

Economy Monitoring – Monthly Update

April 2009

Summary

Across the UK the economy continues to decline as measured by falling production (Q1 2009 GDP down 1.9%), declining construction orders, low mortgage lending, falling house prices and slow retail sales. Both unemployment figures and the claimant count continue to increase. The manufacturing sector appears to be bearing the brunt of the downturn. Trends for Cornwall are consistent with those across the UK, though the claimant count (JSA) fell in March compared to February, (against the general trend), overall vacancy numbers are declining and house prices continue downwards.

On the international scene, GDP declined across the EU in Q4 2008, whilst the IMF stated that *'the global financial system remains under severe stress'*.

One of the characteristics of the current situation is that it is constantly changing, making analysis and forecasting problematical, in the words of Deloitte *'the unexpected keeps happening'*.

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.

Outline

Cornwall

1. Monthly
2. Quarterly

UK

3. Monthly
4. Quarterly

5. Other Reports

International Perspective

6. Reports

Cornwall

1 Monthly economic indicators

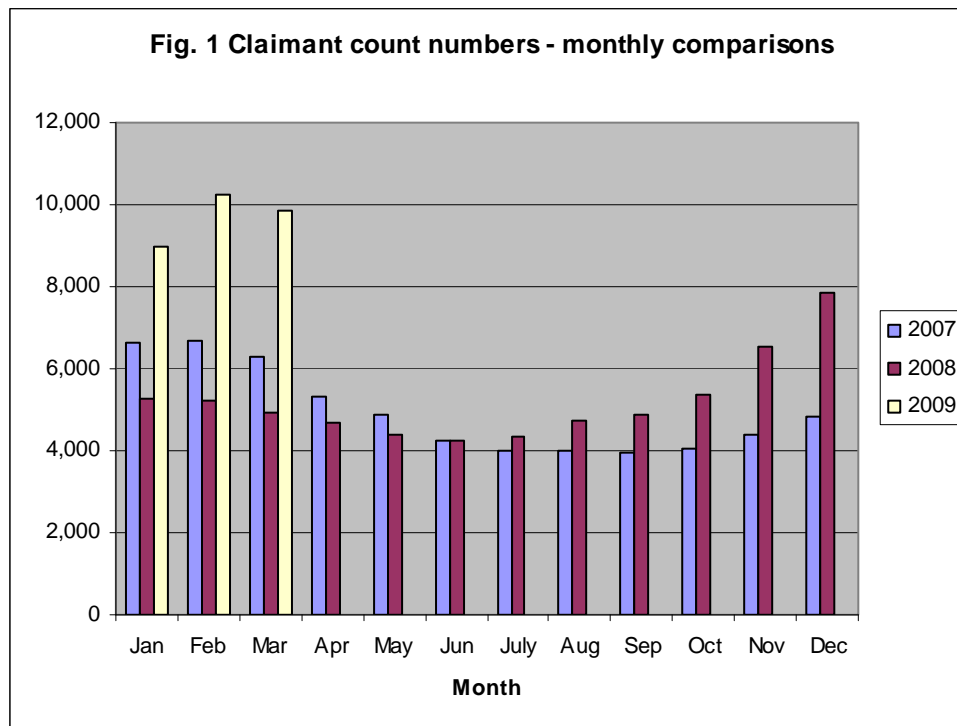
March Labour market analysis – March 2009 data

Claimant count

The latest claimant count data was released on 22nd April 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].*

In contrast to many areas there was a decrease in the numbers claiming. Elsewhere across the SW the numbers rose for all other County/Unitary areas. The total for Cornwall is now 9,876 or 3.2%. The UK rate is 4% and the SW rate 3.1%. Since February numbers in Cornwall have decreased by 336, a fall of 3.3%. Comparative figures for the UK and SW indicated increases of 4.4% and 4.9%. Since March 2008 the number of claimants in Cornwall has risen by 4,971 or 101%. This compares to an increase of 81% across the UK and 132% across the South West. The last time Cornwall's March figure was higher than this was in 2000 when it equalled 11,215.

Figure one shows actual claimant numbers for each month since January 2007. It clearly indicates how the 2008 figures improved compared to 2007 until June then deteriorated. 2009 figures are above both 2007 and 2008.



