



Economy Monitoring

Monthly Update, September
2009

30 Sept 2009

Environment, Planning and Economy

Economy Monitoring Summary, September 2009

- **Recent analyses** support the view that the global economy is on the road to recovery, possibly earlier than expected. However, such a recovery could well be uneven and protracted with the IMF arguing for continued governmental stimuli to ensure sustainability, while also developing exit strategies to implement at an appropriate point.
- In **Cornwall** the **jobseeker total fell again**, in line with seasonal expectations and contrasts with a dramatic rise a year ago. Vacancy figures increased above both GB and SW England rates. Whereas house prices across England and Wales fell, **house prices rose marginally**. UK service sector output appeared better in sectors more common in Cornwall.

SW

- On the output front, for the fourth successive month the August **Purchasing Managers Index rose** across the SW. [The index is based on monthly survey data].
- The regional briefing suggests that though the regions labour market had performed relatively well there fears of new redundancies in the autumn.

UK

- **Confidence levels amongst consumers edged up in August.**
- **Output data** appears to have stabilised with evidence of the first increase in output since May 2008. **Construction** orders rose though output fell slightly.
- Across the UK, **unemployment and the claimant count continue upwards**, which is expected as they are both lagging indicators. However, survey data indicated a marginal though encouraging rise in permanent and temporary staff appointments.
- The **housing sector continues to provide a mixed picture**. House prices across England and Wales fell back after previous increases. Gross mortgage lending fell in August compared to a rise in July, though this seasonal effect was expected. However, whether recent house price increases will be sustained has been questioned with some speculation of further falls in 2010.
- **CPI Inflation continues to fall**, now down to 1.6%, with fears of deflation receding.
- **Retail sales by volume and value continue upwards**, also running higher than a year ago.
- The growth rate of total net lending and consumer credit continues to **fall**.

A	Introduction	3
1.	Commentary – conflicts and paradoxes in policy formulation	3
B	Cornwall	4
2.	Labour Market Analysis	4
3.	House Prices	7
C	South West	7
4.	Overview	7
D	United Kingdom	8
5.	Quarterly Economic Indicators	8
6.	Output	9
7.	Labour Market Analysis	14
8.	Housing	16
9.	Retail, inflation and prices	18
10.	Consumer confidence	19
11.	Finance	20
12.	Reviews	22
E	International perspective	24
13.	Reports and reviews	24

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 – conflicts and paradoxes in policy formulation

Overall, recent economic data suggest that the worst may be over. This is particularly true of output though the position of the labour market is expected to continue to deteriorate. A consensus appears to be emerging that the recovery will be sluggish and protracted as consequence of the decline in global trade, low levels of lending and withdrawal of government fiscal stimuli.

One result of the downturn has been a dramatic decline in lending both to households and businesses. In fact in July net lending to consumers was negative as repayments outweighed payments. Businesses have tended to retain any surpluses or to repay debt rather than borrow, in banking terms to deleverage. These effects are common responses to an economic downturn and there are good economic reasons for a rebalancing of household finances through reducing dependence on debt financing of

spending and increasing household savings. However, this impacts on consumer demand, whilst new investment will be limited if businesses concentrate on reducing debt, again reducing demand for goods and services. This suppression of demand will make any recovery more protracted.

The impact of a lack of demand perpetuating recession was a fundamental element of Keynes analysis of recessions, which resulted in the policy response of greater government spending, an approach recently followed by a number of Governments. Concern has been expressed by the Managing Director of the IMF that a premature withdrawal of stimulus measures by governments could retard any recovery. The potential impact of Government spending cuts needs to be assessed within this context.

As well as Government stimuli, recovery in output can be attributed to inventory restocking as firms rebuild following earlier cutbacks. However, in itself this will not be sufficient to ensure sustainable growth.

What the preceding analysis shows is that attempting to achieve a balance between the conflicting goals -reducing the level of borrowing (private and public), yet stimulating demand to maintain output and cut unemployment, is likely to be problematical as the IMF indicate.

B Cornwall

2. Labour Market Analysis

The latest claimant count data for August was released on 16th September 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 8,064. The last time Cornwall's August figure was higher than this was in 2000 when it equalled 8,395. Since July numbers in Cornwall have decreased by 35. Within the SW, 7 of the 16 County/Unitary areas saw a decline in numbers from the previous month. The largest falls in percentage terms (excluding IoS), were Swindon (-1.5%), Devon (-1.2%), and Plymouth (-1.0%). Conversely, other areas saw an increase in numbers, Bath and NE Somerset (+4.3%), Torbay (+3.7%), South Gloucestershire (+1.9%), Dorset (+1.7%), Somerset (+1.7%), and Wiltshire (+1.6%).

The UK showed an increase of 1.8%, while across the SW the situation was stable. Since August 2008 the number of claimants in Cornwall has risen by 3,380 or 70%. This compares to an increase of 73% across the UK and 97% across the South West. Figure 1 illustrates the number of claimants on a monthly basis for 2007, 2008 and 2009.

below 1.0 indicates there are fewer vacancies than claimants. Currently Cornwall is performing better than GB and SW with a ratio of 0.40, (SW 0.32, and Britain 0.22) – Table 1. The August 2009 figures are all below the figures for August 2008.

