here will differ from those used in the release from ONS which is referred to later in this paper and cited on BBC and other news.

Job Vacancies

The latest vacancies data was released on 15th July 2009. There were 2,690 vacancies in Cornwall in June. This represents a decrease of 618 since May (- 19%). This rise is above the decreases across Britain (-8%), and SW England (-11%). [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 0.33, compared to 0.17 (GB) and 0.24 (SW) – Table 3. The June 2009 figures are all below the figures for June 2008.

Table 3: Labour market comparisons – vacancy to claimant ratio

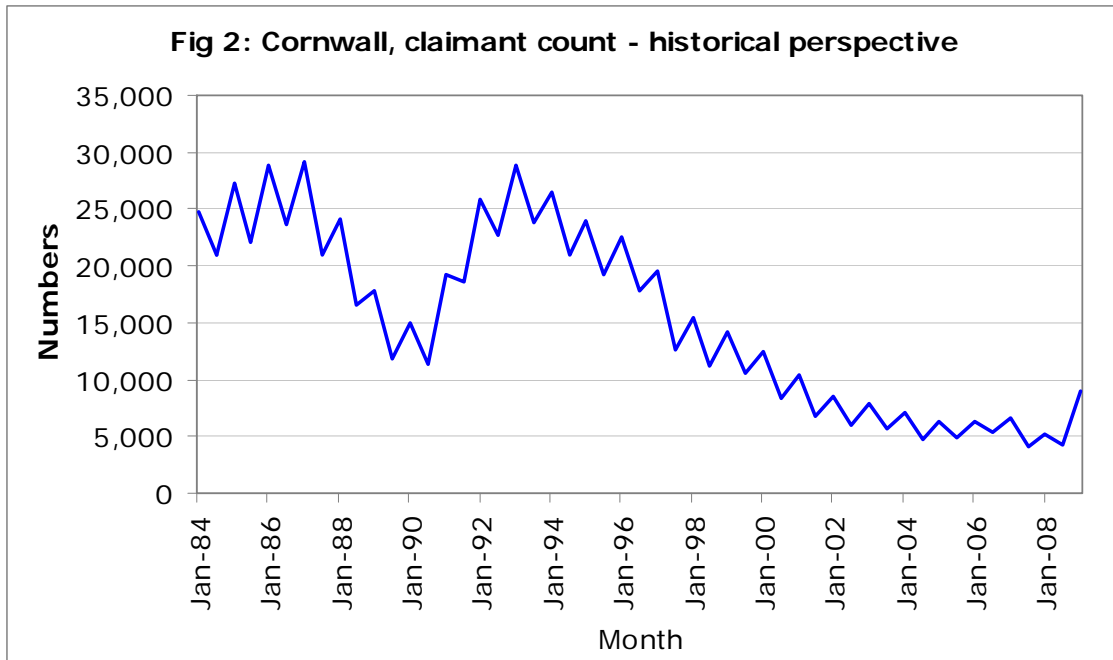
Date	Claimant	Vacancies	Ratio	Claimant	Vacancies	Ratio	Claimant	Vacancies
Jun-08	809,957	415,627	0.51	40,964	35,989	0.88	4,231	3,156
May-09	1,516,921	274,445	0.18	96,527	25,262	0.26	8,841	3,308
Jun-09	1,504,117	253,363	0.17	94,347	22,528	0.24	8,158	2,690

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

Unemployment – a historical perspective

With the onset of increasing claimant count figures, it is useful to compare them with historical data. A major problem here is that due to changes in rules and procedures, data particularly pre compared to post 1983, are not directly comparable. Under the old system (which shows registered employed), in July 1976 the number of claimants equalled 12161, rising to 18,789 in July 1981.

Post 1983 using data for January and July in Cornwall, which covers the winter peak and summer low, the high level for the claimant count was reached in January 1987 when it reached 29,175. Thereafter there was a decline until January 1990, followed by another increase with a high of 28,902 in January 1993. As Figure 2 shows, a steady decline followed until the onset of the current recession. The July claimant count peaked in July 1986 at 23,659 and then again in July 1993 at 23,819. Since then the figures declined until July 2007.



Employment news

Pall at Redruth indicated that 14 out of 400 jobs would go at their Redruth factory, while Imerys stated 18 jobs would be lost. In Par, Kemutec a manufacturer, closed with the loss of 49 jobs, while ten restaurant jobs were lost in Truro. Another 67 possible job losses were identified during the month, mainly in manufacturing and real estate. On the plus side, Iceland at announced 35 vacancies in Bodmin (opening in October), with 23 jobs at the Pound shop in Penzance. Both were on former Woolworths sites. Tulip foods announced a need for an additional 100 workers, offsetting last years losses of 90.