Comparing March 2009 with March 2008, on a regional basis the both the SW and SE are faring less well than the average, with increases of 132% and 116% respectively. London is the 'best performing' region with an increase of 53% followed by areas outside the 'southern' core of the UK –

NE, NW and Scotland. There is a north south divide except that now the 'north' and other UK nations are doing 'better' than the 'south' and that London is now performing 'better' than all the other regions.

Analysis of all counties and unitaries across the UK, comparing the March 2009 with the March 2008 figures, shows that Cornwall is performing slightly better than other counties/unitaries in the SW or SE but less so compared to those in the other regions and nations of the UK. Areas with the largest percentage increase in numbers claiming tend to be in the SW, SW or Northern Ireland, whereas areas with the lowest percentage increase are either in London, or those traditionally associated with high unemployment such as Liverpool, Middlesbrough and Strabane for example. However, these areas started with high claimant count rates whereas those with the biggest increases generally had a low starting rate. Table 1 shows the best and worst five.

Table 1: Claimant count March comparisons

County/Unitary	March 2008		March 2009		Increase	
	No	Rate	No	Rate	No	%
Magherafelt	288	1.1	985	3.6	697	242.0
Wokingham	582	0.6	1,859	1.9	1,277	219.4
Swindon	2,014	1.7	6,336	5.3	4,322	214.6
Dungannon	477	1.4	1,455	4.3	978	205.0
South Gloucestershire	1,236	0.8	3,736	2.3	2,500	202.3
Camden	3,838	2.2	5,206	3.0	1,368	35.6
Liverpool	15,248	5.4	20,652	7.3	5,404	35.4
Inverclyde	1,891	3.8	2,545	5.1	654	34.6
Newham	6,900	4.1	9,262	5.6	2,362	34.2
Tower Hamlets	7,652	5.0	9,779	6.4	2,127	27.8

Source: NOMIS. NB Isles of Scilly at the bottom but excluded due to low numbers.

Vacancies

The latest vacancies data was released on 22nd April 2009. There were 2,173 vacancies in Cornwall in March. This represents an increase of 206 since February (+11%). This rise is in contrast with a general decline in vacancies - Britain (- 24%), SW England (-17%). Cornwall is one of 20 Counties/Unitaries where the number of vacancies increased. However, compared to March 2008 the number of vacancies has decreased by 911 or 30%. Again vacancies fell across Britain (- 35%) and the SW (-28%).

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. Currently the ratio in Cornwall stands at 0.22 this is the same as the SW (0.22) but above the rate for Britain (0.16) – Table 2. The March 2009 figures are also all below the figures for March 2008. Actual vacancies were lower in February 2009 than in February 2008 for all areas, Britain - 35% South West -28%, Cornwall -30%.

Table 2: Labour market comparisons – vacancy to claimant ratio

	Great Britain			South West			Cornwall		
Date	Claimant	Vacancies		Claimant	Vacancies		Claimant	Vacancies	
March 2008	818,295	362,386	0.44	41,412	29,991	0.72	4,905	3,084	0.63
February 2009	1,416,213	309,573	0.22	91,539	26,051	0.28	10,212	1,967	0.19
March 2009	1,478,196	234,568	0.16	96,045	21,544	0.22	9,876	2,173	0.22

Source: Derived from NOMIS.

Job losses

Furniture World which went into administration in November closed before Easter with the loss of 96 staff. In North Cornwall a window suppliers/fitters has closed with 20-30 job losses while a sheet metal company has made 18 redundant. In West Cornwall 12 people were made redundant when a hotel closed after calling in administrators.