Table 1: Vacancy to claimant ratio comparisons									
	Great Britain			South West			Cornwall		
Date	Claimant	Vacancies	Ratio	Claimant	Vacancies	Ratio	Claimant	Vacancies	Ratio
Aug-08	894,678	405,470	0.45	48,017	32,886	0.68	4,734	2,827	0.60
Jul-09	1,521,709	266,020	0.17	94,346	23,681	0.25	8,099	2,325	0.29
Aug-09	1,548,678	341,538	0.22	94,712	30,109	0.32	8,064	3,192	0.40

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

An analysis of vacancy data shows that lower level occupations are over represented in terms of the additional jobs available. The most obvious example is that of Sales and Customer Service occupations which account for 27.5% of additional vacancies but only 7.2% of the occupations in 2008. Conversely, vacancies for Managers and Senior Officials constituted only 3.1% of the total whereas the APS figure was 16.4%. This discrepancy however, might be an indication that such jobs are less likely to be advertised in jobcentres.

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

Unemployment

Unemployment figures (as opposed to Jobseekers Allowance figures) for Cornwall are only available up to December 2008. The latest figures give a total of 14,800 for those aged 16+ and 13,700 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. Table 5 shows the figures for those aged 16+ and those of working age since 2004. Source: NOMIS. [Unemployed people are those:

- without a job, want a job, have actively sought work in the last four weeks and are available to start work in the next two weeks or;
- out of work, have found a job and are waiting to start it in the next two weeks. They will include those on JSA].

Employment news

Further job losses were recorded, with 33 losses in food processing and another six in manufacturing during August. September losses included retail in St Austell (8), manufacturing Lostwithiel (6), electrical Redruth (9). Other losses include a recruitment company and estate agents in Truro. Of the 150 expected losses from a road contractor highlighted earlier in the year, 100 are now going.

Sources: Various news reports

3. House Prices

House prices across Cornwall rose in August compared to July, up by £262. Using the revised figures this is the third month of increases. Despite the slight downward movement across England and Wales, trends in Cornwall are consistent with England and Wales data, suggesting that prices are stabilising. Since the peak of April 2008, average prices in Cornwall have fallen by 16.1%, (from £210,468 down to £176,668), the comparative figure for England and Wales is 14.4%.

Source: Land Registry. House Price Index, 28th September 2009.

C South West

4. Overview

Briefing on SW Economic Conditions, September 2009

The briefing follows current thinking that "2010 will be a year of modest output recovery and still low inflation." It suggests that for South West England, there will be "an opportunity to repair household balance sheets, to adjust business capacity and to prepare for the fiscal cutbacks that will follow the next turn in the political cycle. There remains a need for continued careful, but forward looking, assessment of regional development priorities." In terms of the labour market the briefing highlights the relatively better performance of the SW compared to most other English regions. "In the last year, from a lower base, SW unemployment has gone up by 40% whereas the UK total has increased by 45%. The regional rate now stands at 6.4% of the workforce."

In terms of the SW housing market the feeling is that it "shows some signs of stabilisation and potential recovery. Transactions are still low but they have moved off the bottom. Prices appear to have stopped falling – hopefully not too soon. Mortgage lending has also come up a bit but is nowhere near what it was in the "boom": loan-to-value ratios are dropping. Repossessions, however, are still climbing and house building remains very subdued." The briefing emphasises the need for greater stability in the housing market stating that "the real fear after the bursting of, and the fall out from, the latest "bubble" is that issues about the fundamental disequilibrium in the SW regional housing sector are allowed to persist and to kick off another cycle of "boom and bust"."

There is a fear of further job losses with "a wide range of new redundancies are expected/announced/rumoured in every part of the region and across many industry sectors this autumn. This includes financial services, manufacturing, retail outlets and other manufacturers and services." Hence, the conclusion is that "there is more bad news to come in terms of jobs and some firm closures. The SW recovery is expected to be weak, volatile and protracted."

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

Growth of activity in South West private sector remained robust in August.

The latest Purchasing Managers Index data indicated that “the South West economy posted a further expansion in August” for the fourth month in a row. However, this was partly attributable to firms reducing backlogs rather than new business. Spare capacity was frequently mentioned by survey panellists. Most output growth was due to the service sector with the as manufacturing orders were weak. As input costs rose and output prices continued to fall, pressure on margins increased. “Input costs for private sector companies in the South West continued to rise during August. However, the rate of inflation eased to the slowest in three months. In contrast, output prices continued to decrease, dropping for a sixth consecutive month in August.” Although output might be rising, “companies in the South West private sector continued to cut staff numbers at a marked rate in August. The rate of contraction was faster than the UK average.” “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, 14th September 2009.

D United Kingdom

5. 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	Q2 09	-0.6
Service sector output * 1	3m to July	-0.2
Industrial production	3m to June	-11.8
Manufacturing output	3m to June	-12.5
Manufacturing productivity	Q3 08	2.4
Households' consumption	Q4 08	-0.8
Whole economy investment	Q4 08	-3.1