Sources: Various news reports

House Prices

House prices across Cornwall increased slightly in June compared to May, in line with the England and Wales trend. This is the first increase since the peak in April 2008 (for England and Wales since January 2008). Since then average prices have fallen by 16.4%, the comparative figure for England and Wales is 16.1%². Trends since January 2008 are given in Table 4.

Table 4: House Prices, Land Registry				
Month	Cornwall	England and Wales	Cornwall	England and Wales
	Average Price (£)	Index	Average Price (£)	Index
Jan-08	377	209,912	294.9	184,439
Feb-08	377.7	210,316	294.3	184,031
Mar-08	377.2	210,014	291.6	182,325
Apr-08	378.1	210,494	291.7	182,400
May-08	375.7	209,171	290	181,367
Jun-08	371.1	206,602	284.6	177,985
Jul-08	369.8	205,893	282.5	176,635
Aug-08	361.5	201,296	275.5	172,314
Sep-08	358.2	199,437	268.5	167,910
Oct-08	352.8	196,445	264.7	165,503
Nov-08	346	192,658	259.2	162,121
Dec-08	339.9	189,225	252.6	157,974
Jan-09	333.2	185,522	251.1	157,005
Feb-09	326.3	181,670	246.2	153,978
Mar-09	322.3	179,460	244.9	153,152
Apr-09	321	178,706	244.6	152,977
May-09	315.3	175,549	244.6	152,965
Jun-09	316.1	175,987	244.7	153,046

Source: Land Registry. <http://www.landregistry.gov.uk/> 28th July 2009. [Index Jan 1995 = 100].

² 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.

Traffic data

Trends in traffic figures indicate that the decline in numbers, comparing each month with the same month the previous year, ended in February, with increases of 0.7% (March), 4.4% (April) and 1.2% (May). The April figure was probably affected by the move of Easter from March to April.

2. Quarterly

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

United Kingdom

3. Monthly

South West private sector economy expanded for second successive month.

"The South West Purchasing Members Index report for June signalled a second successive month of private sector expansion within the region. Companies in the South West increased their output in the month, and also saw a rise in new orders being received. However, firms continued to deplete levels of outstanding business, as excess capacity persisted.

Employment levels consequently fell again in June. Companies in the South West received an increased number of new orders in June, compared to the level received in May. New business was stimulated mainly within the service sector, as manufacturing saw a further reduction in the level of new orders. Companies within the service sector commented that new business reflected improved conditions in markets, and increased feelings of confidence about the economic climate. New order levels helped to maintain growth in activity, which was first signalled by May data.

South West output expanded at a rate above the UK average in June. Outstanding business continued to decline in June, as companies completed existing orders. Backlogs in the service sector fell only marginally, while in manufacturing a very sharp reduction in outstanding work was registered. Despite increased new order levels, evidence of excess capacity meant employment within companies was reduced for the fifteenth successive month. The rate of job cuts remained marked, although there was a slight easing on the pace seen in May."

Source: Markit, South West PMI, 15th July 2009.

June Gross mortgage lending

"Gross mortgage lending in June was an estimated £12.3 billion, a 17% increase from £10.5 billion in May and a 48% decline from £23.8 billion in June 2008, according to new data from the Council of Mortgage Lenders. Gross lending in the second quarter of 2009 totalled an estimated £33.3 billion, unchanged from the first quarter, which was the lowest quarterly reading since the first quarter of 2001. CML economist, Paul Samter said: "The pick-up in June's lending largely reflects seasonal factors, and these may well support lending volumes at moderately higher levels over the rest of the summer. But the combined effects of the restricted nature of mortgage funding, reduced number of active lenders, weak labour market and limited consumer demand are likely to hold back any significant and underlying improvement. Our forecast for gross mortgage lending of £145 billion this year is unchanged."

Source: CML, Gross mortgage lending, 20th July 2009.

Tightening in lending criteria abates: CML, 9th July

"New estimates from the Council of Mortgage Lenders suggest that a higher proportion of young first-time buyers than ever before are getting help from parents to enter the market. But more positively, the CML's latest data shows signs that lending criteria stopped tightening in May. Since reaching a record 25% in February, the average first-time buyer deposit has remained unchanged. And the typical first-time buyer income multiple has held at 2.97 from April.

Home movers typically borrowed 67% of the value of the property in May, unchanged from April, and borrowed 2.68 times their income, up from 2.63 in April.

We might expect to see a modest easing in these measures over the summer, as some higher loan-to-value products came on to the market in recent months and lenders reported that they intend to increase lending at higher loan-to-value ratios in the Bank of England's recent Credit Conditions Survey.

The number of loans for house purchase edged up 4% from April to 37,400 (worth £4.7 billion), but this is 28% lower than the number of loans in May 2008. House purchase lending is still depressed by historical standards: in the last seven years the May average was 96,000 house purchase loans.

