



Economy Monitoring

Monthly Update
December 2009

31 Dec 2009

Environment, Planning and Economy

Summary	2
A Introduction	3
1. Commentary – the recession, estimates, predictions, knowns and unknowns!	3
B Cornwall	4
2. Labour Market Analysis	4
3. Employee numbers	8
4. Housing	9
5. Tourism	9
C South West	9
6. Overview	9
D United Kingdom	10
7. Quarterly Economic Indicators	10
8. Output	11
9. Labour Market Analysis	14
10. Housing	17
11. Retail, inflation and prices	19
12. Consumer confidence	23
13. Finance	24
E International perspective	26
14. Data	26
15. Reports and reviews	28

Summary

- Despite an upward revision in GDP, the UK remained in recession in Q3. Labour market data was more positive than expected.

Cornwall

- The **jobseeker total rose by 838**, above seasonal expectations, but below the dramatic rise of a year ago. Vacancy figures fell. Figures showed a **fall in employee numbers** in 2008 compared to 2007. **House prices continue to rise.**

South West

- The SW Purchasing Managers Index showed that on the output front, growth continued but slowed between October and November. Jobs continued to be cut. [The index is based on monthly survey data].

UK

- Despite a further revision **Q3 GDP figures fell**, production and services output continues to decline. New **Construction** orders fell compared to the previous quarter, but output rose.
- Across the UK, **unemployment rose but the claimant count fell.**
- **House prices across England and Wales continued to rise.** Gross mortgage lending fell in November, and is down on November 2008 levels.
- **Retail sales by volume fell** between October and November while value of sales up on a year ago.
- **CPI Inflation rose**, from 1.5% in October to 1.9% in November.
- **Consumer confidence levels stabilised in November.**
- Lending to businesses remained negative in October while consumer credit **fell.**

International

- The third quarter rise in GDP across the EU was confirmed. Global trade volume and industrial production increased in October compared to September, though production is still 6.5% below the March 2008 peak.

A 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. The usual health warning with data should be borne in mind.

1. Commentary – the recession, estimates, predictions, knowns and unknowns!

2009 saw the UK in one of the worst post war recessions. Events prior to that are well known, with the collapse of Northern Rock in 2007 and the near collapse of the banking system in October 2008. As the recession took hold with falling output and rising unemployment, it was widely thought that this would be one of the most severe recessions on record. Indeed, as the year progressed it was evident that the global economy had seen the 'deepest decline in post-war history'. Fears were expressed that the decline might continue for longer than with previous recessions, based partly on evidence that financially based downturns tend to last longer. Early in the year there were predictions that unemployment would rise dramatically, one consequence being an increase in house repossessions. Higher unemployment and a squeeze on incomes were seen as constraining retail sales, further limiting the potential for economic activity. House prices were expected to continue falling for a considerable time, with knock-on effects on consumer confidence. Fears were expressed that deflation could replace inflation.

What actually happened during the year was not necessarily what was predicted and did not conform precisely to past trends. Output continued to fall during the year, despite some indications of a revival in the UK and an upward movement amongst major economies such as France, Germany and the US. However, the rate of increase in unemployment (using the International Labour Organisation definition) and the claimant count, diminished as the year proceeded. This was attributed to employers hoarding labour and cutting costs by limiting wage increases and reducing hours. Again contrary to expectations house repossessions were lower than forecast. Here the cut in interest rates and lower than expected unemployment played a significant role.

Retail sales continued to rise, though at times this appeared fragile. Increased sales were attributed to the fact that despite higher levels of saving, households were able to use some of the money accrued due to lower mortgage rates, for consumer spending. House prices across England and Wales started to rise in May, after falling from January 2008, a total of 15 months. This contrasts with the situation in the eighties when prices

peaked in Q3 1989 then fell until Q4 in 1992. Various factors may explain the difference in outcome – higher levels of employment, low interest rates and fewer suitable properties coming on to the market. The latter is partly a consequence of a decline in house building as the construction sector fell back. The spectre of deflation failed to materialise.

The contrast between what might have and what did happen illustrates the difficulty of predicting the future based on past trends and behaviour. This in itself reflects both the complex nature of the economy and changing interrelationships.

For Cornwall, analysis is restricted by the paucity of data in some areas. It is evident that both the claimant count and unemployment have risen, though the number of claimants is well below that of previous recessions. Despite some firms closing or reducing staff numbers, these have been less prominent than in say the eighties.

Turning to 2010, the UK is expected to come out of recession though with weak growth rates and a probable increase in unemployment and claimants for the first part of the year. A weaker pound is expected to assist export growth though demand from consumers is considered to be low reflecting a squeeze on incomes. Demand could be further depressed if cuts in public sector expenditure are introduced and as a consequence of how these are apportioned. Job losses here could also offset any potential increases arising in the private sector.

As the IMF and OECD have indicated, balancing the desire to reduce government borrowing with the need to ensure economies do not return to recession will be a major task in 2010.

B Cornwall

2. Labour Market Analysis

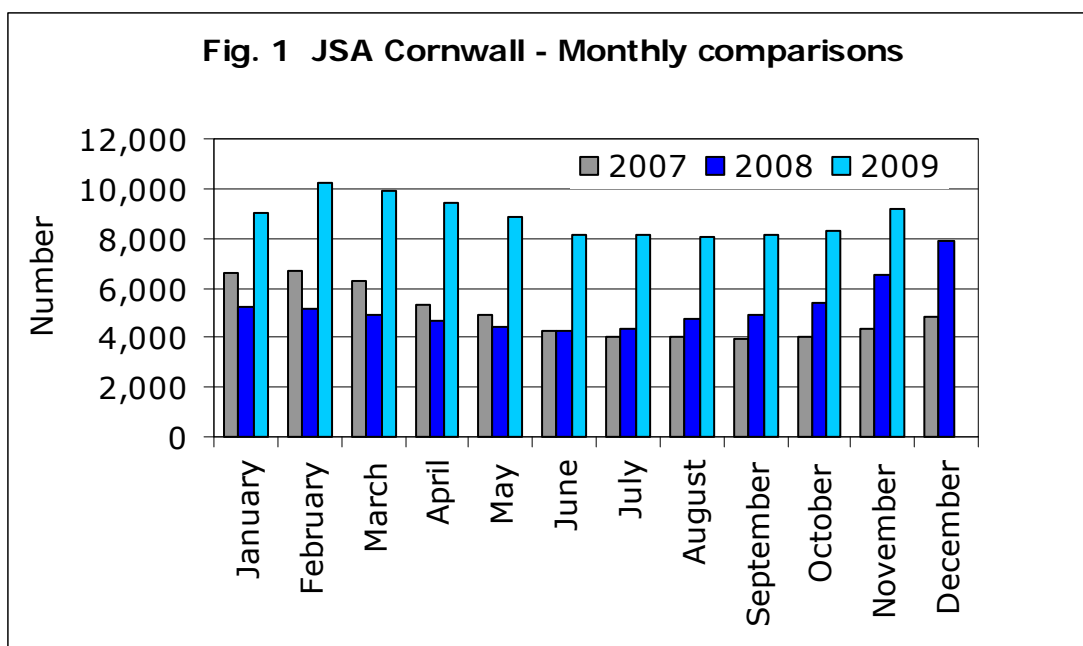
The latest claimant count data for November was released on 12 December 2009. The figures relate to those claiming Jobseekers Allowance.

[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 9,168. The last time Cornwall's November figure was higher than this was in 2000 when it equalled 9,296. Since October numbers in Cornwall have increased by 838 (10.1%). Within the SW, 10 of the 16 County/Unitary areas saw a decline in numbers from the previous month, 5 an increase and 1 no change. The largest falls in percentage terms were South Gloucestershire (-5.1%), Swindon (-3.5%),

Somerset (-3.2%) and Plymouth (-3.0%). Cornwall saw the largest increase of 10.1%, followed by Dorset with 7.7%.