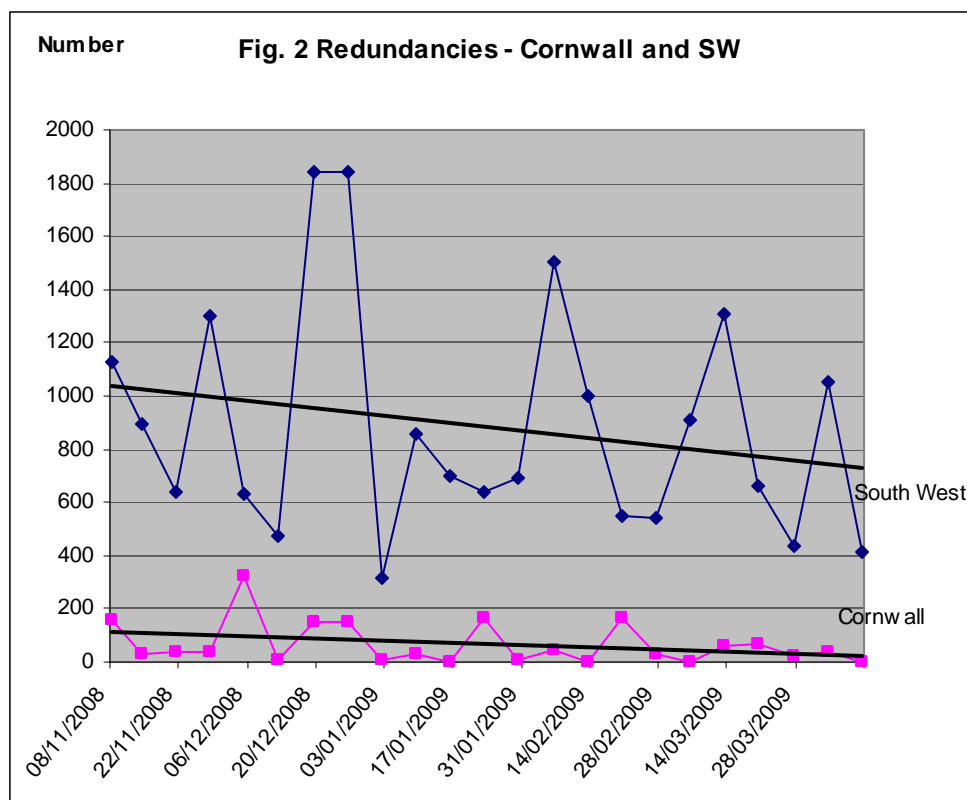
Redundancies

Data recently released by SLIM shows redundancy data for the period from 8th November to 10th April for areas across the SW. Overall the figures indicate a total of 20,325 for the SW and 1,536 for Cornwall (SW figures in brackets). In relation to losses by sector the largest were manufacturing 36% (34%), wholesale and retail 24% (22%) and construction 21% (6%). Looking at Parliamentary constituencies (Table 3) shows the majority of redundancies to have been in North Cornwall.

Table 3: Redundancies by Parliamentary constituency

Constituency	Number	%
Cornwall North	784	51.0
Truro & St. Austell	373	24.3
Falmouth, Redruth & Camborne	208	13.5
St. Ives	95	6.2
Cornwall South East	76	4.9
Total	1536	100

Fig. 2 below shows redundancies over time. Trend lines have been included to smooth the data. These suggest a downward trend in redundancies across the SW and for Cornwall. [NB. The mid December figures were divided into two time periods to offset the effect of two weeks data in one week].



Source: Data derived from SLIM

House prices

House prices across Cornwall continue to fall after peaking in April 2008. Since then average prices have fallen by 14.6%, the comparative figure for England and Wales is 16.3%. The decline across England and Wales started after the peak of January 2008. All data in Table 4.

Table 4: House prices

Month	Cornwall Council		England & Wales	
	Index	Average Price (£)	Index	Average Price (£)
Mar-08	377.1	210,212	291.9	182,514
Apr-08	378.2	210,863	292	182,585
May-08	376	209,619	290.3	181,514
Jun-08	371.5	207,090	284.9	178,152
Jul-08	370	206,267	282.7	176,795
Aug-08	361.6	201,603	275.8	172,448
Sep-08	358.3	199,770	268.7	168,032
Oct-08	353.2	196,936	264.7	165,554
Nov-08	346.5	193,172	259.3	162,182
Dec-08	340.2	189,689	252.7	158,021
Jan-09	333.1	185,701	251	156,971
Feb-09	326.2	181,878	245.5	153,512
Mar-09	322.9	180,016	244.5	152,895

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

2 Quarterly indicators.

New data was released on 30th April. Both the numbers and rate fell compared to the previous period. This is shown in Table 5 below. However, the figures were up on the same period a year previously. The decline was against the trend as elsewhere in the south west, excepting Somerset, numbers rose.

