



Economy Monitoring

Monthly Update
November 2009

30 November 2009

Environment, Planning and Economy

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Summary

- Overall the consensus appears to be that although not officially out of recession, the UK is nearly there. Declines in output are getting smaller as are increases in unemployment. Comparing previous forecasts with more recent trends suggest the situation is not as severe as initially feared. Uncertainty remains the key message for the future however. Future consumer demand is likely to be limited as households save rather than borrow to spend. Concern has been raised over the potential for exports to boost growth. How Cornwall will emerge from the recession is difficult to predict.

Cornwall

- The **jobseeker total rose by 232**, in line with seasonal expectations below the dramatic rise a year ago. Vacancy figures rose. **House prices continue to rise.**

SW

- On the output front, growth continued and accelerated between September and October with the November **Purchasing Managers Index rising** across the SW. Evidence of new staff hirings was apparent. [The index is based on monthly survey data].
- The regional briefing suggests that the recession in the SW was less severe than feared though concerns over the future remain.

UK

- Despite a revision **Q3 GDP figures fell**, production and services output continues to decline though at lower rates. New **Construction** orders stabilised compared to the previous quarter.
- Across the UK, **unemployment and the claimant count continued upwards**, though at a lower rate than expected.
- **House prices across England and Wales continued to rise**, quarterly housing starts increased again. Gross mortgage lending rose in October, though figures are still down on October 2008.
- **Retail sales by volume rose** between September and October while value of sales up on a year ago.
- **CPI Inflation rose**, from 1.1% in September to 1.5%.
- **Consumer confidence levels suggest a late downward dip.**
- Lending to businesses continued to decline while for individuals total net lending rose while consumer credit **fell**.

International

- Third quarter GDP rose across the EU, while OECD figures indicate 'strong signals of recovery'. The OECD reiterated the need to prepare for the exit from recession.

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 – what is happening with the labour market in Cornwall?

A recent report from the Office for National Statistics provides an insight into the impact of the recession on the labour market across the UK. It also sets out what is happening at the regional level, comparing data for the 12 month period up to March 2009 with the same period up to March 2008. How does Cornwall fare in this analysis? Data covers a complete year thus removing any seasonal anomalies. [NUTS 3 regions are upper tier authorities or groups thereof. Cornwall is both a NUTS 2 and NUTS 3 region].

Looking at the employment levels of those aged 16 plus, Cornwall saw a decline from 248,000 to 239,000 (-9,000, equal to 3.4%). This is the worst performance of the 12 NUTS 3 regions across the South West. The employment rate for those of working age, fell from 75.3% by 2.4% down to 72.9, the third highest fall after Gloucestershire (-3.9%). Turning to unemployment (16 plus), the figures indicate that the level for Cornwall rose by 40.3% for the year, while the unemployment rate increased by 2% points (4.8 to 6.8), which places Cornwall third out of the 12 sub-regions.

How does Cornwall compare to the other 128 NUTS 3 regions across Britain? Using the 16+ data, Cornwall falls within the 53 regions where there was a decline in employment, in fact Cornwall was in the worst 14. In contrast 46 regions saw an increase. In terms of changes in the employment rate (working age), Cornwall lies within the worst 19 NUTS 3 regions. Most of these are urban areas – Barnsley, Doncaster and Rotherham; Glasgow city and Greater Manchester South.

Claimant count figures show a different perspective with an increase from 4,585 to 6,350 (1,765 or 38.5%). Here Cornwall lies ninth from the top across the SW, ostensibly a more favourable outcome. Yet compared to the other NUTS 3 regions across Britain, it ranks 27 out of 128 (1 being the worst). In terms of the increase in the rate, Cornwall is within the worst 70.

To summarise, for those aged 16+, the number employed has fallen by 8,500. Of these, 5,000 became unemployed with 3,400 economically

inactive. The total of economically inactive increased by 6,500, of whom 3,400 moved from employment and 3,000 were due to an increase in the population.

What can be deduced from these figures? Although there have not been the headline cuts in job losses associated with past recessions, the figures suggest that Cornwall has not escaped unscathed. For all three indicators – employment, unemployment and claimant count Cornwall still performs poorly in relation to most other parts of Britain.

(NB figures may not add due to rounding factors. Changes in data may reflect the sample size of the data and hence data should be compared over a period of time to ensure validity).

B Cornwall

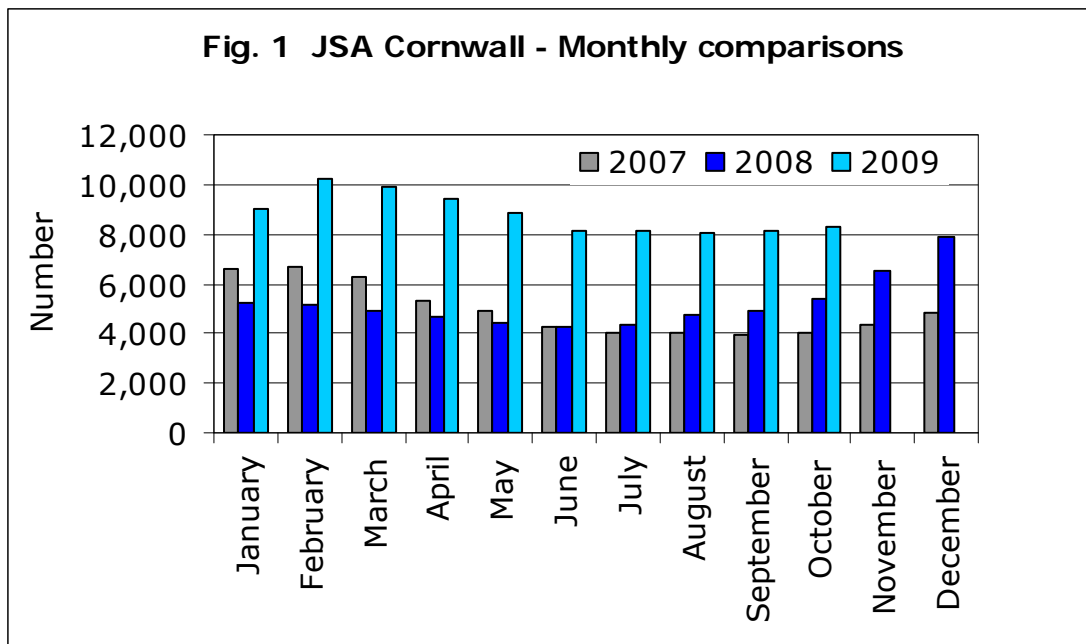
2. Labour Market Analysis

The latest claimant count data for October was released on 11 November 2009. The figures relate to those claiming Jobseekers Allowance.