The UK showed a decrease of 0.8%, while across the SW the situation stabilised. Since November 2008 the number of claimants in Cornwall has risen by 2,619 or 40%. This compares to an increase of 48.6% across the UK and 54% across the South West. Only two areas in the SW had a lower increase – Devon and Torbay. Figure 1 illustrates the number of claimants on a monthly basis for 2007, 2008 and 2009.



The claimant count rates for November, were Cornwall 3.0%, GB 4.1% and SW 2.9%. Between November 2008 and November 2009, Cornwall's rate increase, from 2.1% to 3.0% equals a rise of 42.9%. This is the third lowest rise for authorities across the SW. The highest rate increase, of 162.5% was recorded in Bath and North East Somerset.

An increase in numbers between October and November in Cornwall is not unusual, this has occurred for all of the ten years from 2000 to 2009. However, the increase this year is above that of previous years, though below that for last year. Cornwall's situation is rather different to most SW authorities and the UK average where the tendency is for the number of claimants to fall for this month. [Erratum. The November issue of EMMU stated '... the decline this year is very close to the average for the period - 234'. This should have read 'increase'].

Forecasts compared

Earlier in the year some estimates were made of what might happen to the claimant count in Cornwall. This was based on national forecasts and looking at recent trends in Cornwall. As the table below shows, actual figures have been below the lower limit set out in the forecast. What does this show? To some extent it illustrates the difficulty of making forecasts,

however, it also reflects the lower than expected number of claimants across the UK. This may be a consequence of various factors including fewer people losing jobs and more short term working, though data is lacking here, although one can speculate on the reasons for this. Details in Table 1.

Table 1: Claimant count - forecast and actuals compared

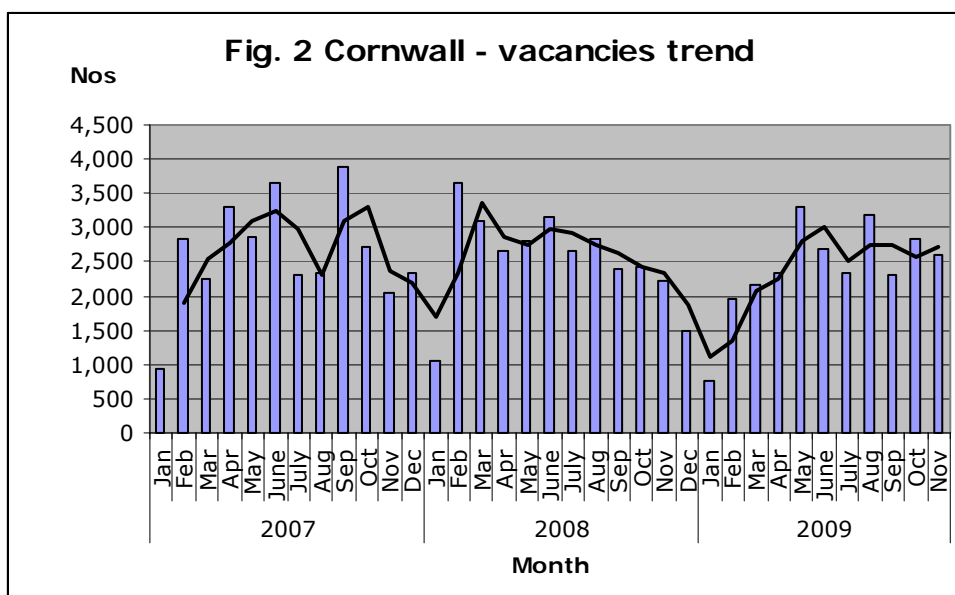
	Q1	Q2	Q3	Q4
Plus 10%	10,900	11,000	11,300	14,700
Estimate	9,900	10,000	10,300	13,400
Minus 10%	8,900	9,000	9,300	12,100
Actuals	9,700	8,800	8,100	8,700 *

* two months only.

Vacancies

The latest vacancies data was released on 12th December 2009. There were 2,600 notified vacancies in Cornwall in November. This represents a decrease of 233 since October (8.2%). This decrease is in contrast to increases across Britain (7.6%) and SW England (4.6%). Compared to November 2008 however, vacancies are up by 16.6%, compared to a rise of 6% for the SW and a small decline of 1.4% for GB. Across the South West, nine Unitaries/counties saw a rise in vacancies, six with falls, the largest percentage fall was in Plymouth (-16.4%). Decreases in vacancy numbers between October and November are usual for Cornwall, though this is the second year that the percentage decline has been lower than usual.

Figure 2 shows vacancy levels for the last three years. It is apparent that while there is an uplift in the summer, the pattern does vary with a decline from a June peak in 2008, whereas in 2009 the summer uplift persisted for a longer period.



[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 but is below the SW with a ratio of 0.28, (SW 0.34, and Britain 0.25) – Table 2. The November 2009 figures are all below the figures for November 2008.

Table 2: Vacancy to claimant ratio comparisons									
	Great Britain			South West			Cornwall		
Date	Claimant	Vacancies	Ratio	Claimant	Vacancies	Ratio	Claimant	Vacancies	Ratio
Nov-08	1,022,481	379,627	0.37	59,490	29,809	0.50	6,549	2,229	0.34
Oct-09	1,529,821	347,936	0.23	91,613	30,204	0.33	8,330	2,833	0.34
Nov-09	1,516,907	374,380	0.25	91,599	31,587	0.34	9,168	2,600	0.28
Change 08 09	494,426	-5,247	-0.12	32,109	1,778	-0.16	2,619	371	-0.06

[NB. 1) Notified vacancies for the month covers the inflow of newly notified vacancies to Jobcentre Plus. 2) Changes to Jobcentre Plus vacancy handling procedures have lead to a major discontinuity in the vacancy statistic pre and post May 2006].

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

Table three sets out the labour market indicators for Cornwall. Employment has fallen, though this is all accounted for by part-time employment. Both the number and rate of economically inactive have increased.

Table 3: Labour market indicators				
Activity		Period	Comparisons (change)	
		Apr 2008-Mar 2009	Jan 2008-Dec 2008	Year ago Apr 07 - Mar 08
Working age employment	Rate	72.9	-1.9	-2.4
In employment	No	226,200	-5,900	-6,300
Full-time employment	No	165,700	-4,400	500
Part-time employment	No	60,500	-1,500	-6,700
Unemployment	Rate	6.6	1	1.7
Unemployment	No	16,000	2,300	4,000
Working age inactivity	Rate	21.9	1.1	1.1
Working age inactivity	No	68,100	3,600	3,900
Activity		Period	Comparisons (change)	
		November	October	Year ago
Claimant count	No	9,168	838	2,619
Claimant count	Rate	3.0	0.3	0.9
Vacancies	No	2,600	-233	371
Per 100 employee jobs	Rate	1.3	-0.1	0.2

[Vacancy rate expressed as a percentage of 2008 ABI employee figures].

Source: Annual Population Survey and NOMIS (DWP).

3. Employee numbers

December saw the release of the latest employee figures from the Annual Business Survey (ABI). This saw a decline in numbers in 2008 compared to 2007, from 199,700 to 197,200. This fall of 2,500 equates to 1.3%, in contrast to growth across Britain of 0.3%. Although care should be taken when using ABI estimates at a Cornish level, the data is in line with the most recent figures on the total employed. The largest declines were Financial intermediation (-17.9%), Transport, storage and communication (-17.6%) and Construction (-15.2%), and Manufacturing (-9%). Public administration etc fell by 4.9%.