Table 5: Cornwall quarterly summary

Period - year	July 2007 – June 2008	Oct 2007-Sep 2008	Change
Unemployment number (working age, residence basis)	13,200	12,700	- 500
Unemployment rate	5.4%	5.2%	-0.2%

Source: NOMIS

Record declines in activity and employment signalled by March PMI data.

Latest Purchasing Managers Index data for the South West signalled that the downturn in the region's private sector economy deepened during March, with both activity and employment falling at unprecedented rates. Sharpest drop in activity recorded in over twelve years of data collection. Business activity fell further in March, extending the current period of decline to ten successive months.

The latest decrease was the most marked since the inception of the series in January 1997, largely reflecting lower order intakes and an uncertain outlook for demand. Sector data revealed that manufacturers fared particularly badly registering a severe fall in output. Lower activity levels were nonetheless also signalled by service providers. Rate of job shedding accelerated to series record. March data signalled that firms operating in the South West private sector reduced their workforce numbers at the sharpest rate in the survey history. It was the twelfth month running in which employee numbers have fallen, with the latest decline more pronounced in manufacturing than in the service sector.

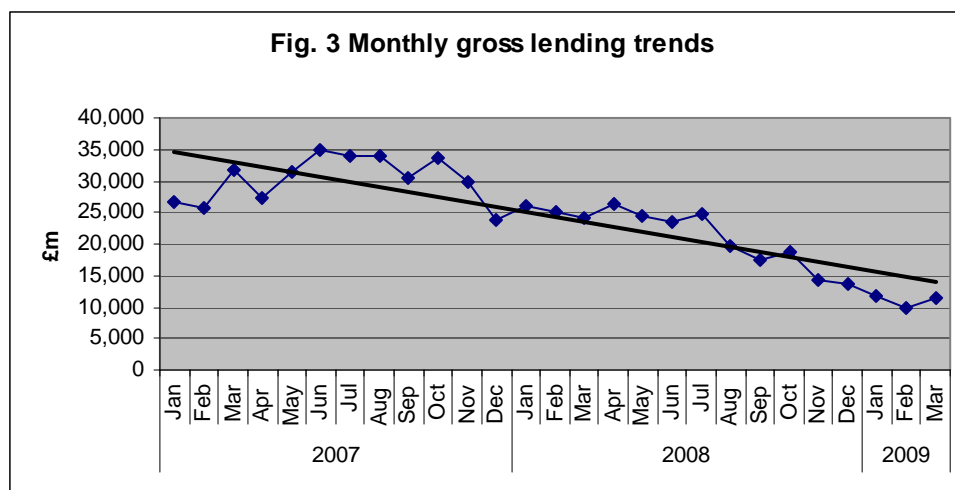
Source: Royal Bank of Scotland, PMI South West Report, 14th April 2009

United Kingdom data

3 UK Monthly

Mortgage lending March Gross lending 22 Apr 09

Gross mortgage lending was an estimated £11.5 billion in March, a 16% rise from £9.9 billion in February but a 52% decline from £24.2 billion in March 2008, according to new data from the Council of Mortgage Lenders. Gross lending for the first quarter was an estimated £33 billion, a 29% decline from the fourth quarter of 2008 and the lowest quarterly lending total since the first quarter of 2001. A seasonal fall of 10% is typically experienced between the fourth and first quarter. This first quarter is broadly in line with our expectations for £145 billion in gross lending this year. Fig. 3 shows the monthly data since 2007.



Source: CML, March gross lending, 22nd April 2009.

House purchase lending edges up, remortgaging declines, but spring has not sprung yet

The number of house purchase loans ticked up in February, according to new data from the Council of Mortgage Lenders. There were 24,300 house purchase loans worth £3.1 billion, compared with 23,400 loans worth £3.1 billion in January - a 4% increase. But historically activity remains very weak, running at around one-third of the average February total of 76,000 loans for house purchase between 2002 and 2007. Remortgaging declined steeply with 35,000 remortgage loans, down from 44,000 in January - a 20% decline. We expect demand for remortgaging to remain muted as lenders' standard variable rates are attractive compared to new mortgage pricing, and house price falls continue to erode equity levels which will exclude some borrowers from the best remortgaging deals available to those with large deposits.