[This figure is considered to underestimate the actual numbers unemployed, hence though useful the unemployment figures are taken as a more accurate representation of the situation. NB Not seasonally adjusted. Figures for Cornwall cover the unitary area only].

The total for Cornwall is now 8,330. The last time Cornwall's October figure was higher than this was in 2000 when it equalled 8,706. Since September numbers in Cornwall have increased by 232 (2.9%). Within the SW, 13 of the 16 County/Unitary areas saw a decline in numbers from the previous month. The largest falls in percentage terms (excluding IoS), were Devon (-4.3%), Somerset (-3.7%), and Swindon (-3.1%). Bournemouth was the only other area to show an increase.

The UK showed a decrease of 0.5%, while across the SW the decline equalled 1.8%. Since October 2008 the number of claimants in Cornwall has risen by 2,952 or 54.9%. This compares to an increase of 63.1% across the UK and 75.6% 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 October, were Cornwall 2.7%, GB 4.1% and SW 2.9%. Between October 2008 and October 2009, Cornwall's rate increase, from 1.7% to 2.7% equals a rise of 59%. This is the fourth lowest rise for authorities across the SW. The highest rate increase, of 113% was recorded in Swindon. A similar pattern occurred with the change in numbers of claimants.

An increase in numbers between September and October in Cornwall is not unusual. Of the ten years from 2000 to 2009, only one saw a decline. In fact the decline this year is very close to the average for the period -234. 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, the exceptions across the SW are Dorset and Torbay. What is clear is that the 2009 October figures saw a reversal from the 2008 October figures when all areas saw a rise in the claimant count.

Vacancies

The latest vacancies data was released on 11 November 2009. There were 2,833 notified vacancies in Cornwall in October. This represents an increase of 531 since September (23.1%). This increase is above the increases across Britain (18.8%) and SW England (14.4%). Compared to October 2008, vacancies are up by 17.1%. The situation in Cornwall is in direct contrast to the figures for the GB (-5.1) and SW (-4%). Seven other Unitaries/counties also saw a rise in vacancies, nine saw falls, the largest percentage falls were in Somerset (-25.3%) and Swindon (-28.1%).

As to whether the current increase fits in with previous trends the figures here are difficult to decipher. This year is similar to 2004 and 2005, when increases occurred but in contrast to 2006 and 2007 when decreases

occurred. One issue is that there may well be a mismatch between vacancies and the skills and qualifications available in the workforce.

[Survey data for the UK suggests that of all external vacancies, only a minority, 35% are advertised through Jobcentres. This figure has declined since 2005].

The vacancy to claimant count ratio, which shows the number of vacancies per claimant, is a crude measure of how buoyant the jobs market is. A ratio below 1.0 indicates there are fewer vacancies than claimants. Currently Cornwall is performing better than GB and is similar as the SW with a ratio of 0.34, (SW 0.33, and Britain 0.23) – Table 1. The October 2009 figures are all below the figures for October 2008.

Table 1: Vacancy to claimant ratio comparisons									
	Great Britain			South West			Cornwall		
Date	Claimant	Vacancies	Ratio	Claimant	Vacancies	Ratio	Claimant	Vacancies	Ratio
Oct-08	939,900	366,690	0.39	52,180	31,417	0.60	5,378	2,419	0.45
Sep-09	1,537,620	292,845	0.19	93,283	26,401	0.28	8,098	2,302	0.28
Oct-09	1,529,821	347,936	0.23	91,613	30,204	0.33	8,330	2,833	0.34
Change	589,921	-18,754	-0.16	39,433	-1,213	-0.27	2,952	414	-0.11

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

Unemployment

Unemployment figures for Cornwall are only available up to March 2009. The latest figures give a total of 17,500 for those aged 16+ and 16,000 for those of working age. What is interesting to note here is that unemployment started to rise during the Apr 2006-Mar 2007 period, before the increase in the claimant count. Cornwall's working age unemployment rate is currently slightly above the rate for the UK and GB (6.4%), and the South West (4.7%).

Source: NOMIS, Annual Population Survey 2009.

Employment news

In October Bodmin Blocks, was reported as going into administration. In November it was confirmed that 53 jobs would go. A total of 80 were employed by the company. On the plus side, 15 new jobs were announced for Spinnaker International at Saltash. It was also announced that 12 jobs had been saved when Cornwall Council purchased the Castle an Dinas quarry in West Cornwall. The company had gone into administration in April.

Sources: Various news reports

3. Housing

House prices across Cornwall rose in October compared to September, up by £1,118. This is the fifth 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 13.4%, (from £210,191 down to £182,005); the comparative figure for England and Wales is 12.4%. 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, 27 November 2009.

4. The recession and crime

Increases in crime have been associated with previous economic downturns. What does the evidence in Cornwall suggest? The recent Community Safety Strategic Assessment for Cornwall, shows that "crime rates in Cornwall are amongst the lowest in the country and in 2008/09 the all-crime rate was the lowest in our grouping of most similar policing areas nationally. All recorded crime in Cornwall has fallen by 25% over the last four years. The all-crime trend is currently following an improving path, despite a slight rise at the beginning of summer 2009". So overall, a positive picture though there have been negative trends in domestic abuse and serious acquisitive crime – defined as burglary and vehicle crime, with "localised negative trends in alcohol related violence".