Employment news

L2 Ltd (a leisure focused company), which employees 200, with premises in Camborne and Truro, called in administrators. The company continued to

trade however and is being marketed as a going concern. Job losses of between 15 and 20 were announced at the timber window and door manufacturer Clearwood UK (owned by the Performance Window Group) at Redruth. Production is being moved to the company headquarters, with sales and administration retained at Redruth. A furniture store in Truro laid off two employees.

Sources: Various news reports

4. Housing

House prices across Cornwall rose in November compared to October, up by £938. This is the sixth month of increases. Trends in Cornwall are broadly consistent with England and Wales data, where prices continue to increase. Since the peak of April 2008, average prices in Cornwall have fallen by 12.4%, (from £209,756 down to £183,764); the comparative figure for England and Wales is 11.2%. Overall figures do not of course provide a complete picture whether in terms of the different types of housing available, housing need and employment.

Source: Land Registry. House Price Index, 30 December 2009.

5. Tourism

Survey data from tourism enterprises from the South West shows how October 2009 compares with October 2008. In Cornwall, a quarter of respondents reported decreased visitor numbers, (SW 20%), with 23% suggesting that turnover was down (SW 21%). 48% thought that spending by visitors was down (SW 43%). In terms of the future of the tourist industry, the level of optimism in Cornwall was similar to the South West average

Source: SW Tourism (2009), How's business, Business Performance of the Tourism Industry in the Southwest – October 2009

C South West

6. Overview

Growth of South West economy recorded for seventh successive month. (Purchasing Managers Index)

"A solid rise in new business was reported in November, extending the sequence of sustained new order growth to two months. However, the rate of increase slowed since October and was below that reported for the wider UK economy. Growth of business activity also slowed since October and was weaker than the UK average. Nonetheless, the latest rise in private sector output was the seventh in successive months and highlighted a continued turnaround in business conditions in the region.

Outstanding business at companies operating in the South West continued to fall in November. However, the pace of reduction slowed to the weakest in the current period of decline. South West companies continued to cut jobs in November, although the rate of reduction in employment eased for a third successive month. Moreover, it was the weakest decline since May 2008. The slower decrease in staff numbers resulted from higher new order volumes and increased business activity.

Input costs rose markedly in November, with the rate of inflation the highest in thirteen months and above that posted for the wider UK economy. Rising fuel and raw material prices (particularly for metals) drove the rise in input costs, alongside weak sterling. November data signalled a broad stabilisation in charges, as the seasonally adjusted Output Prices Index posted only fractionally above the 50.0 no-change threshold. This ended an eight-month sequence of falling output prices. Panellists suggested that strong competition prevented an overall increase in output prices”.

“PMIs are based on monthly surveys of carefully selected companies which provide an advance indication of what is really happening in the private sector economy by tracking variables such as output, new orders, employment and prices across both manufacturing and service sectors. The PMI surveys are based on fact, not opinion”.

Source: Markit, South West PMI, 14 December 2009.

D United Kingdom

7. Quarterly Economic Indicators

The table below summarises the main quarterly economic indicators.

Table 4: Latest Economic Indicators		
Activity	Period	% change on a year earlier
GDP *1	09 Q3	-0.2
Service sector output *1	3m to Sept	-0.1
Industrial production *1	3m to Sept	-0.8
Manufacturing output	3m to August	-10.9
Households' consumption	09 Q2	-0.7
Whole economy investment	09 Q2	-5.2

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

8. Output

Quarterly National Accounts, 3rd quarter 2009

"UK gross domestic product (GDP) in volume terms fell by 0.2 per cent compared with the previous quarter. This was revised from a fall of 0.3 per cent published last month. The level of GDP is now 5.1 per cent lower than 2008 quarter three and 6.0 per cent below its peak in 2008 quarter one. The total volume of output in the production industries fell by 0.9 per cent, within which energy extraction was down by 5.7 per cent and manufacturing output fell by 0.2 per cent. Gross value added excluding oil and gas remained flat over the quarter. Output of the service industries decreased by 0.2 per cent. The household saving ratio was 8.6 per cent in the latest quarter compared with 7.6 per cent in the previous quarter. Real household disposable income rose by 1.2 per cent in the latest quarter following a 1.7 per cent increase in 2009 quarter two".

Some commentators have speculated that the rise in household saving – due to uncertainties around the economy – could lead to less money being spent in the economy.

Source: ONS, Quarterly National Accounts, 3rd quarter 2009, Statistical Bulletin, 22 December 2009.

Estimates of monthly GDP growth in three months to November

"Our monthly estimates of GDP suggest that output grew by 0.2 per cent in the three months ending in November, following on from a decline of 0.3 per cent in the three months ending in October. These figures are based on estimates which assume that the contraction in GDP in the third quarter of 2009 will, in the light of recent ONS data for the construction sector, be revised to 0.1 per cent. They give some hope that the renewed weakness of the economy in the summer is now over and that the trough of the depression has been passed. On the basis of current information it seems likely that the growth rate in the three months ending in December will be higher than the November figure mentioned above. ... the broader picture of the depression is that output fell sharply for twelve months until March and has not changed very much since then".

Source: National Institute of Economic and Social Research, estimates of monthly GDP, 8 December, 2009.

Index of Production, October shows 8.4% annual fall

"Year on year, overall production output in October 2009 was 8.4 per cent lower than in October 2008. Output in the mining and quarrying sector decreased by 11.8 per cent in October 2009 compared to the same month a year ago with a 10.5 per cent decrease in oil and gas extraction. Over the same period, output of the energy supply industries fell by 8.6 per cent with decreases in electricity and gas supply output being offset by an increase in water supply output.

Total production output was flat between September and October. Mining

and quarrying output increased by 0.6 per cent with an increase in oil and gas production output of 1.0 per cent. Energy supply output decreased by 1.5 per cent on the month with decreases in electricity, gas and water supply output". Compared to the same month a year ago, manufacturing was down by 7.8%, mining and quarrying by 11.8% and electricity, gas and water supply by 8.6%. All sectors in Table 5.

Table 5: Sector Breakdown

Sector – changes	Previous month	Same period a year ago
Manufacturing	0	-7.8
Mining and quarrying	0.6	-11.8
Electricity, gas and water supply	-0.3	-8.6
Market sectors	5.5	-12.9

Source: ONS Index of production, Statistical Bulletin and release, 8 December 2009.

Index of Services - October 2009

"The seasonally adjusted Index of Services in October 2009 fell by 3.7 per cent compared with October 2008." Sector details in Table 6 below.

Table 6: Sector Breakdown

Sector – changes October 2009 compared to October 2008	Change
<u>Distribution</u> The largest contribution to the increase was retail which rose by 3.7 per cent and motor trades which rose by 3.1 per cent	+0.4
<u>Hotels and restaurants</u> The largest contributions to the decrease were canteens and catering and licensed and unlicensed Restaurants.	-7.7
<u>Transport, storage and communication</u> The largest contributions to the decrease were land transport which fell by 6.8 per cent, other transport services which fell by 7.2 per cent and post and telecommunications which fell by 3.3 per cent.	-4.9
<u>Business services and finance</u> The largest contribution to the decrease was other business services which fell by 9.3 per cent.	-6.0
<u>Government and other services</u> The largest contribution to the decrease was recreation which fell by 11.3 per cent.	-1.4

Source: ONS Index of services, October 2009, Statistical Bulletin, 23 December 2009.

New orders in the construction industry, October 2009

"Orders in the three months to October 2009 fell by 5 per cent compared with the previous three month period. Orders in the 12 months to October 2009 fell by 19 per cent compared with the previous 12 months and orders in the three months to October 2009 fell by 6 per cent compared with the same period a year earlier. In the three months to October 2009, compared

with the same period a year earlier, private housing orders fell by 1 per cent but public and housing association housing orders rose by 10 per cent. All orders figures quoted are seasonally adjusted and in constant (2005) prices". What is clear here is the important role played by the public sector in boosting demand. Changes by sector in Table 7.