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

6. Output

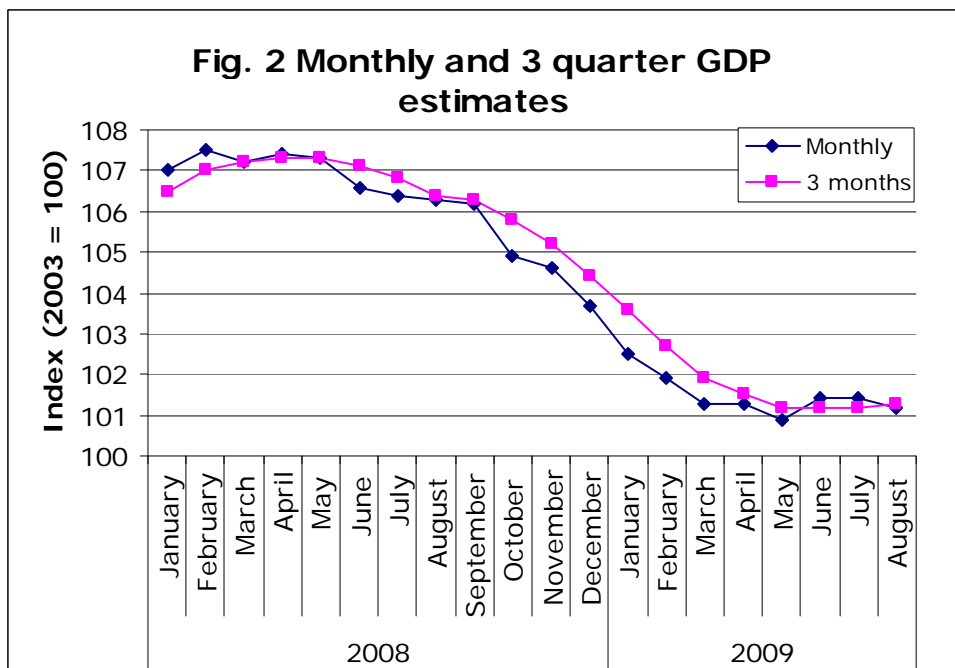
Revised GDP, 2nd quarter 2009

“UK gross domestic product (GDP) in volume terms fell by 0.6 per cent compared with the previous quarter, revised from a fall of 0.7 per cent published last month. The level of GDP is now 5.5 per cent lower than the second quarter of 2008. Between the first and second quarter of 2009: The total volume of output in the production industries fell by 0.5 per cent, within which manufacturing output fell by 0.1 per cent. Construction output fell by 0.8 per cent over the quarter. The output of the service industries decreased by 0.6 per cent. The household saving ratio was 5.6 per cent in the latest quarter compared with 3.9 per cent in the previous quarter. Real households' disposable income rose by 0.9 per cent in the latest quarter following a 1.0 per cent fall in 2009 quarter one.”

Source: ONS Quarterly National Accounts, Statistical Bulletin, 29th September 2009.

First three-month rise in GDP since May 2008

“Our monthly estimates of GDP suggest that output rose by 0.2% three months ending in August after a decline of 0.3% in the three months ending in July. This is the first time our GDP indicator has been higher over a three month average since May of 2008 and reinforces our view that the recession ended in May of this year. There may well be a period of stagnation now, with output rising in some months and falling in others; the end of the recession should not be confused with a return to normal economic conditions.” Figure 2 shows the trend in GDP since January 2008.



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

Index of production – June 2009

“In the three months to July 2009, the seasonally adjusted chained volume index for the output of the production industries was unchanged compared with the previous three months and was 10.7 per cent lower than the same three month period a year earlier. In the latest three months, manufacturing output increased by 0.2 per cent, mining and quarrying output decreased by 0.9 per cent and output of the electricity, gas and water supply industries decreased by 0.7 per cent, compared with the previous three months.

Between June and July, output of the manufacturing industries increased for the second consecutive month, rising by 0.9 per cent. The most significant increases in output were 3.8 per cent in transport equipment industries, 3.3 per cent in chemicals and man made fibres industries and 3.4 per cent in rubber and plastic products industries. The most significant decreases in output were 2.5 per cent in electrical and optical equipment industries and 1.4 per cent in paper, printing and publishing industries.” Full details in Table 3.

Table 3: Sector Breakdown			
Sector – changes	Previous month	Previous 3 months	Same period a year ago
Manufacturing	0.9	0.2	
Mining and quarrying	-1	-0.9	-7.3
Electricity, gas and water supply	-0.2	-0.7	-9.3

Source: ONS Index of production, Statistical Bulletin, 8th September 2009.

Index of Services - July 2009

“In the three months to July the seasonally adjusted chained volume index for the output of the Service sector decreased by 0.2 per cent compared with the previous three months. In the latest three months, three of the five components of the Service sector decreased in output. The most significant decrease was in Business services and finance. Between June and July, Service sector output was unchanged. Four of the five components increased. The most significant increase was in Government and other services. The only decrease was in Business services and finance.” Sector details in Table 4 below.

Table 4: Sector Breakdown

Sector – changes May to July	Change
<u>Distribution</u> the increase was driven by Retail. Wholesale also increased while Motor trades decreased in output.	+0.5
<u>Hotels and restaurants</u> The most significant decrease was in Canteens and catering.	-2.2
<u>Transport, storage and communication</u> The most significant decreases were in Post and telecommunications and Land transport.	-0.7
<u>Business services and finance</u> The most significant decreases were in Other business services and Computer services.	-0.4
<u>Government and other services</u> The most significant increase was in Health and social work.	+0.1

Source: ONS Index of services, July 2009, Statistical Bulletin, 30th September 2009.

New orders in the construction industry, July 2009

“Orders in the three months to July 2009 rose by 2 per cent compared with the previous three month period. Orders in the 12 months to July 2009 fell 24 per cent compared with the previous 12 months but orders in the three months to July 2009 fell by 10 per cent compared with the same period a year earlier. In the three months to July 2009 compared with the same period a year earlier, private housing orders fell by 35 per cent and public and housing association housing orders fell by 12 per cent. All orders figures quoted are seasonally adjusted and in constant (2005) prices.” Changes by sector in Table 5.

Table 5: Changes by Sector

Sector	3 months to July compared to previous quarter	Same quarter a year ago	Year to July compared to previous 12 months
Overall	+2%	-10%	-24%
Private housing	-7%	-35%	-48%
Public housing	+15%	-12%	-16%
Infrastructure	+26%	+59%	+25%
Public non housing	-1%	+22%	+12%
Private commercial	-11%	-45%	-44%
Private industrial	-28%	-40%	-36%

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

Output in the construction industry, 2nd quarter 2009

“The total volume of construction output in the second quarter of 2009 fell by 0.5 per cent compared with the first quarter of 2009. This small fall follows a large fall in the first quarter of 2009 of 8 per cent. All new work rose by 1 per cent while repair and maintenance fell by 2 per cent. The total volume of construction output in the 12 months to the second quarter of 2009 fell by 10 per cent compared with the previous 12 month period.” As Table 6 shows, increases occurred in public sector related areas.