There were 9,400 loans to first-time buyers - a 7% monthly increase - but significantly less than the 17,400 in February 2008. The tight lending criteria remain a barrier to most first-time buyers. First-time buyers typically had a deposit of 25% in February, a new record. Such amounts remain out of reach for all but the most affluent buyers, for example people returning to home ownership after a period of renting, divorcees, or those who get financial assistance from their family. First-time buyers typically borrowed 2.95 times their income, down from three times in January. The average first-time buyer loan was £95,000, down from £97,000 in January and £114,000 in February last year. This decline reflects the change in house prices over the same period and the growth in the size of first-time buyer deposits.

Source: CML, House purchase lending, 14th April 2009.

Retail sales - March shows modest annual growth

Annual growth in total retail sales volume for March increased by 1.5 per cent compared with March 2008, driven by a 1.3 per cent increase in food stores. Sales performance across retail sectors continues to be mixed. Sales volume for non-food stores was 0.1 per cent higher than a year ago.

Within non-food stores, sales volume for textile, clothing and footwear rose by 8.4 per cent in March compared with March 2008. But there was continued weakness in household goods stores, which fell by 6.5 per cent. This was largely driven by falls in furniture and lighting and household appliances while DIY sales held up. Improved weather conditions may have been a factor in sales patterns last month, with March 2009 recorded as the driest March in England and Wales since 2003. There was continued weakness in non-specialised stores – such as department stores – with a fall of 1.1 per cent in March compared with the same period last year. Sales in non-specialised stores have fallen in nine out of the past 10 months.

Between February and March, total sales volume rose by 0.3 per cent. Sales volume for food stores rose by 0.6 per cent. Sales volume for non-food stores fell by 0.2 per cent. Total sales volume in the three months to March was 2.0 per cent higher than the same period a year ago. Sales for food stores rose by 0.6 per cent. Sales for non-food stores rose by 1.6 per cent.

Source: ONS, (2009), Retail Sales, News Release, 24th April 2009.

CPI inflation falls to 2.9 per cent in March – RPI goes negative

Consumer Prices Index (CPI) annual inflation – the Government’s target measure – fell to 2.9 per cent in March, down from 3.2 per cent in February. For the first time since March 1960, annual inflation measured by the Retail Prices Index (RPI) – which includes housing costs such as mortgage interest payments and council tax – fell below zero. It fell to -0.4 per cent in March from 0.0 per cent in February. The largest downward effect on the CPI came from housing and household services. RPIX inflation – the all-items RPI excluding mortgage interest payments – was 2.2 per cent in March, down from 2.5 per cent in February – the lowest since March 2006.

Source: Office for National Statistics, News Release 21st April, 2009

4. UK Quarterly

Quarterly economic indicators

Table 6 below summarises the main quarterly economic indicators

Table 6: Latest Economic Indicators

Activity	Period	% change
GDP *1	Q1	-1.9
Service sector output	3m to Jan	-1.4
Industrial production *1	3m to Feb	-5.8
Manufacturing output	3m to Jan	-10.4
Manufacturing productivity	Q3	2.4
Households' consumption	Q4	1.4
Whole economy investment	Q4	-3.1

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

Gross domestic product UK Preliminary estimate – 1st quarter 2009

The preliminary estimate shows that the chained volume measure of gross domestic product (GDP) decreased by 1.9 per cent in the first quarter of 2009 compared with the previous quarter. The slowdown was the result of both reduced services and production activity. The volume of output in the production industries is estimated to have decreased by 5.5 per cent this quarter. Manufacturing output decreased by 6.2 per cent. Mining and quarrying decreased by 3.4 per cent and Electricity, gas and water supply decreased by 1.9 per cent. Output of the service industries is estimated to have decreased by 1.2 per cent. Output within construction decreased by 2.4 per cent compared with a decrease of 4.9 per cent in the previous quarter. Output within distribution, hotels and restaurants decreased by 1.2 per cent compared with a decrease of 2.0 per cent in the previous quarter. Hotels and restaurants and wholesale made the largest contribution to the reduction in the level of output. Output within transport, storage and communication decreased by 2.9 per cent compared with a decrease of 1.0 per cent in the previous quarter. Output of business services and finance decreased by 1.8 per cent, compared with a decrease of 0.5 per cent in the previous quarter. Other business services made the largest contribution to the reduction in output. Output growth of government and other services increased by 0.5 per cent, compared with a decrease of 0.3 in the previous quarter. Health and social work made the largest contribution to the increase.