Remortgaging volumes remain extremely weak with 29,000 loans in May, a 9% fall from April and a 63% decline from a year earlier. Demand for remortgage is falling away as many borrowers exiting fixed rate periods find themselves reverting to relatively attractive standard variable rates. In addition, lower house prices and tighter loan-to-value constraints continue to limit access to the better priced remortgage products.

First-time buyer numbers were little changed with 14,000 loans worth £1.5 billion in May, compared with 13,700 loans worth £1.5 billion in April. But

that doesn't mean the challenges for first-time buyers are over. Newly updated CML analysis suggests that around 80% of first-time buyers aged under 30 are likely to be receiving help from parents as they are unlikely to have been able to build up the deposits needed to enter the market from their own resources.

There was a slightly larger increase in activity amongst home movers with 23,500 loans worth £3.3 billion, compared with 22,300 loans worth £3.1 billion in April."

Source: CML, 9th July 2009.

Further sign of housing pick-up

"More evidence of a lift in housing market activity at the start of the summer has come from the latest figures released by the UK's tax authority. Some 75,000 UK residential properties costing more than £40,000 were sold in June, up 15% on the previous month, HM Revenue and Customs (HMRC) said. This was the highest level of activity for a year, but still much lower than that seen for most of the decade. Seasonal factors were also shown to play a key part in the rise.

The HMRC's provisional figures also shed light on the typical buoyancy in the housing market at this time of the year, as people show greater inclination to move during the early summer. Stripping out seasonal factors, 65,000 sales were completed during June, down from a revised figure of 63,000 in May. Even so, this seasonally-adjusted total was the highest since October 2008, but well down on the 140,000 seen in June 2007 before the housing market slump. Less volatile quarterly figures from the HMRC showed that property transactions rose from 141,000 in the first three months of the year to 198,000 in the second quarter of 2009. The seasonally-adjusted figure of 191,000 was almost identical to the position in the third quarter of 2008, and higher than the subsequent two quarters."

Source: BBC, 21st July 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.

Retail sales - underlying growth increases in June

“The volume of retail sales in June 2009 was 2.9 per cent higher than in June 2008. Total sales volume in the three months to June was 1.3 per cent higher than the same period a year ago. Sales volume for predominantly food stores increased by 0.7 per cent. Non store retailing and repair increased by 9.4 per cent. Sales volume in the three months April to June increased by 0.7 per cent when compared to the previous three months. Three-monthly growth increased by 1.6 per cent for predominantly food stores while predominantly non-food stores decreased by 0.1 per cent. The volume of retail sales in June was 2.9 per cent higher than in June 2008. Predominantly food stores increased by 2.6 per cent compared to the same period a year ago. Predominantly non-food stores increased by 2.4 per cent. Between May and June, total sales volume increased by 1.2 per cent. Predominantly food stores increased by 0.7 per cent. Predominantly non-food stores increased by 1.6 per cent. The seasonally adjusted value of retail sales for the three months to June was 1.4 per cent higher than the same period a year earlier and June 2009 was 2.5 per cent higher than in June 2008. (Retail sales volume is the total takings adjusted for inflation and the value of retail sales is the total actual takings).”

Source: ONS, (2009), Retail Sales, News Release, 23rd July 2009.

CPI annual inflation falls below 2 per cent

“Consumer Prices Index (CPI) annual inflation fell to 1.8 per cent in June, down from 2.2 per cent in May and the first time it has fallen below the Government’s 2 per cent target since September 2007. Figures published today by the Office for National Statistics also reveal that annual inflation measured by the Retail Prices Index (RPI) - which includes housing costs such as mortgage interest payments and council tax – was -1.6 per cent, compared with -1.1 per cent in May. This is the lowest RPI figure since records began in 1948.

The largest downward pressure on the CPI came from food and non-alcoholic drink prices, ... from meat, bread and cereals, fruit, vegetables and milk, and cheese and eggs. There was also a smaller downward effect from sugar, jam and confectionery. A significant downward effect also came from furniture prices, which rose by less than last year. There was one large upward pressure on the CPI annual rate which came from the recreation and culture category, where the price of computer games rose by more than a year ago.

The main factors affecting the CPI also affected the RPI. RPIX inflation – the all-items RPI excluding mortgage interest payments – was 1.0 per cent in June, down from 1.6 per cent in May. As an internationally-comparable measure of inflation, the CPI shows that UK inflation in May, at 2.2 per cent, was above the provisional figure for the European Union as a whole of 0.7 per cent.”

Source: ONS, (2009), Retail Sales, News Release, 14th July 2009.