The report states that the turnaround in acquisitive crime figures could be attributed at least in part, to the economic downturn. Generally "communities living in deprived areas are at considerably higher risk of victimisation" while "offenders are more likely to come from deprived areas – unemployment and substance misuse (in which unemployment may also be a factor) can be key drivers in offending". Future data should provide a clearer insight as to links between the state of the economy and crime.

Source: Community Safety Intelligence Hub, Cornwall Community Safety Strategic Assessment, Key findings, 2008/09, 26 November 2009.

5. CAB enquiries up

Recession impacts in a number of ways. One source of material is the number of inquiries dealt with by the Cornwall CAB. Data released comparing the six months – April-September 2009 compared to the same period in 2008 indicates a substantial rise in new inquiries, overall of 36%. Those related to debt increased by 41% while benefit inquiries rose by 34%. Together these two categories made up 24,014 inquiries compared to 17,401 previously.

Source: Cornwall Advice Bureaux.

C South West

6. Overview

Briefing on SW Economic Conditions, November 2009

The most recent briefing to the SW Economic Task group states that "In recent weeks, there has been some evidence that the stock cycle is bottoming out. SW firms are experiencing considerable volatility in orders and activity. Many companies are working on short time frames and, therefore, reluctant to invest and employ for future growth whilst forward visibility is poor" However, the report highlights that there is a diversity "of experience within and between sectors and firms". For example, "construction remains very weak whereas consumer services are relatively buoyant. In several sectors, there is a sense of bouncing around the bottom but, as yet, little conviction that the next trend will be sustainably upward" Concern has also been expressed over the impact of the return of the VAT rate in January to 17.5%, which it is felt "will bring sales forward ahead of Christmas and, thereby, depress early 2010".

"Already, expenditure trends are very mixed. There have been signs that big ticket items are doing a bit better, helped by the car 'scrappage' scheme and pre-tax increase activity. Also, supermarkets suggest they are reclaiming sales from the discount outfits. Other anecdotal evidence, however, suggests households are increasing savings and cutting consumption. Some fear a second wave of business failure and employment loss in early 2010"

Overall the conclusion is that "the SW recession has been milder than feared and, on some survey evidence, may now be over. There is less conviction, however, that its negative after effects will diminish significantly through the winter".

Source: South west regional economic task group, November 2009.

Growth of activity in the South West the fastest in twenty-five months. (Purchasing Managers Index)

"The South West PMI signalled further growth of the region's economy during October. The rise in output accelerated since September, as new order volumes returned to growth. There were also signs that excess capacity at South West firms was easing. The reduction in backlogs was slower than that indicated by the historical average for the series, and the pace of job cuts was at its lowest in a year".

The report indicates that although there were still redundancy programmes in operation "some companies reported that they were starting to hire new staff in response to new order gains". Input costs rose for the tenth month running, though 'high levels of competition' meant that output prices fell, for the eighth month in a row.

"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, 9 November 2009.

D United Kingdom

7. Quarterly Economic Indicators

The table below summarises the main quarterly economic indicators.

Table 2: Latest Economic Indicators		
Activity	Period	% change on a year earlier
GDP *1	09 Q3	-0.3
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

UK output, income and expenditure, 3rd quarter 2009

"UK gross domestic product (GDP) in volume terms fell by 0.3 per cent compared with the previous quarter, revised from a fall of 0.4 per cent published last month. The volume of output in the production industries fell by 0.8 per cent, within which manufacturing fell by 0.1 per cent. Gross value added excluding oil and gas fell by 0.2 per cent over the quarter. Output of the service industries decreased by 0.1 per cent. Construction output is estimated to have fallen by 1.1 per cent. In real terms, household expenditure was broadly unchanged from the level of the previous quarter, while gross fixed capital formation fell by 0.3 per cent. GDP at current market prices rose by 1.0 per cent".

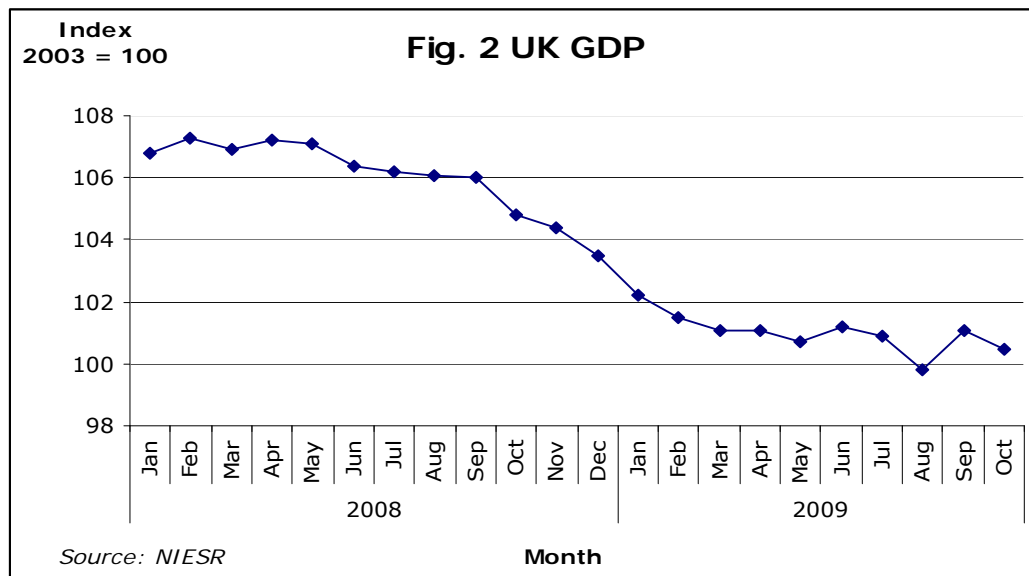
ONS, UK output, income and expenditure – 3rd quarter 2009, Statistical Bulletin, 25 November 2009.