Table 6: Changes by Sector

Sector	In 12 months to Q2	Compared to Q1
New work	-12%	1%
New private housing	-28%	-3%
Public housing	-7%	3%
Infrastructure	6%	8%
Private industrial	-31%	-11%
Private commercial	-16%	-7%
Public non-housing	21%	12%

Source: ONS, Output in the construction industry, 2nd quarter 2009, Statistical Bulletin, 8th September 2009.

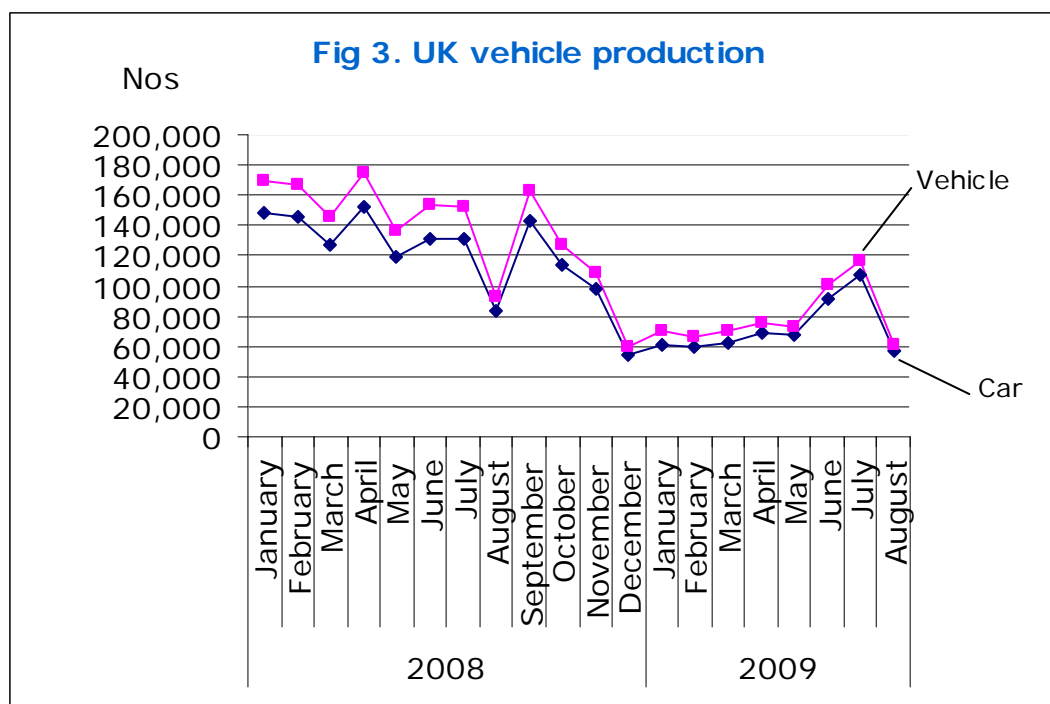
New car registrations and vehicle production

Car registrations in August 2009 were up 6% on August 2008 (67,006 compared to 63,225), aided by the scrappage scheme the second successive growth in 15 months, while year to date figures were down 21.5% (1,149,110 compared to 1,464,124). Total vehicle production in August 2009 fell by a third compared to August 2008; yearly figures fell by half, full details in Table 7.

Table 7: Vehicle Production

Production	Aug 08	Aug 09	Change	% Change
Total	92,214	61,558	30,656	-33.2%
	YTD Aug 2008	YTD Aug 2009	Change	%
Total	1,190,388	631,724	558,664	-46.9%

Fig. 3 shows production trends since January 2008. August production fell compared to July, following a similar pattern to 2008, though the overall production levels are still lower than in the previous year.



Source: Society of Motor Manufacturers and Traders Limited. 4th and 25th September 2009.

Business investment, revised results – 2nd quarter 2009

Investment continues to decline, though construction and other production figures rose over Q1. [All data measured in chain volume terms seasonally adjusted (CVMSA)]. Comparative details in Table 8.

Table 8: Business investment			
Component	Q2 Actual (£ million)	Q2 to Q1	Q2 2009 to Q2 2008
Overall	29,278	-10.2	-21.8
Manufacturing	2,853	-16.2	-21.4
Construction and other production	5,108	12.7	-1.4
Services	20,273	-13.8	-26.5
Non manufacturing public corporations	1,045	-7.7	1.1

Source: ONS, Businesses investment, Statistical Bulletin, 25th September 2009.

7. Labour Market Analysis

United Kingdom Labour Market Statistics - July 2009

"The employment rate and the number of people in employment have fallen. The number of vacancies has fallen. The number of unemployed people, the unemployment rate and the claimant count have increased. The number of inactive people of working age and the inactivity rate have increased. Growth in average earnings, both excluding and including bonuses, has fallen." All details in Table 9.