Bank of England, Trends in Lending, July 2009

“The flow of net lending to UK businesses remained negative in May. Some UK businesses repaid bank debt using funds raised on the capital markets. But, taken together, funds raised by businesses from banks and capital markets remained weak. Spreads and fees are reported to have risen in recent months, which the major UK lenders have attributed to higher longer-term funding costs and credit risk, though some of them thought that spreads may now be close to reaching a plateau. And, for some major UK lenders, a stabilisation in the economic outlook, as well as slightly more plentiful and cheaper funding, was expected to help them make credit more available over the next three months. Lenders reported little actual or expected increase in demand for credit, except for balance sheet restructuring.

Official data for May showed the lowest flow of total net mortgage lending since the monthly series began in April 1993, but the major UK lenders reported that in June their flow of net mortgage lending rose a little. The major UK lenders reported a further rise in approvals for house purchase in June, suggesting that mortgage lending for house purchase may continue to strengthen in coming months. Fixed mortgage rates rose in June, in part reflecting increases in swap rates. Some major UK lenders have reported that signs of stabilisation in housing market activity and prices, and the margins prevailing on higher LTV products, have slightly increased their appetite to lend at higher LTVs.

Net flows of consumer credit remained weak in May. Within the total, net consumer credit excluding credit cards remained subdued, but was positive for the first time since December 2008. Spreads on credit card lending have continued to rise, reflecting higher actual and expected default rates. None of the major UK lenders reported any plans to expand the availability of consumer credit, and they had yet to detect any significant signs of an increase in demand.”

Source: Bank of England, Trends in Lending, July 2009. [LTV = Loan to Value].

New car registrations and vehicle production

Car registrations in June 2009 were down 15.7% on June 2008 (176,264 compared to 209,190), the smallest decline since July 2008, while year to date figures were down 25.9% (924,955 compared to 1,247,479). Total vehicle production in June 2009 fell by a third compared to June 2009; yearly figures fell by half, full details in Table 5.

Table 5: Vehicle Production

Production	June 08	June 09	Change	% Change
Total	152,995	100,250	52,745	-34.5%
	YTD June 2008	YTD June 2009	Change	%
Total	946,098	453,914	492,184	-52%

Source: Society of Motor Manufacturers and Traders Limited. 6th and 24th July 2009

4. Quarterly

Quarterly economic indicators

The table below summarises the main quarterly economic indicators.

Table 6: Latest Economic Indicators

Activity	Period	% change
GDP * 1	Q2 09	-0.8
Service sector output * 1	3m to Apr	-1.2
Industrial production	3m to May	-12.3
Manufacturing output	3m to May	-13.1
Manufacturing productivity	Q3 08	2.4
Households' consumption	Q4 08	-.08
Whole economy investment	Q4 08	-3.1

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

Gross domestic product Preliminary estimate 2nd Quarter 2009

"The preliminary estimate shows that the chained volume measure of gross domestic product (GDP) decreased by 0.8 per cent in the second quarter of 2009 compared with the previous quarter. The decline in output was due to decreases in all component aggregate series. The volume of output in the production industries is estimated to have decreased by 0.7 per cent this quarter. Manufacturing output decreased by 0.3 per cent. Mining and quarrying decreased by 1.0 per cent and electricity, gas and water supply decreased by 3.8 per cent. Output of the service industries is estimated to have decreased by 0.6 per cent. Output within construction decreased by 2.2 per cent compared with a decrease of 6.9 per cent in the previous quarter. It should be noted that the output survey results used to compile more complete estimates are not available at this stage and the preliminary

results are based on a smaller survey of changes in the balance of activity in the industry.

Output within distribution, hotels and restaurants decreased by 0.5 per cent compared with a decrease of 1.5 per cent in the previous quarter. Wholesale and motor trades made the largest contribution to the reduction in the level of output. Output within transport, storage and communication decreased by 2.1 per cent compared with a decrease of 3.0 per cent in the previous quarter. Land transport and transport support made the largest contribution to the decrease in output. Output of business services and finance decreased by 0.7 per cent, compared with a decrease of 2.5 per cent in the previous quarter. Computer services made the largest contribution to the reduction in output. Business services and finance contributed most to the decreased rate of decline in total output. Output growth of government and other services decreased by 0.2 per cent, compared with an increase of 0.2 in the previous quarter. Public administration and defence made the largest contribution to the decrease."

Source: ONS, Quarterly national accounts Statistical Bulletin, 24th July 2009.

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

"... monthly estimates of GDP suggest that output fell by 0.4% in the three months ending in June, after the decline of 1.3% in the three months ending in May. Revisions to the official estimates of economic growth in the first quarter of 2009 suggest that March can no longer be considered the trough of the recession. However, on the basis of the monthly profile we estimate that the UK economy is now stagnating rather than continuing to contract at a sharp pace. In the three months to June 2009 the UK economy was around 5½ per cent below its peak in March 2008."