Source: ONS, First Release, Gross domestic product, United Kingdom Preliminary estimate – 1st quarter 2009, 24 April 2009

Quarterly labour market data UK (December 2008 -February 2009)

The number of unemployed people, the unemployment rate and the claimant count have all increased. The employment rate and the number of people in employment have fallen. The number of vacancies has fallen. Growth in average earnings, both including and excluding bonuses, has fallen. The number of inactive people of working age and the inactivity rate are little changed.

The working age employment rate was 73.8 per cent in the three months to February 2009, down 0.4 percentage points on the three months to November 2008 and down 1.1 percentage points from a year earlier. The employment level was 29.27 million in the three months to February 2009, down 126,000 from the three months to November 2008 and down 227,000 on a year earlier.

The number of people in full-time employment was 21.74 million in the three months to February 2009, down 81,000 from the three months to November 2008. The number of people in part-time employment was 7.53 million in the three months to February 2009, down 44,000 from the three months to November 2008. There were 31.32 million workforce jobs in December 2008, down 203,000 over the quarter and down 284,000 on a year earlier. Most sectors showed decreases in jobs over the quarter with the largest quarterly fall occurring in finance and business services, which fell by 102,000.

Total hours worked per week were 927.8 million in the three months to February 2009, down 8.1 million from the three months to November 2008. Average weekly hours worked in the three months to February 2009 were 31.7, down 0.1 from the three months to November 2008. The unemployment rate was 6.7 per cent in the three months to February 2009, up 0.6 percentage points from the three months to

November 2008 and up 1.5 percentage points from a year earlier. The unemployment level was 2.10 million in the three months to February 2009, up 177,000 from the three months to November 2008 and up 486,000 from a year earlier.

In the three months to February 2009, 270,000 people had become redundant in the three months before the Labour Force Survey interviews, up 45,000 from the three months to November 2008 and up 162,000 from a year earlier. The redundancy rate was 10.6 per 1,000 employees, up 1.8 from the three months to November 2008 and up 6.4 from a year earlier. There were 462,000 job vacancies in the three months to March 2009, down 68,000 from the three months to December 2008 and down 230,000 from a year earlier. There were 1.8 vacancies per 100 employee jobs, down 0.3 on the previous quarter and down 0.9 over the year.

Source: Office for National Statistics, Labour Market Statistics, First Release, Apr 22nd 2009.

Index of production -February 2009

In the three months to February, the seasonally adjusted chained volume index for the output of the production industries decreased by 5.8 per cent compared with the previous three months and was 11.1 per cent lower than the same three month period a year earlier. In the latest three months, manufacturing output decreased by 6.5 per cent, mining and quarrying output decreased by 4.3 per cent and output of the electricity, gas and water supply industries decreased by 1.0 per cent, compared with the previous three months. Between January and February, output of the manufacturing industries fell by 0.9 per cent, its lowest rate of decline during the last six months (note that monthly growth rates are volatile, see background note 2). The most significant decreases in output were 3.7 per cent in the transport equipment industries, 1.6 per cent in the basic metal and metal products industries and 3.7 per cent in the other non-metallic mineral products industries. There were no significant increases on the month.

Source: ONS (2009) Index of production, February 2009, First Release. 7th April.

New orders in the construction industry

Orders in the three months to February 2009 fell by 9 per cent compared with the previous three month period. Orders in the 12 months to February 2009 fell 24 per cent compared with the previous 12 months and orders in three months to February 2009 fell by 34 per cent compared with the same period a year earlier. In the three months to February 2009 compared with the same period a year earlier, private housing orders fell by 51 per cent and public and housing association housing orders fell by 46 per cent.

Infrastructure orders in the three months to February 2009 rose by 149 per cent compared with the previous three month period, and rose by 11 per cent when compared with the same three month period a year earlier. Public non-housing orders (excluding infrastructure) in the three months to February 2009 fell by 24 per cent compared with the previous three month period, and fell 14 per cent compared with the same three month period a year earlier.

Source: ONS, New orders in the construction industry, First Release, (2nd April 2009).