Table 7: Changes by Sector			
Sector	3 months to October compared to previous quarter	Same quarter a year ago	Year to October compared to previous 12 months
	%	%	%
Overall	-5	-6	-19
Private housing	+5	-1	-39
Public housing ²	-1	+10	-10
Infrastructure	-16	+73	+46
Public non housing	-15	+14	+13
Private commercial	+15	-41	-47
Private industrial	+9	-41	-40

² NB Results from this sector volatile.

Source: ONS, New orders in the construction industry, Statistical Bulletin, 10 December 2009.

Output in the construction industry, third quarter 2009

"The total volume of construction output in the third quarter of 2009 rose by 2 per cent compared with the second quarter of 2009. The rise in repair and maintenance of 10 per cent was off set by a fall in new work of 4 per cent. The total volume of construction output in the 12 months to the third quarter of 2009 fell by 11 per cent compared with the previous 12 month period". All details in Table 8.

Table 8: Changes by Sector		
Sector	3 months for 3rd quarter compared to previous quarter	Year to 3rd quarter compared to previous 12 months
Overall	+2	-11
Private housing	-12	-30
Public housing ²	+14	-5
Infrastructure	-3	+7
Public non housing	+7	+25
Private commercial	-11	-20
Private industrial	-4	-34

Source: ONS, Output in the construction industry, 3rd quarter 2009, Statistical Bulletin, 4 December 2009.

New car registrations and vehicle production

Car registrations in December 2009 were up 57.6% on December 2008 (158,082 compared to 100,333). Aided by the scrappage scheme this was the fourth successive month of growth, however year to date figures were down 8.8% (1,844,063 compared to 2,023,104). Total vehicle production in November 2009 rose by an eighth compared to November 2008; yearly figures fell by just over a third. Overall, "November saw the first increase in UK car production since September 2008, reflecting the positive impact of car scrappage schemes and economic stability in a number of major European markets". Full details in Table 9.

Table 9: Vehicle Production				
Production	Nov 08	Nov 09	Change	% Change
Total	108569	122,123	+13,554	+12.5
	YTD Nov 2008	YTD Nov 2009	Change	%
Total	1,589,402	997,525	-591,877	-37.2

Source: Society of Motor Manufacturers and Traders Limited. 4 and 18 December 2009.

London hotels full in November

Further signs of recovery come from the London hotel sector with figures showing that after 13 consecutive months of decline, revenue per available room (revPAR) while rising in October, saw a dramatic increase in November with revenue up 10% on November 2008. Marvin Rust, Hospitality Managing Partner at Deloitte, said: "November has been a great month for the capital. Hoteliers reported stronger conference and meetings business over the previous year when demand was suppressed in the wake of the Lehman Brothers collapse and the other stresses in financial markets worldwide. Soft exchange rates versus the pound continue to act as a magnet for tourists making the capital around 30% less expensive than this time last year." Edinburgh also saw a rise while lower declines in revPAR than previously were found elsewhere.

Source: Deloitte, 09 December 2009

9. Labour Market Analysis

United Kingdom Labour Market Statistics

"For August to October 2009: The employment rate was 72.5 per cent and there were 28.93 million employed people. The unemployment rate was 7.9 per cent and there were 2.49 million unemployed people. The inactivity rate was 21.0 per cent and there were 7.99 million working age inactive people.

The quarterly increase in unemployment is the smallest since Spring 2008, the number of people claiming Jobseeker's Allowance has fallen on the month and there has been a slight increase in the number of vacancies".

All details in Table 10.

NB Claimant count figures for November are provisional and likely to be revised in the future.

Table 10: Labour market indicators				
Activity		Period	Comparisons (change)	
			3M to Oct 09	3M to July 09
Working age employment	Rate	72.5	0.0	-1.7
In employment	No	28.93 million	+53,000	-432,000
Full-time employment	No	21.23 million	-69,000	
Part-time employment	No	7.7 million	+122,000	
Unemployment	Rate	7.9	0.0	+1.9
Unemployment	No	2.49 million	+21,000	+608,000
Redundant	No	191,000	-42,000	+12,000
Redundancy rate (per 1000 employees)	Rate	7.7	-1.6	+0.7
Total hours worked	No	913.5 million	+3.7 million	
Average hours per week	No	31.6	+0.1	
Working age inactivity	No	7.99 million	-1,000	+96,000
Working age inactivity	Rate	21.0	0.0	+0.2
Activity		Period	Comparisons	
			3 months to Sept	3 month to Oct on a year ago
Average earnings (ex bonuses)	%		0.0	+1.7
Activity		Period	Comparisons	
		September	Previous Qtr	Year ago
Workforce jobs	No	30.86 million	-127,000	-649,000
Activity		Period	Comparisons	
		October	September	Year ago
Claimant count	No	1.63 million	-6,300	+534,700
Claimant count	Rate	5.0	0	+1.6
Activity		Period	Comparisons	
		3M to Nov 09	3M to Aug 09	Year ago
Vacancies		432,000	+1,000	-124,000
Per 100 employee jobs	Rate	1.7	0	-0.5

Source: Office for National Statistics, Labour Market Statistics December 2009, Statistical Bulletin, 16 December 2009.

New ABI employee data

New data was released from the Annual Business Inquiry in December. This uses the latest Standard Industrial Classification (SIC 2007). Although overall, the number of employees increased in 2008 compared to 2007, some sectors saw declines in employment. The biggest falls were seen in manufacturing (-4.1%), mining and quarrying (-3%), and public administration and defence (-2.9%). Conversely, some sectors saw rises in employee numbers, notably real estate (+7.9%), water supply (+5.5%),

and professional, scientific and technical activities (+4.5%). Full details in Table 11.

Table 11: Employee estimates by industry GB ABI				
Industrial Sector (SIC 2007)	2007	2008	Difference	
	No *	No *	No *	%
A : Agriculture, forestry and fishing	222.1	225.1	3.1	1.4
B : Mining and quarrying	56.7	55.0	-1.7	-3.0
C : Manufacturing	2640.3	2531.3	-109.0	-4.1
D : Electricity, gas, steam and air conditioning supply	81.2	79.0	-2.2	-2.7
E : Water supply; sewerage, waste management and remediation activities	146.2	154.1	8.0	5.5
F : Construction	1368.8	1351.7	-17.1	-1.2
G : Wholesale and retail trade; repair of motor vehicles and motorcycles	4374.5	4393.7	19.1	0.4
H : Transportation and storage	1258.9	1251.1	-7.7	-0.6
I : Accommodation and food service activities	1773.4	1800.8	27.4	1.5
J : Information and communication	1000.5	997.5	-3.1	-0.3
K : Financial and insurance activities	1090.6	1071.3	-19.3	-1.8
L : Real estate activities	339.4	366.1	26.7	7.9
M : Professional, scientific and technical activities	1742.5	1821.0	78.5	4.5
N : Administrative and support service activities	2182.3	2189.0	6.7	0.3
O : Public administration and defence; compulsory social security	1484.4	1440.8	-43.6	-2.9
P : Education	2461.7	2503.1	41.4	1.7
Q : Human health and social work activities	3194.9	3243.0	48.1	1.5
R : Arts, entertainment and recreation	632.3	646.3	13.9	2.2
S : Other service activities	551.6	557.3	5.7	1.0
Whole Economy	26602.2	26677.2	75.0	0.3

* '000

Source: Office for National Statistics, Annual Business Inquiry, 16 December 2009.

Unemployment 'will peak at 2.8m' in 2010

The Chartered Institute of Personnel and Development (CIPD) has forecast that unemployment will continue to increase in the first half of 2010, by an additional 250,000 peaking at 2.8 million. The figure is lower than the 3.2 million predicted by the CIPD earlier in the year, reflecting a better economic outlook. However, pay rises are expected to fall below inflation as employers cut costs.