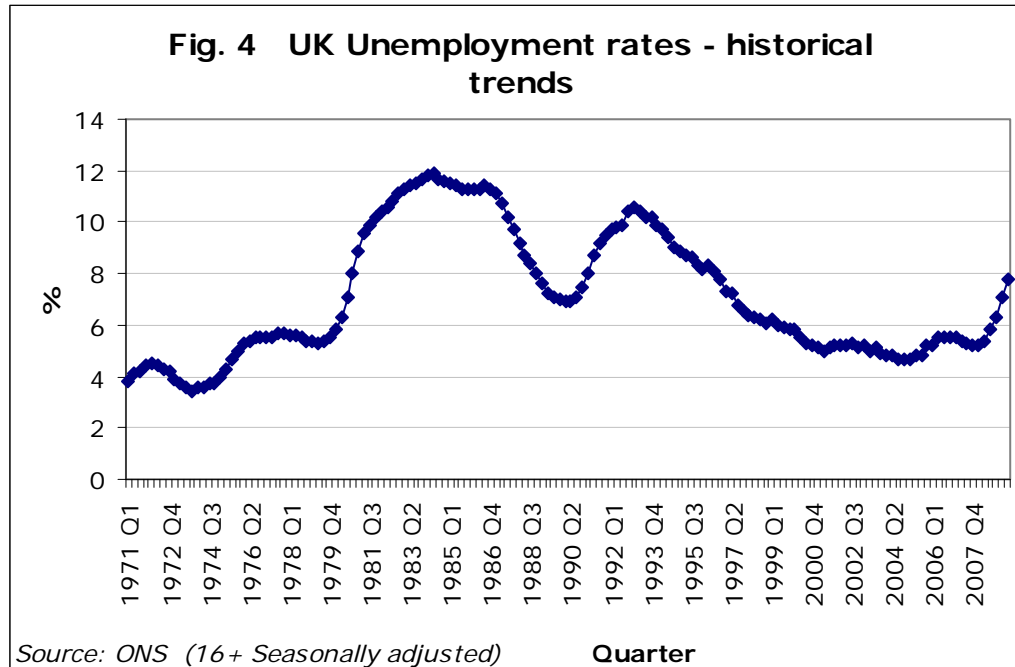
NB Claimant count figures for August are provisional and likely to be revised in the future.

Table 9: Labour market indicators				
Activity	Period	Period	Comparisons (change)	
		3M to July 09	3M to April 09	Year earlier
Working age employment	Rate	72.5	-0.8	-2.1
In employment	Number	28.89 million	-217,000	-600,000
Full-time employment	Number	21.31 million	-297,000	
Part-time employment	Number	7.58 million	+80,000	
Unemployment	Rate	7.9%	+0.7	+2.3
Unemployment	Number	2.47 million	+210,000	+743,000
Redundant	Number	246,000	-55,000	107,000
Total hours worked	Number	908.7 million	-10.2 million	
Average hours per week	Number	31.5	-0.1	
Working age inactivity	Number	7.99 million	+97,000	+125,000
Working age inactivity	Rate	21.1	+0.2	+0.2
Average earnings	%		+2.4	+2.2
Activity	Period	Period	Comparisons	
		June	3M to Mar 09	Year earlier
Workforce jobs	Number	31.0 million	-163,000	-664,000
Activity	Period	Period	Comparisons	
		August	Previous month	Year earlier
Claimant count	Number	1.61 million	+24,400	+693,700
Claimant count	Rate	5.0	+0.1	+2.1
Activity	Period	Period	Comparisons	
		3M to August 09	3M to May 09	Year earlier
Vacancies	Number	434,000	-12,000	-174,000
Per 100 employee jobs		1.7	0	-0.7

Source: Office for National Statistics, Labour Market Statistics August 2009, Statistical Bulletin, 16th September 2009.

Unemployment trends

Figure 4 shows the trends in unemployment since 1971. The peaks of the two previous recessions are clearly shown.



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

Slight growth of permanent and temporary staff appointments in August

"Today's report signals a return to growth of both permanent and temporary staff appointments during August, albeit only marginal. Latest survey data signalled marginal increases in both permanent and temporary/contract staff appointments during August. It was the first growth of permanent appointments for seventeen months and the first increase in temp billings since July 2008. The rate of contraction of demand for staff eased further in August. The latest drop in overall vacancies was the weakest in just over a year."

Source: Markit Economics, Report on Jobs. Produced on behalf of the Recruitment & Employment Confederation and KPMG.

Employment Outlook 2009 – How does the United Kingdom compare?

"Despite signs that the recession is slowing or even ending in the United Kingdom as well as in other OECD countries, the OECD Employment Outlook 2009 indicates that the early stages of the economic recovery are likely to be too muted to result in strong job creation. As a result, the UK unemployment rate, which reached 7.9% in the three months to July 2009,

is expected to continue to rise in the coming months and to remain at a high level through 2010. The average unemployment rate for the OECD area reached a post-war high of 8.5% in July and may approach 10% in the coming months.

Unemployment has risen about as sharply in the United Kingdom as it has in the OECD area as a whole. The 2.7 percentage-point increase in the UK unemployment rate since December 2007 is nearly identical to the average rise for the OECD area (Figure 1). The recent upsurge in unemployment has been much sharper in several other countries where the banking and housing sectors also suffered strong reversals, in particular, Spain, Ireland and the United States. By contrast, the rise in unemployment has been modest in a number of European countries, including large economies such as Germany and Italy.”

The report highlights the impact of rising unemployment amongst young workers where during the past year the increases were 8.3% for 16-17 year olds and 4.6% for 18-24 year olds compared to an average rate of 2.3%. “... this is consistent with a widespread pattern across OECD countries, according to which already relatively disadvantaged groups in the labour force —youth, but also the low-skilled, immigrants and ethnic minorities— are bearing the brunt of rising unemployment.”

Source: OECD Employment Outlook 2009.

8. Housing

House prices

House prices across England and Wales decreased following three months of increases in succession. The average is now £155,968 compared to the low of £152,803 in April 2009. The high point was reached in January 2008 of £184,362.¹ Full details for England and Wales and Cornwall in Table 10.