Economy remains weak

"Our monthly estimates of GDP suggest that output fell by 0.4 per cent in the three months ending in October, following on from a similar decline in

the three months ending in September. The buoyancy of industrial production in September is good news, but a rise between May and July petered out with renewed weakness in August. The profile of the economy suggests that the current depression is probably slightly worse than the experience of the early 1980s but not as bad as that of the early 1930s”.

Fig 2. below shows monthly GDP figures since January 2008 indicating both the decline since early 2008 with the figures ‘bumping’ along since May 2009.



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

Index of Production September 2009

“In the third quarter of 2009, the seasonally adjusted chained volume index for the output of the production industries decreased by 0.8 per cent compared with the previous quarter and was 10.5 per cent lower than the third quarter of 2008. Between August and September, output of the manufacturing industries increased by 1.7 per cent (note that monthly growth rates are volatile). The most significant increases in output were 8.0 per cent in the electrical and optical equipment industries, 3.0 per cent in the transport equipment industries and 4.2 per cent in the other manufacturing industries. The most significant decrease in output was 1.0 per cent in the machinery and equipment industries”. Full details in Table 3.

Table 3: Sector Breakdown			
Sector – changes	Previous month	Previous 3 months	Same period a year ago
Manufacturing	+1.7	-0.1	
Mining and quarrying	+1.7	-4.7	-11.1
Electricity, gas and water supply	-0.3	-0.8	-9.7
Market sectors	+5.5	0.0	-12.9

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

Index of Services - September 2009

"In the quarter to September the seasonally adjusted chained volume index for the output of the Service sector decreased by 0.1 per cent compared with the previous quarter. In the latest quarter, three of the five components of the service sector decreased. There were decreases in Business services and finance, Hotels and restaurants and Government and other services. Between August and September, Service sector output increased by 0.4 per cent. The most significant increase was in Distribution". (Caution should be taken in interpreting the monthly movements in the Index of Services". Sector details in Table 4 below.

Table 4: Sector Breakdown	
Sector – changes July to September	Change
<u>Distribution</u> The most significant increases were in Motor trades and Retail.	+1.1
<u>Hotels and restaurants</u> The most significant decrease was in Canteens and catering.	-2.7
<u>Transport, storage and communication</u> Most significant increase in Other transport services.	+0.5
<u>Business services and finance</u> The most significant decrease was in Other business services and Renting of goods.	-0.3
<u>Government and other services</u> The most significant decreases were in Education, Recreation and Sewage and Refuse disposal.	-0.2

Source: ONS Index of services, September 2009, Statistical Bulletin, 25 November 2009.

New orders in the construction industry, September 2009

"Orders in the three months to September 2009 were unchanged compared with the previous three month period. Orders in the 12 months to September 2009 fell by 22 per cent compared with the previous 12 months and orders in the three months to September 2009 fell by 5 per cent compared with the same period a year earlier. In the three months to September 2009, compared with the same period a year earlier, private housing orders fell by 14 per cent but public and housing association housing orders rose by 36 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 5.

Table 5: Changes by Sector

Sector	3 months to September compared to previous quarter	Same quarter a year ago	Year to September compared to previous 12 months
Overall	0	-5	-22
Private housing	-14	-14	-44
Public housing ²	+66	+36	-7
Infrastructure	+21	+94	+37
Public non housing	-8	+13	+12
Private commercial	-16	-53	-49
Private industrial	-19	-48	-42

² NB Results from this sector volatile.

Source: ONS, New orders in the construction industry, Statistical Bulletin, 5 November 2009.

Business investment, Provisional results – 3rd quarter 2009

“Business investment, measured in chain volume terms seasonally adjusted (CVMSA), for the third quarter of 2009 is estimated to have fallen by 3.0 per cent from the previous quarter and is 21.7 per cent lower than the third quarter of 2008. The third quarter of 2009 figure is £28,393 million. The provisional estimate of business investment (CVMSA) by private and public sector manufacturing for the third quarter is estimated to have fallen by 9.5 per cent since the previous quarter and by 28.9 per cent since the third quarter of 2008. The third quarter of 2009 figure is £2,581 million”.

Source: ONS Statistical Bulletin, Business investment: provisional results, 3rd quarter 2009, 24 November 2009.

New car registrations and vehicle production

Car registrations in October 2009 were up 31.6% on October 2008 (168,942 compared to 128,352), aided by the scrappage scheme the fourth successive month of growth, while year to date figures were down 12.3% (1,685,981 compared to 1,922,771). Total vehicle production in October 2009 fell by a tenth compared to October 2008; yearly figures fell by just over two-fifths. Overall, the “pace of decline in car output slowing, October’s shortfall was smallest of the year”. Full details in Table 6.

Table 6: Vehicle Production

Production	Oct 08	Oct 09	Change	% Change
Total	127,164	114,335	12,829	-10.1
	YTD Oct 2008	YTD Oct 2009	Change	%
Total	1,480,833	875,391	605,442	-40.9

Source: Society of Motor Manufacturers and Traders Limited. 5 and 20 November 2009.

9. Labour Market Analysis

United Kingdom Labour Market Statistics

“For July to September 2009: The employment rate was 72.5 per cent and there were 28.93 million employed people. The unemployment rate was 7.8 per cent and there were 2.46 million unemployed people. The inactivity rate was 21.1 per cent and there were 8.00 million working age inactive people. The Average Earnings Index, including bonuses, rose by 1.2 per cent on a year earlier. The Average Earnings Index, excluding bonuses, rose by 1.8 per cent on a year earlier”.

All details in Table 7.