Source: National Institute of Economic and Social Research, estimates of monthly GDP, 7th July, 2009.

Index of production – May 2009

"In the three months to May 2009, the seasonally adjusted chained volume index for the output of the production industries decreased by 1.8 per cent compared with the previous three months and was 12.3 per cent lower than the same three month period a year earlier. In the latest three months, manufacturing output decreased by 1.2 per cent, mining and quarrying output decreased by 2.7 per cent and output of the electricity, gas and water supply industries decreased by 5.5 per cent, compared with the previous three months.

Between April and May, output of the manufacturing industries fell by 0.5 per cent (note that monthly growth rates are volatile,...). The most significant decreases in output were 2.0 per cent in the paper, printing and publishing industries and 1.7 per cent in the machinery and equipment

industries. The most significant increase in output was 3.7 per cent in the other manufacturing industries.”

Source: ONS Index of production, May 2009, Statistical Bulletin, 7th July 2009.

Index of Services April 2009

“In the three months to April the seasonally adjusted chained volume index for the output of the Service sector decreased by 1.2 per cent compared with the previous three months, and follows a decrease of 1.6 per cent in the three months to March. 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 March and April, Service sector output decreased by 0.1 per cent. The most significant decrease was in Transport, storage and communication. Output from Business services and finance also decreased. The most significant increase was in Distribution. (Caution should be taken in interpreting the monthly movements in the Index of Services...)” Sector details in Table 7 below.

Table 7: Sector Breakdown	
Sector – changes Feb to April	Period
<u>Distribution</u> the decrease was driven by Wholesale. Retail also decreased while Motor trades increased in output.	-0.9
<u>Hotels and restaurants</u> The most significant decrease was in Licensed and unlicensed restaurants. The next most significant decrease was in Hotels.	-1.6
<u>Transport, storage and communication</u> The most significant decrease was in Other transport services. The next most significant decrease was in Land transport.	-2.8
<u>Business services and finance</u> The most significant decrease was in Other business services. The next most significant decrease was in Computer services.	-1.6
<u>Government and other services</u> The most significant increase was in Health and social work. The next most significant decrease was in Public administration and defence.	0.0

Source: ONS Index of services, April 2009, Statistical Bulletin, 1st July 2009.

New orders in the construction industry, May 2009

“Orders in the three months to May 2009 fell by 1 per cent compared with the previous three month period. Orders in the 12 months to May 2009 fell 28 per cent compared with the previous 12 months and orders in three

months to May 2009 fell by 30 per cent compared with the same period a year earlier. All orders figures quoted are seasonally adjusted and in constant (2005) prices." Changes by sector in Table 8.

Table 8: Changes by Sector			
Sector	Three months to May compared to previous quarter	Same quarter a year ago	In the year to May compared to previous 12 months
Private housing	11%	-37%	-50%
Public housing	37%	-15%	
Infrastructure	-13%	50%	15%
Public non housing	14%	-20%	1%
Private commercial	-13%	-57%	-43%
Private industrial	-14%	-43%	-37%

Source: ONS, New orders in the construction industry, Statistical Bulletin, 2nd July 2009.

United Kingdom Quarterly labour market data UK (March - May 2009)

"The working age employment rate was 72.9 per cent in the three months to May 2009, down 0.9 percentage points on the three months to February 2009 and down 2.0 percentage points from a year earlier. The number of people in employment was 29.00 million in the three months to May 2009, down 269,000 from the three months to February 2009 and down 543,000 on a year earlier. The number of people in full-time employment was 21.47 million in the three months to May 2009, down 273,000 from the three months to February 2009. The number of people in part-time employment was 7.53 million in the three months to May 2009, up 3,000 from the three months to February 2009.

Total hours worked per week were 918.8 million in the three months to May 2009, down 9.0 million from the three months to February 2009. Average weekly hours worked in the three months to May 2009 were 31.7, unchanged from the three months to February 2009.

The unemployment rate was 7.6 per cent in the three months to May 2009, up 0.9 percentage points from the three months to February 2009 and up 2.4 percentage points from a year earlier. The number of unemployed people was 2.38 million in the three months to May 2009, up 281,000 from the three months to February 2009 and up 753,000 from a year earlier. The claimant count in June 2009 was 1.56 million, up 23,800 on the previous month and up 716,800 on a year earlier. The claimant count rate was 4.8

per cent, up 0.1 percentage point from the previous month and up 2.2 percentage points from a year earlier.