Vehicle production and registrations

Car production more than halved in March to bring quarter one volumes down 56.6%. Commercial vehicle production fell by 63% in the first quarter, after a further steep fall in March. The number of car registrations fell in March compared to March 2008, year to date figures also fell. All data is outlined in Table 7.

Table 7: Vehicle production and registrations

Production	Mar 08	Mar 09	Change	% change
Total	145,881	69,903	75,978	-52.10%
	YTD Mar 2008	YTD Mar 2009	Change	%
Total	481,822	205,305	276,517	-57.40%
Registrations	Mar 08	Mar 09		
Total	451,642	313,912	-137,730	-30.5
	YTD Mar 2008	YTD Mar 2009		
Total	683,349	480,358	-202,991	-29.71

Source: Society of Motor Manufacturers and Traders Limited. Registrations 6 April 2009, Production 24th April 2009.

5. Other reports

Deloitte – The UK perspective

As is typical in downturns, investment spending and “big ticket” spending by consumers have borne the brunt of the fall in growth as the private sector seeks to strengthen its balance sheet. Household spending, which accounts for about 70 percent of GDP, is likely to contract for several quarters as consumers repay debts and increase savings. Asset prices are continuing to decline. House prices are down almost 20 percent from their peak and broad equity markets have fallen over 50 percent. Lower asset prices erode corporate and consumer wealth and confidence. A further dampening influence on growth is the re-emergence of macroeconomic volatility or uncertainty. As the failure of Lehman, the rise, then fall of inflation, and the collapse in the oil price attest, the unexpected keeps happening. With growth contracting and risk at elevated levels, the natural reaction of consumers and corporates is to cut costs, eliminate debt, and raise cash.

Deloitte highlight the impact of financial crises upon the economy -

... history shows that the real economy effects of financial crises are severe and protracted. As the U.S. academics Michael Bordo and Barry Eichengreen observe in their seminal study of financial crises, “Over the last 120 years financial crises have been followed by a downturn lasting two to three years and costing 5 to 10 percent of GDP” (2002). Recovery will come, as it always does, but a return to anything approaching normal levels of growth looks at least two years away. The best news that 2009 can realistically hope to deliver is gathering evidence that the financial system is on the mend.

Source: Deloitte, Global Economic Outlook, 2nd Quarter 2009

6 International perspective

European Union GDP Second estimates for the fourth quarter of 2008

In comparison with the same quarter of the previous year, seasonally adjusted GDP declined in the fourth quarter of 2008 by 1.5% in the euro area and by 1.4% in the EU27, after +0.6% and +0.7% respectively in the previous quarter. In the third quarter of 2008, growth rates were -0.3% in both zones. Compared with the fourth quarter of 2007, GDP declined by 0.8% in the US (+0.7% in the previous quarter) and by 4.3% in Japan (-0.2% in the previous quarter). Over the whole year 2008, GDP grew by 0.8% in the euro area and by 0.9% in the EU27, compared with +2.6% and +2.9% respectively for 2007. Over the whole year 2008, GDP grew by 1.1% in the US (+2.0% in 2007) and declined by 0.6% in Japan (+2.4% in 2007).

Source: Eurostat, News Release – Euroindicators. Eurostat, the Statistical Office of the European Communities, 7th April 2009.

International Monetary Fund, Responding to the Financial Crisis and Measuring Systemic Risk.

The global financial system remains under severe stress as the crisis broadens to include households, corporations, and the banking sectors in both advanced and emerging market countries. Shrinking economic activity has put further pressure on banks' balance sheets as asset values continue to degrade, threatening their capital adequacy and further discouraging fresh lending. Thus, credit growth is slowing, and even turning negative, adding even more downward pressure on economic activity. Substantial private sector adjustment and public support packages are already being implemented and are contributing to some early signs of stabilization. Even so, further decisive and effective policy actions and international coordination are needed to sustain this improvement, to restore public confidence in financial institutions, and to normalize conditions in markets. The key challenge is to break the downward spiral between the financial system and the global economy. Promising efforts are already under way for the redesign of the global financial system that should provide a more stable and resilient platform for sustained economic growth.

Source: IMF, April 2009, Global Financial Stability Report, Responding to the Financial Crisis and Measuring Systemic Risk.

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