Source: BBC, 29 December 2009.

10. Housing

House prices

House prices across England and Wales increased for the seventh month running. The average is now £161,554 compared to the low of £152,748 in April 2009. The high point was reached in January 2008 of £184,125.¹ Full details for England and Wales and Cornwall in Table 12.

Table 12: House Prices, Land Registry				
	Cornwall		England and Wales	
Month	Index	Average Price (£)		Average Price (£)
Nov-08	345.5	192,117	259.2	162,023
Dec-08	339.8	188,932	252.5	157,829
Jan-09	333.6	185,472	251.1	156,976
Feb-09	326.6	181,597	246.2	153,865
Mar-09	322.5	179,338	244.6	152,910
Apr-09	321.3	178,670	244.4	152,748
May-09	316.1	175,757	244.5	152,814
Jun-09	317.2	176,394	245.2	153,240
Jul-09	317.9	176,774	250.4	156,520
Aug-09	319.9	177,904	251.2	157,035
Sep-09	325	180,713	253.9	158,727
Oct-09	328.8	182,826	256.1	160,083
Nov-09	330.5	183,764	258.5	161,554

Source: Land Registry. House Price Index, 30 December 2009. [Index Jan 1995 = 100].

Mortgages and lending

Loans for house purchase at their highest for nearly two years.

"The number of loans for house purchase in the UK reached 55,000 in October, its highest level since December 2007, according to new data released by the Council of Mortgage Lenders. The amount of buyers has risen from a trough in January 2009 when only 23,000 loans were advanced. It is now up 140% from that low point. However, this pattern of increase is not repeated with loans for remortgaging which have stayed static for two months at 33,000. Apart from a total of 30,000 in August 2009, remortgaging is at its lowest level since we began this run of data in 2002". Details in Table 13.

¹ Figures are revised with each new release; hence figures often 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.

Table 13: Loans for house purchase and remortgage

	House purchase loans		Remortgage loans	
	No	£m	No	£m
Oct-09	55,300	7,500	33,000	4,000
Change from Sept 2009	9%	7%	n/c	-2%
Change from Oct 2008	43%	39%	-52%	-57%

"Fixed mortgages are continuing their downward trend from a high in July, when 80% of all new loans taken out were fixed. In October, this had decreased by 14% to 66%. Tracker mortgages, however, are on the rise with 21% of all new loans being trackers, compared to July's low of 12%. Borrowers are turning to trackers mainly because they now have greater expectation that interest rates will stay at, or near, their current low for a while to come. That, coupled with lenders pricing their trackers at lower rates than their fixes, makes trackers very appealing to those able to meet the criteria necessary to take advantage of them".

Source: Council of Mortgage Lenders, 10 December 2009.

November Gross mortgage lending.

"Gross mortgage lending totalled an estimated £12 billion in November, a 10% drop from £13.3 billion in October and down 14% from £13.9 billion in November of last year, according to new data from the Council of Mortgage Lenders. A modest seasonal decline between October and November is typical, although the 10% fall is a little larger than normal. The underlying story, though, is one of market conditions holding steady and the CML does not expect this position to change much in the coming months."

Source: Council of Mortgage Lenders, 18 December 2009.

CML – Market Commentary

"The housing and mortgage markets remain in a stable state with little in the Pre-Budget Review to change the outlook for next year, although the end of the stamp duty holiday could cause a modest fall in underlying activity in the early part of the year. But seasonal drivers are likely to dominate the market in the coming months and it will be some time before clear trends emerge.

Concrete decisions on how to repair the public finances will not happen this side of an election. The nearest to a change in policy in the coming months is the likely end to asset purchases under quantitative easing - although the Bank of England will continue to hold these assets on its balance sheet. Some commentators have begun to worry about potentially unsustainable asset price rises, although there is currently no evidence of this in the housing market. The funding markets, while improving, are still in a weak condition. Although we have seen a rise in house prices in recent months, turnover remains extremely low with little immediate prospect of a return to more "normal" levels".

The CML refer to the expected end of the purchase of assets under the quantitative easing policy, "While the Bank has made clear it does not believe there has been an unsustainable rise in asset prices as a result of the policy so far, several commentators have talked about the policy potentially pushing such prices above "fundamental" levels. It is difficult to see much evidence of this in the housing market. Reported prices have picked up from the lows early this year, but transactions remain considerably below what might be considered 'normal' ".

The CML consider that 2010 will be a quiet year with fiscal tightening, a reluctance of consumers to make major purchases, and potential reductions on the flow of mortgage credit. "All in all, we still anticipate a slow market next year. The economy is set to recover and confidence will likely pick up, particularly if unemployment does not rise much further. But the pressures hanging over the market are likely to mean only a gradual pick up in activity and lending volumes. However, with interest rates set to remain low for some time, the labour market having performed better than expected and lenders continuing to work with borrowers in difficulty, there is unlikely to be much increase in the numbers falling behind on their mortgages or facing possession".

Source: Council of Mortgage Lenders, 18 December 2009.

11. Retail, inflation and prices

Retail Sales - Mixed picture in November

"Year on year, the volume of retail sales in November was 3.1 per cent higher than in November 2008. Predominantly food stores increased by 1.7 per cent compared to the same period a year ago. Predominantly non-food stores increased by 3.1 per cent. Within predominantly non-food stores, all sectors showed growth apart from other stores which decreased by 1.7 per cent. The largest rise was in textile, clothing and footwear stores at 7.1 per cent, driven by an increase in clothing stores. Non-store retailing and repair increased by 11.7 per cent.

Sales volume in the three months September to November 2009 increased by 0.8 per cent when compared to the previous three months, the lowest growth since May 2009. Three-monthly growth increased by 0.2 per cent for predominantly food stores while predominantly non-food stores increased by 0.6 per cent. Within predominantly non-food stores, textile, clothing and footwear stores decreased by 0.7 per cent and other stores decreased by 0.8 per cent. There were increases for non-specialised stores at 1.4 per cent and household goods stores at 3.5 per cent, driven by electrical stores. Non-store retailing and repair increased by 6.5 per cent.

Total sales volume in the three months to November was 3.2 per cent higher than the same period a year ago, the highest growth since June 2008. Sales volume for predominantly food stores increased by 2.1 per cent. Predominantly non-food stores increased by 2.9 per cent. Within predominantly non-food stores, all sectors showed growth apart from other stores which decreased by 2.9 per cent. The largest rise was for textiles,

clothing and footwear stores which increased by 7.8 per cent, driven by an increase in clothing stores. In addition, household goods stores increased by 2.2 per cent, the first increase since June 2008. Non-store retailing and repair increased by 13.4 per cent.

Between October and November, total sales volume decreased by 0.3 per cent. Predominantly food stores increased by 0.4 per cent while predominantly non-food stores decreased by 0.9 per cent. Within predominantly non-food stores, the largest decrease was in non-specialised stores at 4.4 per cent, the largest decrease since the series began in 1988. Textile, clothing and footwear stores decreased by 1.8 per cent while the largest increase was other stores at 0.9 per cent. Non-store retailing and repair increased by 0.8 per cent.

The seasonally adjusted value of retail sales for November 2009 was 2.7 per cent higher than in November 2008 and the three months to November 2009 was 2.6 per cent higher than the same period a year earlier".

Source: ONS, Retail Sales, Release, 17 December 2009.

Post-Christmas sales wow shoppers

The latest retail news comes from the Christmas sales where Experian suggesting that the number of shoppers rose substantially compared to 2008, with increases of 18.5% for Boxing Day and 17.9% for the Sunday. The rise in numbers contrasts with a slow pre-Christmas build-up. Concern has however been raised that the rush might largely reflect shoppers seeking to avoid the VAT increase due on 1 January by bringing forward purchases. Hence January could see lower levels of sales.