There were 429,000 job vacancies in the three months to June 2009, down 35,000 from the three months to March 2009 and down 222,000 from a year earlier. There were 1.6 vacancies per 100 employee jobs, down 0.1 on the previous quarter and down 0.9 over the year. In the three months to May 2009, 301,000 people had become redundant in the three months before the Labour Force Survey interviews, up 31,000 from the previous quarter and up 182,000 from a year earlier. The redundancy rate was 11.9 per 1,000 employees, up 1.3 from the three months to February 2009 and up 7.2 from a year earlier."

Source: Office for National Statistics, Labour Market Statistics, Statistical Bulletin, 15th July 2009.

Miscellaneous

Producer prices, June 2009

"The output price index for home sales of manufactured products fell 1.2 per cent in the year to June, compared with a fall of 0.3 per cent in the year to May. The index fell 0.2 per cent between May and June, mainly reflecting falls in chemical prices and other manufactured products, partly offset by increases in petrol product prices. The output price index excluding excise duties fell 2.0 per cent in the year to June. The index fell 0.3 per cent between May and June. The output price index excluding food, beverages, tobacco and petroleum rose 0.1 per cent in the year to June. The index fell 0.8 per cent between May and June."

Source: ONS, Producer Prices, Statistical Bulletin, 10th July 2009.

5. Other Reports

Economic Review July 2009, ONS.

"Gross Domestic Product (GDP) had previously been estimated as flat in 2008 Q2, but is now estimated to have fallen by 0.1 per cent, meaning the UK economy has shrunk for four successive quarters. If the technical definition of a recession is two consecutive quarters of negative growth, then the recession now started in the third quarter of last year. More dramatically, data for the first quarter of 2009 have been revised significantly downwards. Last month's 'Output, Income and Expenditure' release reported that GDP had fallen by 1.9 per cent during the quarter. New estimates though indicate the pace of contraction was actually faster, with output falling by 2.4 per cent. Such a quarterly contraction has only been experienced on two prior occasions in the last 50 years (1974 Q1 and 1979 Q3), and both were the result of significant oil price shocks. On a four-quarter basis, that is comparing GDP in 2009 Q1 relative to the first

quarter in 2008, output has fallen by 4.9 per cent, the largest drop on record.

The current recession is already more severe than that of the early 1990s when the economy posted a total peak to trough fall in output of about 2.5 per cent. Parallels have been drawn with the recession of the early 1980s, which also saw the major global economies fall into a synchronised recession resulting in a considerable downturn in world trade, but the new data shows UK output is currently falling faster than at this time. However, whether the overall output loss will or will not exceed the peak to trough fall of 6 per cent (1979 Q2 to 1981 Q1) largely depends on the duration of the current downturn and the speed of the recovery."

Household consumption spending falls

"In 2009 Q1 household consumption fell by 3.1 per cent relative to the same quarter in 2008. A first and striking observation ... is the contribution to the fall in household spending from net tourism. This is the difference between the spending of UK tourists overseas and the spending of foreign tourists in the UK. Since the first quarter of last year, net tourist spending has nearly halved, making a 0.8 percentage point contribution to the total fall in household consumption. While foreign tourist spending in the UK fell by 7 per cent, UK tourist spending abroad fell by a much larger 23.1 per cent. Sterling depreciation, making overseas travel relatively more expensive, may be one factor accounting for these trends. However, the sharp fall in UK tourist spending abroad is more likely to reflect a strong retrenchment in discretionary spending by a cautious household sector looking to repay debt and facing a deteriorating jobs market." Details by sector in Table 9.

Table 9: Household Consumption Spending	
Sector	Four-quarter growth rate
Misc. goods and services	1.1
Restaurants and hotels	-4
Education	-6.8
Recreation and culture	0.5
Communication	-0.2
Transport	-9.1
Health	-6.4
Furnishings; household equipment	-9
Housing – utilities	0.3
Clothing and footwear	8.7
Alcoholic beverages and tobacco	-5.7
Food and non-alcoholic beverages	-4.8
Net tourist expenditure	-43.2

Within transport cars fell by 12.2% and air transport by 10.1%.

“While food spending fell by 4.8 per cent in real terms, in value or current price terms it actually rose by 5.2 per cent. The implied deflator estimates that prices of food and non-alcoholic beverages grew by 10.6 per cent between the first quarters of 2008 and 2009 and suggests relative price movements may have played an important role in explaining consumer trends over the last year. In response to rising food prices households actually increased food spending, but also cut back in terms of quantities.”

Source: Economic & Labour Market Review, Vol 3:7, July 2009.