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 10: House Prices, Land Registry				
	Cornwall		England and Wales	
Month	Index	Average Price (£)	Index	Average Price (£)
Aug-08	361.6	201,274	275.4	172,203
Sep-08	358.3	199,446	268.3	167,782
Oct-08	353	196,481	264.5	165,354
Nov-08	346.4	192,812	259.3	162,110
Dec-08	340.3	189,423	252.6	157,953
Jan-09	333.7	185,749	251.2	157,073
Feb-09	327	181,983	246.2	153,922
Mar-09	322.7	179,618	244.8	153,041
Apr-09	321.4	178,876	244.4	152,803
May-09	315.9	175,846	244.5	152,867
Jun-09	316.6	176,217	245.3	153,385
Jul-09	317	176,426	249.8	156,170
Aug-09	317.4	176,688	249.5	155,968

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

Mortgages and lending

July house purchase lending up on a year ago for first time in over two years

“Although remortgaging remained unsurprisingly weak, lending for house purchase showed its first material annual growth in July for the first time since early 2007, according to the latest Council of Mortgage Lenders' survey. At £14.5 billion, total gross lending rose significantly for the second month running, but was still 42% lower than in July last year. Within this, house purchase lending accounted for 56,000 loans totalling £7.5 billion - up from 47,000 loans totalling £7.1 billion in July last year.

The rise in house purchase lending in July was concentrated more heavily towards home movers than in June, when the largest rise was seen in first-time buyer activity. There were 20,400 first-time buyer loans and 35,700 home mover loans in July, up 18% and 28% respectively on June. But compared with a year earlier, the rise in first-time buyer numbers was higher, up 22% compared with a 17% rise in the number of movers.

In terms of product choice, over three quarters of mortgages taken out in July were at fixed rates, with borrowers able to lock in to an average fixed rate of 4.7%, well below the average of 5.57% over the past decade.

Commenting on the latest survey data, CML economist Paul Samter observed: It's tempting to call the turn in the mortgage market at this point, and there is certainly concrete evidence that lending for house purchase is increasing. But there are still constraints affecting the lending industry's capacity to fund increased lending, as well as less consumer motivation to remortgage for the time being. The overall lending picture is

likely to stay relatively subdued for some time, especially as the wider economy is far from robust as yet."

Source: Council of Mortgage Lenders, 14th September 2009.

Gross mortgage estimated at £12.6 billion in August

"Gross mortgage lending totalled an estimated £12.6 billion in August, according to the Council of Mortgage Lenders. This represents a decline of 13% from July's revised total of £14.5 billion, but a seasonal fall in lending activity in August is to be expected. Estimated gross lending in the month was 37% lower than last August's total of £19.9 billion.

Despite the seasonal decline in activity, underlying lending levels appear to have stabilised during the summer, with stronger lending for house purchase balanced by lower levels of remortgaging. This trend is unlikely to change for the rest of this year, with a pick-up in housing market activity checked by continuing funding constraints and a lack of ability or incentive to remortgage.

In the CML monthly market commentary published today, CML economist Paul Samter says: "The likelihood of a significant pick-up in lending remains weak, but the prospects for wholesale funding markets are improving. This could result in a gradual easing in constraints on the supply of funding over time. However, demand from consumers and a prudent approach to lending criteria are likely to mean that the market remains subdued."

Source: Council of Mortgage Lenders, Gross mortgage lending, 18th September 2009.

House price rises – a false dawn?

Though recent figures indicate small but sustained increases in house prices, doubts have been raised over future prospects. The ITEM report suggests that prices will fall in the first half of 2010, a consequence of increasing unemployment, weak earnings and the tendency for homeowners to pay off debts resulting in limitations to demand.

Source: Item Club, UK housing market, Special Report, September 2009.

9. Retail, inflation and prices

Retail growth mixed across sectors

"The volume of retail sales in August was 2.1 per cent higher than in August 2008. Total sales volume in the three months to August was 2.7 per cent higher than the same period a year ago. Sales volume for predominantly food stores increased by 2.9 per cent. Predominantly non-food stores increased by 1.7 per cent. Sales volume in the three months June to August 2009 increased by 1.2 per cent when compared to the previous three months. Three-monthly growth increased by 1.2 per cent for predominantly food stores while predominantly non-food stores increased 1.0 per cent.

Year on year, the volume of retail sales in August was 2.1 per cent higher than in August 2008. Predominantly food stores increased by 3.3 per cent compared to the same period a year ago. This is the highest increase, along with July 2006 since January 2005, when it was 4.7 per cent. Predominantly non-food stores increased by 0.2 per cent.

The seasonally adjusted value of retail sales for the three months to August was 2.2 per cent higher than the same period a year earlier and August 2009 was 1.6 per cent higher than in August 2008." As a percentage of the total by value, internet sales are running above last years figures.

Source: ONS, Retail Sales, News Release, 17th September 2009.

CPI inflation falls to 1.6 while RPI rises to -1.3

"Consumer Prices Index annual inflation – the Government's target measure – was 1.6 per cent in August, down from 1.8 per cent in July." The factors having the largest downward effect were gas and electricity due to little change this year compared to significant rises last year. In contrast liquid fuels had an upward effect. Downward pressure also came from food and non-alcoholic beverages. The biggest upward contribution to the annual rage came from transport – fuels and lubricants and second hand cars. This was partially offset by a downward move in air transport.

"In the year to August, annual inflation for the RPI fell by 1.3 per cent, compared with a fall of 1.4 per cent in July."

Source: ONS, News Release, 15th September 2009.