Source: BBC, Tuesday, 29 December 2009

Transport leads to CPI rise

"CPI annual inflation – the Government's target measure – was 1.9 per cent in November, up from 1.5 per cent in October. By far the largest upward pressure affecting the change in the CPI annual rate came from transport. Within the transport category the largest upward effect came from fuels and lubricants, where prices rose by 2.8 per cent between October and November this year but fell by a record 8.3 per cent a year ago. The large fall in 2008 was due to sharp falls in petrol and diesel prices, reflecting the falling price of crude oil in the latter half of 2008. The largest downward pressure affecting the change in the CPI annual rate came from food and non-alcoholic beverages.

In the year to November, RPI annual inflation was 0.3 per cent, compared with a fall of 0.8 per cent in October. The last time there was an increase in the annual inflation rate greater than 1.1 per cent was between March and April 1990, when the rate increased from 8.1 per cent to 9.4 per cent. In November 2009, the main factors affecting the CPI also affected the RPI. Additionally, there was upward pressure from housing, mainly from mortgage interest payments which rose this year but fell a year ago. Overall, lenders passed on October's half point decrease in the Bank rate.

RPIX inflation – the all items RPI excluding mortgage interest payments – was 2.7 per cent in November, up from 1.9 per cent in October.

As an internationally comparable measure of inflation, the CPI shows that the UK inflation rate in October was above the provisional figure for the European Union. The UK rate was 1.5 per cent whereas the EU's as a whole was 0.5 per cent”.

Source: ONS, News Release, 15 December 2009.

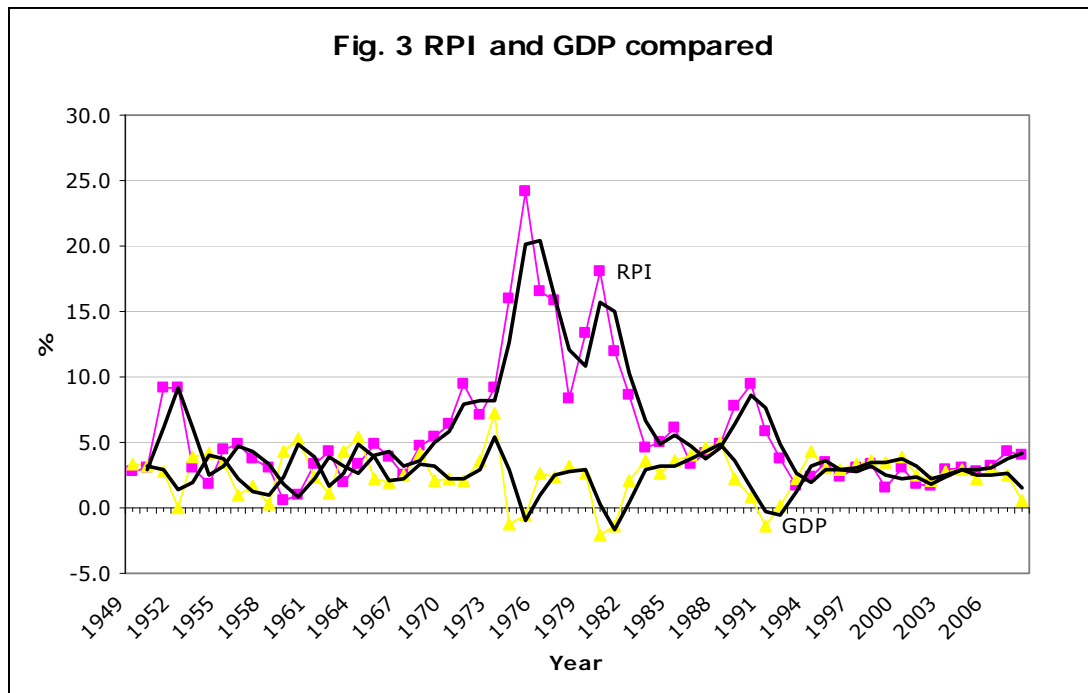
Consumer Price Index and the Retail Price Index

“The consumer prices index (CPI) is the main United Kingdom domestic measure of consumer price inflation for macroeconomic purposes. It forms the basis for the Government’s inflation target that the Bank of England’s Monetary Policy Committee (MPC) is required to achieve. The retail prices index (RPI) is the most long-standing general purpose measure of inflation in the United Kingdom and is available from June 1947. It is used for a variety of purposes by both government and external users including the indexation of various incomes and prices and the uprating of pensions, benefits and index-linked gilts.

The CPI excludes a number of RPI series mainly relating to housing costs (for example, council tax), and in particular to owner occupiers’ housing costs (including mortgage interest payments, house depreciation and buildings insurance). In addition, the CPI excludes the annual road fund licence and, from 2006, TV licences ...and Trades Union subscriptions which by convention are not part of household expenditure. The CPI includes series for university accommodation fees, foreign students’ university tuition fees, and unit trust and stockbrokers’ charges, none of which are included in the RPI”.

Source: ONS, Statistical Bulletin, 13th October 2009.

Figure 3 shows annual changes in the RPI and GDP since 1948. The relationship between the two varies. In the early fifties and late seventies there was high inflation together with declines in the growth rate, related to the Korean war and oil price rises, at other times falls in inflation have followed falls in the growth rate.



Producer prices, November 2009

“The output price index for home sales of manufactured products rose 2.9 per cent in the year to November, compared with a rise of 1.9 per cent in the year to October. The index rose 0.2 per cent between October and November, mainly reflecting price rises in petroleum products and, to a lesser extent, food products. These increases were partly offset by a fall in other manufactured product prices. The output price index excluding excise duties rose 2.0 per cent in the year to November. The index rose 0.1 per cent between October and November. The output price index excluding food, beverages, tobacco and petroleum rose 2.0 per cent in the year to November. The index fell 0.1 per cent between October and November”.

Source: ONS, Producer Prices, Statistical Bulletin, 11 December 2009.

Darling’s VAT cut has worked....

A report from the CEBR suggest that one factor underlying the relatively good retail sales figures has been the VAT cut from 17.5% to 15% in force for the year. They calculate that this cut could have added the equivalent of an additional £300 disposable income for each household for the year. Some of this would have been diverted to savings or to pay off debt, but “the VAT cut boosted consumer spending by some £6.8 billion. Given this increase, the VAT reduction boosted gross domestic product by some 0.5 percent in 2009. Not quite the 1.0 per cent boost the Chancellor was hoping for, but a welcome and timely support for the ailing economy. Add to this knock on effects from higher profitability –of those companies not passing on the cut –higher employment, improved confidence and lower business failures and the impact is likely to have been even higher”. In terms of the cost to the Treasury, the net cost is calculated at £4.3 billion.

The CEBR consider that “reversing the cut in January is likely to wipe out most of the benefits it was meant to create in the first place...” With consumer demand depressed the reversal could theoretically stall an economic recovery. The CEBR conclude “expect a tough Spring for retailers and other industries dependent on consumer spending”.

Source: Centre for Economics and Business Research, 26 December 2009.

12. Consumer confidence

Confidence stable in November

- Consumer confidence remained unchanged on 73 points in November.
- The Present Situation Index dropped two points to 20 from the six month high of 22 recorded in October.
- The Expectations Index and Spending Index both rose in November, increasing to 108 and 106 respectively.
- The Spending Index increased by two points in November, keeping it above the 100 point level for the tenth consecutive month.
- The number of people who believe now to be a bad time to make a major purchase fell to its lowest level since April 2006.
- 84% of consumers now believe the economic situation will be the same or better in six months’ time, while just 14% believe it will be worse.
- 88% of people believe their household income will be the same or higher in six months’ time.

[**Present Situation Index** reflects sentiment about the current economic and employment situation. **Spending Index** reflects sentiment about spending on household goods and major purchases.]