Confidence rises again in June – Nationwide

- “Consumer Confidence rose by four points to 58 in June.
- The Expectations Index increased by eight points to 86.
- The Spending Index increased by one point to 104.
- The Present Situation Index fell from 18 in May to 17 in June.
- A third of people now believe that the economic situation will be better than today in six months time, with less than a quarter (23%) thinking it will be worse.
- However, more people (42%) expect the economy to be the same in six months, than anticipate a change for the better or worse.
- 76% of people believe the current state of the UK economy to be bad. This figure was 10 per cent higher (86%) in February 2009 and since then there has been a gradual decrease in those who think that the current economy is bad.
- The view of the employment situation shows that consumers are pessimistic with 68% saying there are currently not many jobs available.”

Source: Nationwide Consumer Confidence Index in partnership with TNS, 8th July 2009.

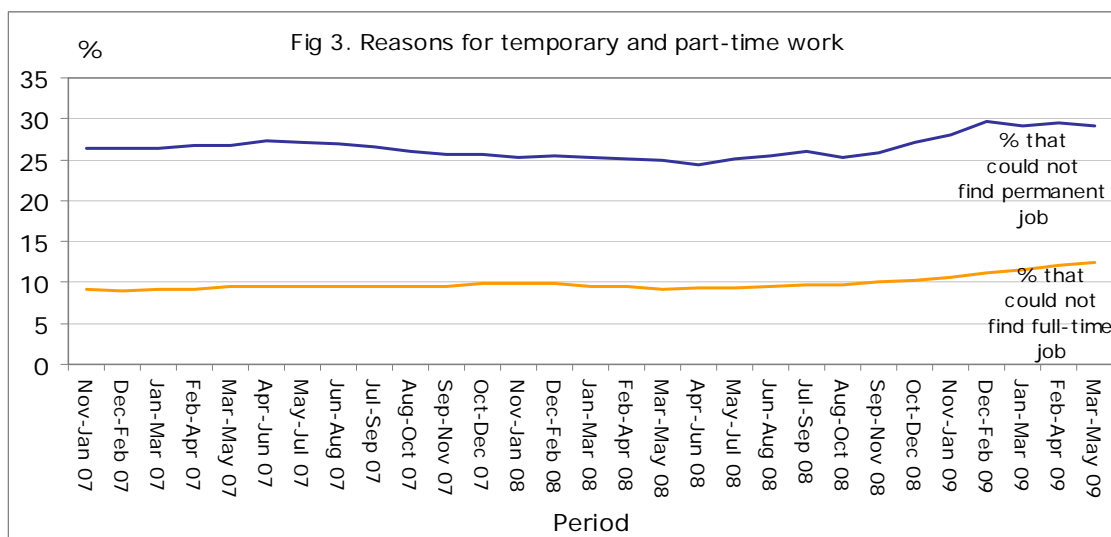
ITEM Club says UK recovery waits on rebuilding of world trade

“In its Summer forecast, the ITEM Club says that although the UK economy seems to have stabilised, GDP is forecast to be down 4.5% this year and will make only a small recovery in 2010. And while there are now some encouraging signs, recovery can only come when world trade starts to rebuild, and then it will be dependent on UK companies re-focusing on export markets to take advantage of the weak pound. However, investment will remain restrained by the shortage and high cost of credit. Even though the ITEM Club expects base rate to be pinned to the floor for the next 18 months, loan rates will stay much higher. To pour salt on the wound, ITEM estimates that the economic effects of a serious H1N1 swine flu epidemic could cut UK GDP by a further 3% this year.” [For 2009 the figure is -3% and for 2010 -1.7%].

Source: The Ernst & Young ITEM Club Summer forecast, 20 July 2009.

Full-time, part-time and temporary workers

The latest data from ONS shows the impact of the recession on temporary and part-time work. The percentage of workers who were working on a temporary basis because they could not find a permanent job was relatively stable until the end of Sept-Nov 2008 at 25.8%. Since then it has risen to a rate of between 29.2 and 29.6% in 2009. The percentage of part-time workers who could not find a permanent job was stable at 9.5% during 2007 up to October 2008. By March-May 2009, the figure increased to 12.5%. The actual numbers of temporary workers peaked in 2007 at just under 1.78 million, since then declining to 1.4 million for the latest period. The total number of part-time workers has risen steadily since 1992 when it stood at 5.7 million to 7.4 million. Trends in Fig. 3.



Source: ONS, Economic and Labour Market Review, data tables, July 2009.

Role of corporate sector

An analysis by Lloyds TSB highlights the role played by the corporate sector in economic recovery. They point to an improvement in the availability of corporate credit and a fall in the cost of both equity and debt capital. Both CBI surveys and purchasing manager's indices indicate rising confidence. The report considers that one factor underlying growing confidence "appears to stem from little more than a fading of the extreme inventory overhang that occurred in the six months to end March." Though this could lead to a inventory led increase in output, this could be short lived due to falling profitability, rises in the oil price and an overhang of corporate debt (equal to 110% of GDP). Deleveraging by the sector means that funds that could have been used for productive capital spending may be used to reduce debts. The report concludes that as a consequence "business investment is likely to continue to contract for some time yet."