Producer prices, August 2009

"The output price index for home sales of manufactured products fell 0.4 per cent in the year to August, compared with a fall of 1.3 per cent in the year to July. The index rose 0.2 per cent between July and August, mainly reflecting price rises of other manufactured, petroleum and chemical products. These were partially offset by a fall in tobacco and alcohol product prices.

The output price index excluding excise duties fell 1.2 per cent in the year to August. The index rose 0.2 per cent between July and August. The output price index excluding food, beverages, tobacco and petroleum rose 0.7 per cent in the year to August. The index rose 0.2 per cent between July and August."

Source: ONS, Producer Prices, Statistical Bulletin, 11th September 2009.

10.Consumer confidence

Confidence edges up in August

- Consumer confidence rose by two points to 63 in August.

- The Expectations Index increased by three points to 94.
- The Spending Index increased by one point to 97.
- The Present Situation Index increased by one point to 17 in August.
- For the first time since April, the Present Situation Index has increased.
- The number of those believing now is a good time to make a major purchase such as a house or car fell from 35% in July to 33% in August.
- Those with an indifferent view (neither a good nor a bad time to buy) increased from 19% in the previous month to 23%.

[**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, 9th September 2009.

11. Finance

Public sector finances August 2009

In August 2009:

“the **public sector current budget** was in **deficit** by **£12.8** billion; this is a **£5.1** billion **higher deficit** than in August 2008, when there was a **deficit** of **£7.7** billion;

public sector net borrowing was **£16.1** billion; this is **£6.2** billion **higher** net borrowing than in August 2008, when net borrowing was **£9.9** billion; at the end of August 2009 **public sector net debt** was **£804.8** billion (equivalent to **57.5** per cent of GDP). This compares to **£632.8** billion (**44.0** per cent) as at the end of August 2008.

In financial year 2009/10:

the **public sector current budget** was in deficit by **£52.9** billion; this is a **£35.8** billion **higher** deficit than in the same period of 2008/09, when there was a deficit of **£17.1** billion;

public sector net borrowing was **£65.3** billion. This was a **£39.1** billion **higher** net borrowing than in the same period of 2008/09, when there was net borrowing of **£26.1** billion.”

Source: ONS and Treasury, 18th September 2009.

Bank of England, Trends in Lending, September 2009

“Official data in July showed the weakest flow of total net lending to UK businesses since the monthly series began in 1998. And the major UK lenders indicated that their stock of lending to businesses fell further in August. Some lenders reported that where companies have used the proceeds of capital market issuance to pay back bank debt, they have often kept the size of their facilities unchanged. Market intelligence suggests that companies have created this headroom to enable them to respond quickly to any future investment opportunities without having to negotiate new loan

facilities. The availability of finance remains more constrained for smaller companies.

The flow of total net mortgage lending was negative in July, the first net repayment since the monthly series began in 1993. In August, the major UK lenders reported that net mortgage lending picked up slightly. That is consistent with the recovery in their approvals for house purchase since the beginning of the year, which persisted into August. There has been no increase in the proportion of lending accounted for by mortgages with loan to value ratios (LTVs) of greater than 90%.

The flow of net consumer credit was negative in July. Weak consumer credit is consistent with the decline in household consumption this year, and trends seen in the previous recession. Spreads on consumer credit remain elevated, in part reflecting higher arrears and write-offs. Most of the major UK lenders expect arrears on consumer credit to increase over coming months, as they expect unemployment to rise further."

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

Lending to individuals: August 2009

"**Total net lending to individuals** rose by £0.7 billion in August, in line with the previous six-month average. The twelve-month growth rate continued to fall, by 0.1 percentage points to 0.8%, and the three-month annualised growth rate remained at 0.2%.

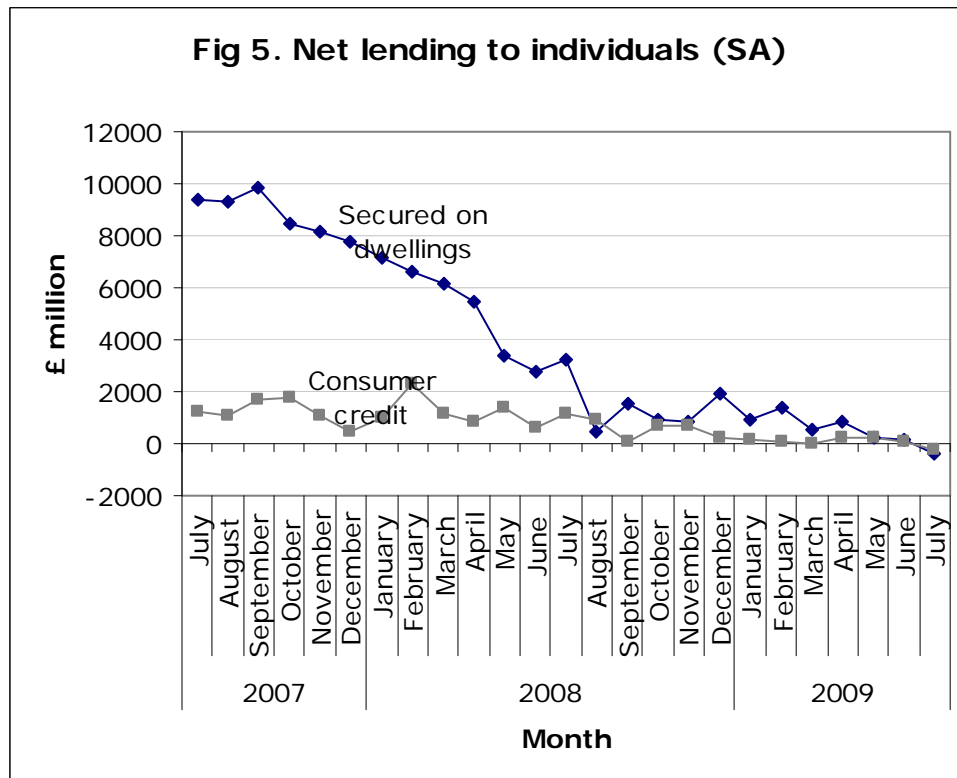
Within the total, **net lending secured on dwellings** rose by £1.0 billion, above July's net repayment of £0.2 billion and above the previous six-month average of £0.6bn. The twelve-month growth rate ticked up by 0.1 percentage points to 0.9%. The three-month annualised growth rate increased to 0.4%. Within total secured lending, secured lending by banks (excluding the effects of securitisations) increased by £2.7 billion, above the £2.3 billion increase in July and in line with the six-month average of £2.6bn. The **number of loan approvals for house purchase** (52,317) was in line with the July figure and above the previous six-month average, whereas approvals for **remortgaging** (29,059) were below the July figure of 33,880 and lower than the previous six-month average. The number of loans approved for **other purposes** (26,256) was lower than in July and below the previous six-month average.