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

Table 7: Labour market indicators				
Activity		Period	Comparisons (change)	
		3M to Sep 09	3M to June 09	Year ago
Working age employment	Rate	72.5	-0.1	-1.9
In employment	No	28.93 million	+6,000	-490,000
Full-time employment	No	21.26 million	-80,000	
Part-time employment	No	7.66 million	+86,000	
Unemployment	Rate	7.8	+0.1	+2.0
Unemployment	No	2.46 million	+30,000	+629,000
Redundant	No	205,000	-63,000	+49,000
Redundancy rate (per 1000 employees)	Rate	8.2	-2.4	+2.1
Total hours worked	No	910.7 million	-7.1 million	
Average hours per week	No	31.5	-0.3	
Working age inactivity	No	8 million	+41,000	+132,000
Working age inactivity	Rate	21.1	+0.1	+0.2
Average earnings (ex bonuses) (* 3M to Sept on a year ago)	%		-0.1	+1.8
Activity		Period	Comparisons	
		June	Previous Qtr	Year ago
Workforce jobs	No	31 million	-163,000	-664,000
Activity		Period	Comparisons	
		October	September	Year ago
Claimant count	No	1.64 million	+12,900	+632,700
Claimant count	Rate	5.1	0	+1.9
Activity		Period	Comparisons	
		3M to Oct 09	3M to July 09	Year ago
Vacancies		428,000	-1,000	-154,000
Per 100 employee jobs	Rate	1.6	0	-0.6

Source: Office for National Statistics, Labour Market Statistics October 2009, Statistical Bulletin, 11 November 2009.

New earnings data

The 2009 employee earnings data showed that overall earnings for Cornwall are up compared to 2008, with higher increase than the UK average though female earnings down were down. Due to the low sample size for Cornwall, year on year changes should be treated with caution. Using a three year moving average indicates that between 1998 and 2008, full-time earnings in Cornwall increased by 52% compared to a 42% increase across the UK. Cornwall's position in the index improved by 7%.

Table 8: Median employee gross weekly earnings by place of work					
	United Kingdom		Cornwall UA		
Group	£ Median	% over 08	£ Median	Index	% over 08
All	397.3	2.2	324.3	81.6	5.4
Male	491	1.4	387.8	79	4.6
Female	309.8	3.5	255.9	82.6	-0.4
Full-time	488.7	2	402.9	82.4	5.1
Part-time	152.9	4	144.5	94.5	4.3

Source: Office for National Statistics, Annual Survey of Hours and Earnings, 12 November 2009.

10. Housing

House Building: September Quarter 2009, England

The latest data shows a third successive rise in seasonally adjusted quarterly housing starts. Annual housing starts figures are now 55% below their 2005-06 peak. All figures in Table 9.

Table 9: House building			
Category	September quarter	Previous quarter	Compared to same qtr a year ago
Starts	25,820	18	16
Private enterprise		21	20
Completions	29,050	-4	-12
Private enterprise		-8	-18
Category	12 months to Sept 09		12 months to Sept 08
Starts	93080		-35
Completions	122,800		-21

Source: Communities and Local Government, 19 November 2009.

House prices

House prices across England and Wales increased for the sixth month running. The average is now £159,546 compared to the low of £152,767 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 10.

Table 10: House Prices, Land Registry				
	Cornwall		England and Wales	
Month	Index	Average Price (£)	Index	Average Price (£)
Oct-08	351.7	195,696	264.3	165,185
Nov-08	345.5	192,248	259.2	162,041
Dec-08	339.8	189,100	252.6	157,902
Jan-09	333.6	185,599	251.2	156,998
Feb-09	326.7	181,756	246.2	153,881
Mar-09	322.6	179,479	244.8	152,987
Apr-09	321.4	178,846	244.4	152,767
May-09	316.1	175,903	244.5	152,815
Jun-09	317.2	176,474	245.2	153,247
Jul-09	318	176,964	250.4	156,523
Aug-09	320.1	178,137	251.4	157,116
Sep-09	325.1	180,887	253.8	158,627
Oct-09	327.1	182,005	255.2	159,546

Source: Land Registry. House Price Index, 27 November 2009. [Index Jan 1995 = 100].

Mortgages and lending

One-third of first time buyers make lucky stamp duty escape

“One third of first-time buyers escaped paying stamp duty in September as a result of the government’s temporary £175,000 nil-rate threshold, according to new data released by the Council of Mortgage Lenders. There were 6,200 first-time buyer loans for properties between the old threshold of £125,000 and the temporary threshold of £175,000, representing 32% of the 19,700 loans to first-time buyers in September. In addition, 7,800 first-time buyers (40%) bought properties valued below the £125,000 original threshold.

There were 50,600 loans for house purchase in September - an increase of 2% from August and 43% from September 2008. House purchase lending has now increased year-on-year for three consecutive months (following 25 consecutive year-on-year monthly falls) whilst remortgaging has continued its annualised decline, although the rate of decline moderated in September. There were 33,000 loans for remortgage - a 10% increase

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.

from August but 48% lower than September a year ago. Gross mortgage lending was 7% higher than August at £12.9 billion, but was still 25% lower than September last year”.

Source: Council of Mortgage Lenders, 11 November 2009.

Gross mortgage lending up 5% in October.

“October gross mortgage lending was an estimated £13.5 billion, a 5% rise from £12.9 billion in September but down 27% on £18.5 billion in October 2008, according to the Council of Mortgage Lenders. This is typical seasonal activity between September and October - the average monthly rise over the last decade has been 5%. The annual comparison should start to improve a little in the coming months as underlying lending volumes dropped sharply in the latter part of 2008 and early 2009. The October outcome is in line with our updated forecast for gross lending of around £141 billion for 2009 as a whole. We expect some seasonal slowdown over the remainder of this year”.

Source: Council of Mortgage Lenders, 19 November 2009.