Source: Lloyds TSB, 6th July 2009, Economic Research and Analysis, Economics Weekly.

Public sector finances, June 2009

"The latest report shows the impact of the recession on the public sector finances. At the end of June 2009 **public sector net debt** was **£798.8** billion (equivalent to **56.6** per cent of GDP). This compares to **£641.4** billion (**44.4** per cent) as at the end of June 2008.

In financial year 2009/10: the **public sector current budget** was in deficit by **£34.1** billion; this is a **£17.0** billion **higher** deficit than in the same period of 2008/09, when there was a deficit of **£17.1** billion; **public sector net borrowing** was **£41.2** billion. This was a **£19.6** billion **higher** net borrowing than in the same period of 2008/09, when there was net borrowing of **£21.6** billion; the **public sector net cash requirement** ... was **£42.8** billion; **£24.7** billion **higher** net cash requirement when compared with the same period of 2008/09 when there was a net cash requirement of **£18.1** billion."

Source: ONS and Treasury, 21st July 2009.

International Perspective

6. Reports

Composite Leading Indicators continue to show signs of improvement in most OECD economies

OECD composite leading indicators (CLIs) for May 2009 point to tangible signs of improvement in the outlook of most OECD economies. Potential recovery signals are emerging in Italy and France, with indications of troughs emerging in Canada, the United Kingdom, the United States, China and India. The trough signals are more tentative in Russia. Compared to the same month a year previously, the largest falls were seen in Russia, Japan, Brazil and Germany. Conversely, Italy showed a rise of 1.1% and France 0.7%. Full details are shown in Table 10.

Table 10: Changes by area/country		
Area	May-09 over April 09	May 09 compared to May-08
OECD	0.8	-7.3
US	1	-9.4
Euro area	1	-4.7
Japan	-0.3	-14.1
UK	0.8	-2.7
Canada	0.9	-6.3
France	1.3	0.7
Germany	0.5	-11.8
Italy	1.7	1.1
Brazil	-0.8	-13.7
Russia	0.7	-20.7
India	1.4	-4.4
China	1.1	-6.5

Source: OECD, Paris, 10th July 2009 OECD Composite Leading Indicators News Release.

European Central Bank, Monthly Bulletin July.

“The economic data and survey information that have become available since the last meeting of the Governing Council on 4 June have broadly confirmed previous expectations. Economic activity over the remainder of this year is expected to remain weak but should decline less strongly than was the case in the first quarter of 2009. Looking ahead into next year, after a phase of stabilisation, a gradual recovery with positive quarterly growth rates is expected by mid-2010. The significant policy stimuli in all major economic areas should support growth globally, including in the euro area. In the view of the Governing Council, the risks to the economic outlook are balanced. On the positive side, there may be stronger than anticipated effects stemming from the extensive macroeconomic stimulus being provided and from other policy measures taken. Confidence may also improve more quickly than currently expected. On the other hand, concerns remain relating to a stronger or more protracted negative feedback loop between the real economy and the turmoil in financial markets, further increases in oil and other commodity prices, the intensification of protectionist pressures, increasingly unfavourable labour markets and, lastly, adverse developments in the world economy stemming from a disorderly correction of global imbalances.

Although the latest indicators point to a slowdown in the pace of the global economic contraction, there is not as yet any concrete evidence of the start of a firm recovery.

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

Contractionary Forces Receding But Weak Recovery Ahead

“The global economy is beginning to pull out of a recession unprecedented in the post–World War II era, but stabilization is uneven and the recovery is expected to be sluggish. Economic growth during 2009–10 is now projected to be about ½ percentage points higher than projected in the April 2009 World Economic Outlook (WEO), reaching 2.5 percent in 2010. Financial conditions have improved more than expected, owing mainly to public intervention, and recent data suggest that the rate of decline in economic activity is moderating, although to varying degrees among regions. Despite these positive signs, the global recession is not over, and the recovery is still expected to be slow, as financial systems remain impaired, support from public policies will gradually diminish, and households in countries that suffered asset price busts will rebuild savings. The main policy priority remains restoring financial sector health. Macroeconomic policies need to stay supportive, while preparing the ground for an orderly unwinding of extraordinary levels of public intervention. At the same time, given weak internal demand prospects in a number of current account deficit countries, including the United States, policies need to sustain stronger demand in key surplus countries.

The IMF suggest that UK growth for 2009 will be -4.2% (down 0.1% from its April forecast), with growth for 2010 at +0.2% (up 0.6% from the April forecast).”

Source: IMF, 8th July 2009, World Economic Outlook, Update.

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

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