Source: Nationwide Consumer Confidence Index in partnership with TNS, 9 December 2009.

UK: Christmas affects Consumer Confidence?

“The GfK NOP Consumer Confidence Index for the UK dropped by two points this month to -19. Confidence in “general economy” over the last 12 months has also dropped by two points to -61. The ‘major purchase Index’, has increased three points to -16.

Nick Moon, MD of GfK NOP Social Research comments, “After a dramatic increase in the Index from August to October the Index has now fallen back for two months in a row, and another month of falls could see all of the gains since August disappear. This must be concerning for the government, although the Index is still massively higher than it was a year ago”.

Source: GfK NOP Consumer Confidence, 18 December 2009, Research carried out by GfK NOP on behalf of the European Commission.

13. Finance

Public sector finances November 2009

"The main statistics released show, that in November 2009: the **public sector current budget** was in **deficit** by **£16.2** billion; this is a **£3.0** billion **higher deficit** than in November 2008, when there was a **deficit** of **£13.2** billion; **public sector net borrowing** was **£20.3** billion; this is **£4.9** billion **higher** net borrowing than in November 2008, when net borrowing was **£15.5** billion; the **public sector net cash requirement** (see table PSF4) was **£14.7** billion, a **£4.0** billion **higher** net cash requirement than in November 2008, when there was a net cash requirement of **£10.6** billion. at the end of November 2009 **public sector net debt** was **£844.5** billion (equivalent to **60.2** per cent of GDP). This compares to **£706.2** billion (**49.6** per cent) as at the end of November 2008.

Public sector finances excluding financial interventions

The most recent figures excluding financial interventions are for quarter 3 2009, when net borrowing was £36.8 billion and net debt at end-September was £686.3 billion (49.3 per cent of GDP).

Financial year to date (April 2009 – November 2009):

Monthly data can be volatile, so it can be misleading to read too much into one month's data. The following paragraphs give information on the financial year to date and comparisons with the corresponding period of the previous financial year.

In financial year 2009/10:

the **public sector current budget** was in deficit by **£83.2** billion; this is a **£48.4** billion **higher** deficit than in the same period of 2008/09, when there was a deficit of **£34.8** billion; **public sector net borrowing** was **£106.4** billion. This was a **£57.1** billion **higher** net borrowing than in the same period of 2008/09, when there was net borrowing of **£49.3** billion; excluding financial interventions, **public sector net borrowing** in the first half of 2009/10 was **£77.7** billion, compared with **£37.7** billion in the same period of 2008/09 the **public sector net cash requirement** was **£96.9** billion; **£67.2** billion **higher** net cash requirement when compared with the same period of 2008/09 when there was a net cash requirement of **£29.7** billion".

Source: ONS and Treasury, Statistical Bulletin, 18 December 2009.

Bank of England, Trends in Lending, December 2009

"The flow of net lending to UK businesses remained negative in October with annual growth rates across all business sizes continuing to weaken. Indicators of corporate distress, such as the write-off rate, have risen less than in the last recession, which the major UK lenders partly attributed to low interest rates. Increased competition among lenders was again reported to be contributing to downward pressure on spreads on lending to larger

businesses. Looking ahead to 2010, the major UK lenders generally expected loan availability to the corporate sector to improve and the cost of borrowing to decline. Demand for loans was expected to remain subdued.

The flow of total net mortgage lending was stable in October and the three-month annualised rate of lending growth edged upwards. Mortgage approvals for house purchase increased in November according to data from the major UK lenders. Effective interest rates on secured lending were little changed in October, though quoted interest rates on some 75% LTV mortgages have fallen in recent months. The major UK lenders expected a muted recovery in secured lending in 2010.

Total net consumer credit flows remained negative in October. Within the total, net credit card lending flows were stable, while unsecured lending continued to weaken. Some major UK lenders expected unsecured lending to contract further in 2010. Spreads between effective interest rates and Bank Rate and Libor narrowed somewhat in October, but remained significantly wider than a year ago, partly reflecting heightened credit risk".

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

Lending to individuals: November 2009

"**Total net lending to individuals** rose by £1.1 billion in November. The twelve-month growth rate remained at 0.7%. The three-month annualised growth rate was 0.6%, unchanged from a revised 0.6% for October. Within the total, **net lending secured on dwellings** increased by £1.5 billion, higher than the October increase of £1.1 billion and the previous six-month average of £0.7 billion. The twelve-month growth rate was 0.9%, unchanged from a revised 0.9% for October. The three-month annualised growth rate increased 0.1 percentage points to 1.2%.

Within total secured lending, secured lending by banks (excluding the effects of securitisations) increased by £4.3 billion, above both the October increase (£3.3 billion) and the previous six-month average of £2.8 billion. The **number of loan approvals for house purchase** (60,518) was higher than the October figure (57,718) and the previous six-month average; approvals for **remortgaging** (24,897) were slightly higher than in October but remained below the previous six-month average. The number of loans approved for **other purposes** (28,131) was lower than both the October figure and the previous six-month average. **Consumer credit** fell by a net £0.4 billion, weaker than the previous six-month average of a £0.2 billion fall. **Credit card lending** increased by £0.2 billion but **other loans and advances** fell by £0.6 billion. The annual growth rate of consumer credit continued to fall, to -0.5%; the three-month annualised growth rate remained at -2.2%".

Source: Bank of England, Statistical Release, Lending to individuals, 4 January 2010.

E International perspective

14. Data

EU GDP First estimates for the third quarter of 2009

"GDP increased by 0.4% in the euro area (EA16) and by 0.3% in the EU27 during the third quarter of 2009, compared with the previous quarter, according to first estimates released by Eurostat, the Statistical Office of the European Communities. In the second quarter of 2009, growth rates were -0.2% in the euro area and -0.3% in the EU27.

Compared with the third quarter of 2008, seasonally adjusted GDP declined by 4.1% in the euro area and by 4.3% in the EU27, after -4.8% and -5.0% respectively for the previous quarter.

During the third quarter of 2009, household final consumption expenditure decreased by 0.2% in both the euro area and the EU27 (after 0.0% and -0.1% respectively in the previous quarter). Investments fell by 0.4% in the euro area and by 0.5% in the EU27 (after -1.7% and -2.5%). Exports increased by 2.9% in the euro area and by 2.4% in the EU27 (after -1.3% and -1.4%). Imports increased by 2.6% in the euro area and by 2.4% in the EU27 (after -2.9% in both zones).

In the United States GDP increased by 0.7% during the third quarter of 2009, after -0.2% in the second quarter of 2009. In Japan GDP increased by 1.2% in the third quarter of 2009, after +0.7% in the previous quarter. Compared with the third quarter of 2008, GDP declined by 2.5% in the United States (after -3.8% in the previous quarter) and by 4.4% in Japan (after -7.1%)".

Source: Eurostat News release, euroindicators, 173/2009 - 3 December 2009.

GDP per inhabitant in the Member States ranged from 41% to 276% of the EU27 average in 2008

"In 2008, the Gross Domestic Product (GDP) per inhabitant in Luxembourg, expressed in purchasing power standards (PPS), was more than two and a half times the EU27 average, while Ireland and the Netherlands recorded levels about one third above average. Austria, Denmark, Sweden, Finland, Germany, the United Kingdom and Belgium were between 15% and 25% above the EU27 average. France, Spain and Italy registered GDP per inhabitant between 0% and 10% above the EU27 average, while Cyprus, Greece and Slovenia were between 0% and 10% below the average. The Czech Republic, Malta, Portugal, and Slovakia were between 20% and 30% lower than the EU27 average. Estonia, Hungary, Lithuania, Latvia and Poland were between 30% and 50% lower, while Romania and Bulgaria were between 50% and 60% below the EU27 average". Comparing changes over time, per capita GDP in the UK dropped from 120 in 2006 to 116 in 2008.