CML – Market Commentary

The CML state that “there have been some more positive signs in recent months, both from the economy at large and the housing and mortgage markets” overall “there is a general sense that the worst has now been avoided and we are now more positive on the outlook than a year ago”. Despite the improvement “housing market activity is still considerably lower than what might be considered normal. And we are unsure of how far the recent improvement can continue”. The CML revised their mortgage arrears and possessions forecasts stating that “Our initial forecast for this year has proved far too pessimistic” largely due to the beneficial effects of low mortgage rates. “The number of borrowers behind by 2.5% or more of their mortgage is forecast to be 195,000 at the end of this year, unchanged from the end of the third quarter, and edge up to 205,000 by end-2010”. In relation to possessions “Under the assumption that interest rates remain low and government support measures are maintained at current levels, we expect a relatively modest increase in the number of possessions from 48,000 this year to 53,000 next”. “The UK mortgage book is stagnating at present, with repayments broadly matching new lending”.

Table 11: CML market forecasts November 2009

		2007	2008	2009 (F)	2010 (F)
Residential property transactions, UK	Millions	1.613	0.9	0.81	0.85
	Gross advances £bn	363	253	141 (-145)	150
	Net lending £bn	108	40	8 (-5)	15
Arrears, 2.5% or more of outstanding balance at end period	No	127,800	182,600	195000 (-360,000)	
	% of all mortgages	1.08	1.57	1.76	1.85
Possessions in period	No	25,900	40,000	48000 (-65000)	53,000
	% of all mortgages	0.22	0.34	0.43	0.48

Source: Council of Mortgage Lenders, 12 November 2009.

11. Retail, inflation and prices

Retail Sales - October shows annual growth of 3.4 per cent

“Between September and October, total sales volume increased by 0.4 per cent. Predominantly food stores decreased by 0.1 per cent while predominantly non-food stores increased by 0.6 per cent.

Sales volume in the three months August to October 2009 increased by 1.1 per cent when compared to the previous three months. Three-monthly growth increased by 0.4 per cent for predominantly food stores while predominantly non-food stores increased by 0.9 per cent. Total sales volume in the three months to October was 2.8 per cent higher than the same period a year ago. Sales volume for predominantly food stores increased by 2.6 per cent. Predominantly non-food stores increased by 1.8 per cent.

Year on year, the volume of retail sales in October 2009 was 3.4 per cent higher than in October 2008. Predominantly food stores increased by 1.6 per cent compared to the same period a year ago. Predominantly non-food stores increased by 3.5 per cent. Within predominantly non-food stores, all sectors showed growth apart from other stores which decreased by 4.7 per cent. The largest rise was textile, clothing and footwear stores at 10.7 per cent, driven by clothing. Non-store retailing and repair increased by 15.8 per cent.

The seasonally adjusted value of retail sales for October 2009 was 3.0 per cent higher than in October 2008 and the three months to October 2009 was 2.3 per cent higher than the same period a year earlier”.

Source: ONS, Retail Sales, Release, 25 November 2009.

Stabilising fuel prices leads to CPI rise

“CPI annual inflation – the Government’s target measure – was 1.5 per cent in October, up from 1.1 per cent in September. By far the largest upward pressure affecting the change in the CPI annual rate came from transport. The largest upward effect within transport came from fuels and lubricants, where prices fell by 0.7 per cent between September and October this year but fell by a record (for a September to October period) 6.1 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.

In the year to October, RPI annual inflation fell by 0.8 per cent, compared with a fall of 1.4 per cent in September. The last time there was an increase in the annual inflation rate greater than 0.6 per cent was between July and August 1990, when the rate increased from 9.8 per cent to 10.6 per cent. In October 2009, the main factors affecting the CPI also affected the RPI; however, the different methods used to measure the price of new cars in the CPI and RPI resulted in a larger upward contribution to the RPI (compared with the CPI) from the purchase of vehicles. Additionally, there

was upward pressure from housing, mainly due to house depreciation (depreciation is excluded from the CPI); this is due to the fact that house prices are increasing this year but were falling a year ago.

As an internationally comparable measure of inflation, the CPI shows that the UK inflation rate in September, at 1.1 per cent, was above the provisional figure for the European Union as a whole of 0.3 per cent”.

Source: ONS, News Release, 17 November 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, 13 October 2009.

Producer prices, October 2009

“The output price index for home sales of manufactured products rose 1.7 per cent in the year to October, compared with a rise of 0.4 per cent in the year to September. The index rose 0.2 per cent between September and October, mainly reflecting price rises in electrical products, transport equipment, alcohol and tobacco, and petroleum products. The output price index excluding excise duties rose 0.8 per cent in the year to October. The index rose 0.2 per cent between September and October. The output price index excluding food, beverages, tobacco and petroleum rose 2.0 per cent in the year to October. The index rose 0.3 per cent between September and October”.

Source: ONS, Producer Prices, Statistical Bulletin, 6 November 2009.

12. Consumer confidence

Confidence steadies in October

- “Consumer confidence remains unchanged on 72 points in October.

- Despite a two point fall to the Expectations Index, confidence in the future situation remains high when compared to historical scores.
- The Present Situation Index increases for the third month in a row to 22 points.
- No change recorded in the Spending Index during October.
- The Expectations Index recorded a two point fall in October but most consumers expect the economy to be the same or better in six months' time.
- Confidence in future household incomes fell back slightly.
- 10% of consumers in October believe the current economic situation to be good, up from 7% the previous month.
- The percentage of people who believe the current economic situation to be bad falls".

"While overall confidence among consumers remained static during October we did see some small adjustments to consumers' perceptions of current employment and economic conditions, and their expectations of where these will be in six months' time. It was largely expected that official figures released in October would show that the UK has come out of recession and this, along with further rises in house prices, may have helped to buoy positive sentiment towards the current situation during the month. Surprisingly, however, the UK's gross domestic product was reported to have contracted for the sixth consecutive quarter. Nonetheless, there does appear to be a growing belief among consumers that, while the current situation is still somewhat downbeat, the future outlook is brighter." Martin Gahbauer, Nationwide's chief economist.

[**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, 5 November 2009.

Consumer Confidence takes a backward step

The GfK NOP Consumer Confidence Index dropped by four points this month to -17. Confidence in "general economy" over the last 12 months has reversed by six points to -59. The 'major purchase Index', has fallen seven points to -19.