Source: Eurostat News Release, 182/2009 - 15 December 2009.

OECD composite leading indicators continue to show strong signals of recovery

“OECD composite leading indicators (CLIs) for October 2009 continue to point to a recovery in OECD economies; with the CLIs for Canada, France, Italy, Germany and the United Kingdom pointing more strongly to recovery than in last month’s assessment. Financial components (the spread of interest rates, EONIA, EURIBOR, M1) and business confidence are the main drivers to the CLI’s performance in these countries. All major non member economies are in a recovery phase (the change in the outlook for China compared to last month’s release is mainly due to a downward revision in the “Imports from Asia” component). To avoid confusion, it is important to note that the reference to ‘more strongly’ is in the context of the likelihood of recovery rather than the strength of the recovery per se.” Detailed figures in Table 14.

Table 14: Composite leading indicators			
	Oct 2009 change	Year on year change (latest month)	Growth cycle outlook
OECD area	1.0	5.7	Recovery
Euro area	1.3	8.8	Expansion
Canada	0.8	6.4	Expansion
France	1.2	10.2	Expansion
Japan	1.2	2.2	Recovery
Germany	1.6	9.2	Expansion
Italy	1.1	12.5	Expansion
UK	1.3	8.8	Expansion
USA	1.0	3.9	Recovery
Brazil	0.7	-4.2	Recovery
China	0.2	5.7	Recovery
India	0.2	4.0	Recovery
Russia	1.6	-1.1	Recovery

Source: OECD, Paris, 11 December 2009 OECD Composite Leading Indicators News Release.

World trade and production up

“World trade volume. Based on preliminary data the world trade volume expanded by 0.8% in October from the previous month, following an unprecedented increase of 5.4% in September. Import volumes of the advanced economies declined in October, particularly in Japan. Import volumes of the emerging countries grew by 3.7% on average, extending the 6.9% increase in September. In October, world trade was still 13.2% below the peak level reached in April 2008 mainly resulting from the unprecedented drops in November 2008 up to January 2009. Compared to last year world trade was down by 9.4% in October, but it was already 9.0% above the trough reached in May 2009. Monthly trade figures are volatile and focus on ‘momentum’ is therefore preferable. In the three months up to October, world trade was up by 4.6% from the preceding

three months, the highest momentum in our series starting at the beginning of the nineties.

World industrial production

On the basis of preliminary data, world industrial production rose by 0.4% in October relative to the previous month, following a rise of 0.9% in September. Production in the advanced economies was slightly down, but the emerging markets powered on, especially in Asia. World industrial production is still 6.5% below the peak level reached in March 2008 and 2.4% down from October last year. However, it has risen continuously since the trough in March 2009 by an accumulated 6.4%".

Source: CPB Netherlands Bureau for Economic Policy Analysis, World trade monitor: October 2009, 24 December 2009.

15. Reports and reviews

2010 to be turning point for world economy

Global economic outlook 2010

The report states that "after a vertiginous decline in activity, global economic recovery now seems to be underway. We forecast world output (on a purchasing power parity basis) to expand by 3.3% in 2010, after a decline of 1.4% this year. The recovery is likely to be led by the emerging markets, which in the main were less directly affected by the global financial crisis compared with developed countries". Economic growth for the G10 is expected to be weaker than common with previous recoveries, "reflecting the structural nature of the 'shock' to the financial sector". The report suggests that "unprecedented policy support in the form of both monetary and fiscal stimulus will need to be withdrawn gradually, potentially creating further headwinds for private sector demand".

Turning to specific countries, growth of 3% is expected for the US, with Germany expanding by "a more modest 1.5% in 2010, given the euro's strength and a potentially sharp increase in unemployment when the current scheme of government labour market subsidies expires". GDP growth in the euro zone is forecast at 1.1% for 2010. "Major commodity producers such as Canada and Australia should be supported by Asian demand (especially China), along with other developing economies. We look for Canada to register gdp growth of 2.6% in 2010, with Australia expanding by 2.7%. "Meanwhile, Eastern Europe continues to face difficult economic and financial conditions, although Poland is a notable outperformer".

"The UK looks set to be the last of the major economies to emerge from recession if, as recent indicators suggest, gdp growth moves back into positive territory in the fourth quarter. Still, the recovery is likely to be a slow and protracted one. Amid high levels of debt, continued credit constraints and ongoing uncertainty about the economic outlook, both households and businesses are expected to continue to pay down debt. A further downside risk is the state of the UK's public finances, with fiscal

policy set to tighten considerably from 2010. Despite the competitive boost imparted by the fall in sterling's exchange rate, the hoped for rebalancing away from consumer spending towards net exports has yet to fully materialise. For this to occur, the UK exchange rate is likely to have to fall further". The report forecasts that unemployment will continue to rise to just below 3 million by mid-2010. "Encouragingly, the recent pace of unemployment has slowed markedly. Nonetheless, we would caution against reading too much into this. It appears to largely reflect the desire of firms to hoard labour and cut hours worked instead".

Following an estimated fall of 4.5% in GDP in 2009, the economy is expected to grow by 0.8% in 2010 and 2.1% in 2011. CPI Inflation is likely to rise towards 3%, partly reflecting the VAT increase in January, though high unemployment and a large output gap will reduce inflation risks after this.

Source: Lloyds TSB, World Economic Quarterly, First quarter 2010, December 2009, 1st Edition.

European Central Bank, Monthly Bulletin December.

The ECB in its monthly bulletin notes that "economic activity in the euro area improved further in the third quarter of 2009, with real GDP growth returning to positive territory following five quarters of contraction". Such growth is attributed to "the inventory cycle and a recovery in exports, as well as from the significant macroeconomic stimulus under way and the measures adopted to restore the functioning of the financial system". With some measures being of a temporary measure "the euro area economy is expected to grow only at a moderate pace in 2010, and the recovery process is likely to be uneven". Annual real GDP growth "of between -4.1% and -3.9% in 2009, between +0.1% and +1.5% in 2010, and between +0.2% and +2.2% in 2011" has been forecast. Figures for 2010 have also been revised upwards.

In November inflation was positive, after five months of deflation. "The rise mainly reflects upward base effects stemming from the drop in global commodity prices a year ago. Inflation is expected to rise further in the near term, mainly owing to upward base effects in the energy and food components". However, future inflation is expected to remain moderate "with overall price, cost and wage developments staying subdued in line with a slow recovery in demand in the euro area and elsewhere".

"The annual growth rate of bank loans to the non-financial private sector turned somewhat more negative in October. In the case of loans to households, the latest data provide further confirmation of a levelling-off at low rates of growth. As regards loans to non-financial corporations, it is worthwhile to note that the growth of loans to enterprises typically picks up with some lag compared with the cycle in economic activity. In this respect, the still subdued levels of production and trade, as well as the ongoing uncertainty surrounding the business outlook, are likely to dampen firms' demand for bank financing also in the coming months, especially for short-term loans".

“As regards fiscal policies, the Governing Council re-emphasises how important it is for governments to develop, communicate and implement ambitious fiscal consolidation strategies in a timely manner. These strategies must be based on realistic output growth assumptions and focus on structural expenditure reforms, not least with a view to coping with the budgetary burden associated with an ageing population. As agreed by the ECOFIN Council on 2 December 2009, governments need to set out concrete and quantifiable adjustment measures that will lead to a sustainable correction of fiscal imbalances. Several countries will have to start consolidation in 2010, and all others in 2011 at the latest”.

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

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

Prepared by:

Peter Wills

Economic Development
Economic Intelligence Team

31 December 2009

If you would like this information
in another format please contact:

Cornwall Council
County Hall
Treyew Road
Truro TR1 3AY

Telephone: **0300 1234 100**

Email: **enquiries@cornwall.gov.uk**

www.cornwall.gov.uk