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

13. Finance

Public sector finances October 2009

"The main statistics released show, that in October **2009**: the **public sector current budget** was in **deficit** by **£7.7** billion; this is a **£9.9** billion **higher deficit** than in October 2008, when there was a **surplus** of **£2.2** billion;

public sector net borrowing was **£11.4** billion; this is **£11.3** billion **higher** net borrowing than in October 2008, when net borrowing was **£0.1** billion;

the **public sector net cash requirement** (see table PSF4) was **£5.9** billion, a **£8.4** billion **higher** net cash requirement than in October 2008, when there was a net cash requirement of **£-2.5** billion (i.e. a repayment). at the end of October 2009 **public sector net debt** was **£829.7** billion (equivalent to **59.2** per cent of GDP). This compares to **£695.1** billion (**48.6** per cent) as at the end of October 2008.

Public sector net debt (excluding financial sector intervention)

The most recent figures for public sector net debt (excluding financial sector intervention) are for September 2009, when net debt was **£681.1** billion (48.7 per cent of GDP)

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

In financial year 2009/10:

the **public sector current budget** was in deficit by **£68.2** billion; this is a **£46.0** billion **higher** deficit than in the same period of 2008/09, when there was a deficit of **£22.2** billion;

public sector net borrowing was **£86.9** billion. This was a **£53.1** billion **higher** net borrowing than in the same period of 2008/09, when there was net borrowing of **£33.9** billion;

the **public sector net cash requirement** (see table PSF7) was **£81.6** billion; **£62.5** billion **higher** net cash requirement when compared with the same period of 2008/09 when there was a net cash requirement of **£19.2** billion”.

NB. Monthly data can be volatile, so it can be misleading to read too much into one month’s data.

Source: ONS and Treasury, 19 November 2009.

Bank of England, Trends in Lending, November 2009

“The flow of net lending to UK businesses remained negative in September and lending to companies fell across all the main sectors of the economy in 2009 Q3. Net capital market issuance has slowed in recent months, which lenders attributed to many businesses having already raised the funding planned for 2009 earlier in the year. Syndicated lending remained weak. The major UK lenders expected demand for new lending to remain subdued during the remainder of the year. While some business contacts of the Bank’s Agents — particularly from larger firms outside of the property sectors — reported that credit availability had eased, many others continued to report concerns over access to finance. The major UK lenders reported that an increase in competitive pressures had led to some narrowing of spreads on lending to larger businesses”.

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

Lending to individuals: October 2009

"**Total net lending to individuals** rose by £0.3 billion in October. The twelve-month growth rate fell to 0.7%, and the three-month annualised growth rate increased 0.3 percentage points to 0.5%. Within the total, **net lending secured on dwellings** increased by £0.9 billion, in line with the September increase and above the previous six-month average of £0.6bn. The twelve-month growth rate was unchanged, at 0.8%. The three-month annualised growth rate increased 0.4 percentage points to 1.0%. Within total secured lending, secured lending by banks (excluding the effects of securitisations) increased by £3.1 billion, slightly below the September increase (£3.3bn) but above the six-month average of £2.6bn.

The **number of loan approvals for house purchase** (57,345) was above the September figure (56,205) and above the previous six-month average, whereas approvals for **remortgaging** (24,596) were below both the September figure and the previous six-month average. The number of loans approved for **other purposes** (29,195) was higher than in September and higher than the previous six-month average.

Consumer credit fell by a net £0.6 billion, below the previous six-month average of -£0.1bn. **Credit card lending** increased by £0.1 billion and **other loans and advances** fell by £0.7 billion. The annual growth rate of consumer credit continued to fall, to -0.1%; the three-month annualised growth rate fell to -2.2%".

Source: Bank of England, Statistical Release, Lending to individuals, 30 November 2009.

14. Reviews

UK Q3 GDP breakdown raises concerns over rebalancing

The latest Lloyds TSB economic review looks at the most recent economic data in more detail. It points out that improvements in the net trade balance has been driven by a fall in imports rather than increase in exports, which "is not the basis of a sustainable recovery". This is a worrying feature as the decline in sterling's value together with the rise in global growth was expected to boost exports. Their forecast for recovery, as do others "relies heavily on a sustained improvement in the UK's external trade balance. If this fails to occur, there is a real risk that the UK could undergo a double-dip. This is because we believe there is little prospect of domestic demand improving substantially, given ongoing credit constraints, the desire of the private sector to repair balance sheets and the fiscal tightening anticipated over the coming years".

The report contrasts the position of the UK with the recent progress made by other developed economies – France, Germany and the US. "The recoveries in these other economies, however, have been built on different foundations – some of which are likely to be sustainable, others less so".

Source: LloydsTSB, Economics Weekly, 30 November 2009.

E International perspective

15. Data

Industrial production up in EU

"In September 2009 compared with August 2009, seasonally adjusted industrial production grew by 0.3% in the euro area (EA16) and by 0.2% in the EU27. In August production increased by 1.2% and 0.8% respectively. In September 2009 compared with September 2008, industrial production declined by 12.9% in the euro area and by 12.1% in the EU27. Among the Member States for which data are available, industrial production rose in seven, fell in eleven and remained stable in the Netherlands. The highest increases were registered in Ireland (+11.2%), Germany (+3.0%) and Sweden (+1.6%), and the most significant falls in Italy (-5.3%), Portugal (-3.3%) and Bulgaria (-2.6%). Annual comparison. Industrial production fell in all Member States for which data are available. The largest decreases were registered in Estonia (-29.5%), Finland (-23.2%) and Bulgaria (-19.3%), and the smallest in Ireland (-0.7%), Poland (-1.3%), and Romania (-3.6%)".

Source: Eurostat, Euro Indicators, News Release 160/2009 - 12 November 2009.

Second estimates for the second quarter of 2009

"Euro area (EA16) GDP fell by 0.2% and EU27 GDP by 0.3% during the second quarter of 2009, compared with the previous quarter, according to second estimates from Eurostat, the Statistical Office of the European Communities. In the first quarter of 2009, growth rates were -2.5% in the euro area and -2.4% in the EU27. In comparison with the same quarter of the previous year, seasonally adjusted GDP declined in the second quarter of 2009 by 4.8% in the euro area and by 4.9% in the EU27, after -4.9% and -4.8% respectively in the previous quarter".

Eurostat Euro Indicators, News Release, 144/2009 - 7 October 2009

EU GDP Flash estimates for the third quarter of 2009

"GDP increased by 0.4% in the euro area (EA16) and by 0.2% in the EU27 during the third quarter of 2009, compared with the previous quarter, according to flash estimates published 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 same quarter of the previous year, seasonally adjusted GDP decreased by 4.1% in the euro area and by 4.3% in the EU27 in the third quarter of 2009, after -4.8% and -4.9% respectively in the previous quarter. During the third quarter of 2009, US GDP increased by 0.9% compared with the previous quarter, after -0.2% in the second quarter. US GDP decreased by 2.3% compared with the same quarter of the previous year (-3.8% in the previous quarter)".

Source: Eurostat Indicators, News Release, 161/2009 - 13 November 2009

OECD composite leading indicators continue to show strong signals of recovery

“OECD composite leading indicators (CLIs) for September 2009 point strongly to growth in Italy, France, United Kingdom and China, while tentative signals of expansion have emerged in Canada and Germany. A recovery is clearly visible in the United States, Japan and all other OECD economies and major non-OECD economies. Although expansion signals can be observed in several countries, these signals should be interpreted with caution, as the expected improvement in economic activity, relative to long term potential levels, can be partly attributed to a decrease in the estimated long term potential level and not solely an improvement in economic activity itself.” Detailed figures in Table 12.

Table 12: Composite leading indicators			
	Sept 2009 change	Year on year change (latest month)	Growth cycle outlook
OECD area	1.3	3.4	Recovery
Euro area	1.4	6.3	Expansion
Canada	1.6	4.6	Recovery
France	1.3	8.4	Expansion
Japan	1.3	-0.7	Recovery
Germany	2.0	5.7	Recovery
Italy	1.3	10.8	Expansion
UK	1.7	7.0	Expansion
USA	1.4	1.4	Recovery
Brazil	0.4	-7.1	Recovery
China	1.6	7.0	Expansion
India	0.8	2.7	Recovery
Russia	1.5	-6.7	Recovery

Source: OECD, Paris, 6 November 2009 OECD Composite Leading Indicators News Release.

16. Reports and reviews

OECD, Economic Outlook no. 86. Preparing the exit

“The recovery that began earlier this year in a number of non-OECD economies has now spread to the OECD area at large. But in most OECD economies, growth is likely to fluctuate around a modest underlying rate for some time to come. It is being held back by still substantial headwinds as households, financial institutions, non-financial enterprises and, eventually, governments have to repair their balance sheets. This also means that unemployment is set to move higher and already-low inflation will be under further downward pressure. It is only some time down the line that the recovery will become sufficiently strong to begin to reduce unemployment.

United Kingdom. The economy is set for recovery, supported by improving financial conditions, an expansionary monetary policy and stronger international growth. However, the pick-up will be slow with GDP projected to grow by slightly more than 1% in 2010 reflecting strong headwinds from balance sheet adjustments, a still weakening labour market and fiscal tightening. In 2011 the recovery will gain momentum, but resource utilisation will remain low and the unemployment rate is projected to reach 9.5%. Inflation is likely to remain below the 2% target for an extended period.

Financial sector support, monetary easing and fiscal stimulus have cushioned the downturn. While monetary policy should remain expansionary over the projection period, normalisation of interest rates will probably need to start in 2011. The weak fiscal position makes further consolidation necessary; an announcement of concrete and comprehensive consolidation plans upfront would enhance macroeconomic stability. Strengthening financial regulation and supervision would also support stability and hinder a build-up of new imbalances at historically low interest rates.

Source: OECD, Press Conference Paris, 19 November 2009

European Central Bank, Monthly Bulletin November.

The latest European Central Bank Monthly Bulletin reiterates recent reports which show "that the significant contraction in global economic activity has come to an end and that the world economy has started growing again". The bulletin cites the global Purchasing Managers' Index which recorded its highest level of output in the manufacturing sector for more than three years. October showed the fifth consecutive month of growth. "Global inflation rates have remained slightly negative, owing to base effects related to commodity prices and elevated spare capacity". Recent rises in commodity prices were partly responsible for "marked increases in global purchasing prices in October". The bulletin indicates that emerging Asia has seen continued recovery with unemployment starting to decline in some economies. "In China, annual real GDP growth remained robust, accelerating to 8.9% in the third quarter of 2009... largely dependent on the fiscal stimulus".

The bulletin also places the current recession, which it considers as "its most severe crisis since the Great Depression in the 1930s", in its historical context. It attributes this to "a combination of macroeconomic factors, developments in financial markets and significant deficiencies in the regulatory and supervisory architecture, which prepared the ground for a financial crisis. The financial system as it worked over the decade leading up to the crisis – with its inappropriate incentives and overly complex products, and with global imbalances as its macroeconomic backdrop – involved an excessive degree of risk-taking".

The bulletin explores the factors underlying the global nature of the downturn, indicating that the view "that the global economy could "decouple" from the downturn in the United States" was misplaced in that although the shock originated in the US, "it has acted as a trigger for

vulnerabilities that were common across countries and regions... The shock was, therefore, global in nature and its transmission triggered a synchronised downturn". Four factors were identified – "the synchronised fall in manufacturing output and world trade; international supply chains and the contraction in world trade; synchronisation and financial markets; and confidence linkages". In common with other reports, it is suggested that recovery will be gradual with high levels of uncertainty involved as balance sheets are adjusted and fiscal consolidation replaces fiscal expansion.

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

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

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