Consumer credit fell by a net £0.3 billion, below the previous six-month average. **Credit card lending** increased by a net £0.2 billion and **other loans and advances** fell by £0.5 billion. The annual growth rate of consumer credit continued to fall, to 0.7%."

Source: Bank of England, Statistical Release, Lending to individuals, 29th September 2009.

Net lending

Figure 5 shows net lending secured on dwellings (seasonally adjusted) up to July when it was negative -£418 million, compared to a rise in June of £145 million, however, this should be compared with figures of £3526 in July 2008 and £9,385 million in July 2007. [A5.3].



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

12.Reviews

UK balance sheet restructuring underway

A recent report by Lloyds TSB highlights that one of the few benefits of the downturn has been improvements in the UK's economic imbalances. The report suggest "that these improvements, if sustained, will eventually leave the UK economy better placed to benefit from the next cyclical upturn."

In the 1990s and 2000s much consumer spending was dependent on debt financing resulting in a marked deterioration in household savings ratios. The decline in the saving ratio was associated with the rapid increase in house prices. "It appears that households viewed the increase in the market value of their housing wealth as a reason to reduce their savings." What could be termed excessive consumer spending led to a dramatic rise in imports creating "a widening the UK's current account deficit, or its external

imbalance." The report contends that the deterioration in the economic imbalances "left the UK more exposed to economic shocks and sharp movements in its domestic currency. Indeed, this appears to be borne out by recent evidence, with sterling and the US dollar having experienced greater volatility since the credit crisis began than the Swiss franc or euro - currencies whose economies have domestic saving surpluses... Moreover, the UK and US have experienced sharper downturns in their housing markets and, judging by the latest data, have remained in recession longer, with Germany and Japan both posting positive growth in Q2."

Recently the UK's imbalances have improved with a "fall in the current account deficit and the closing in the domestic saving and investment gap. As the recession has taken root, and credit availability has tightened, the private sector has started to deleverage. For households, the desire to reduce debt and rebuild savings has no doubt been motivated by the 20% fall in house prices since mid 2007 and by fears of unemployment. Similarly, firms have sought to retain internal surpluses rather than undertake new investment, mindful of the need to remain liquid in the current environment."

However, the process of adjustment is expected to be a painful one and one effect of deleveraging is that domestic demand will be constrained. Growth will depend on an increase in exports yet, "unfortunately, there is little sign of this, with export volumes having fallen around 15% since 2007." The conclusion is that if the UK manages to raise exports as global demand rises the UK could produce a current account surplus, if not "the implications for the UK economy would be all the more severe."

Source: Adam Chester, Senior UK Macroeconomist, Corporate Markets, September 2009.

Investment continues to fall rapidly in 2009

The role of inventories in changes in GDP output can be quite substantial. The rundown in stocks as firms cut back their stocks of raw materials, works in progress, and finished goods due to a belief that future demand would fall, played a significant contribution to the decline in output in the early stages of the recession. "A view reported in many business surveys is that firms have been so aggressive in cutting their inventories over the last year that an increase in production was necessary in order to replenish stocks and meet current orders; and that this inventory bounce is the main factor explaining the improvement in second quarter growth which happened to be concentrated in the production sector. These industries are more likely to hold inventories and be subject to stock cycles." As manufacturing tends to hold higher inventories than service sector industries, countries with a higher manufacturing base such as Germany and Japan show steeper declines and more rapid rises due to changes in inventories than countries such as the UK with a smaller manufacturing sector.

“While stockbuilding can boost output growth in the short run it generally does not have a sustained effect on demand. In the long term this is driven by consumption and investment, so it is perhaps premature to talk about recovery until the household and corporate sector shows more optimism. In fact, the inventory bounce in the second quarter will only be a temporary innovation unless firms start reporting a significant pick up in new orders. In the UK this is yet to fully materialise, with surveys ... indicating that future orders remain fragile and stock adequacy levels are still high.”

Source: Chamberlin, G, Economic & Labour Market Review, Vol 3:9, September 2009.

E International perspective

13. Reports and reviews

Composite Leading Indicators point to broad economic recovery

“OECD composite leading indicators (CLIs) for July 2009 show stronger signs of recovery in most of the OECD economies. Clear signals of recovery are now visible in all major seven economies, in particular in France and Italy, as well as in China, India and Russia. The signs from Brazil, where a trough is emerging, are also more encouraging than in last month’s assessment.” Detailed figures in Table 11.

Table 11: Composite leading indicators			
	July 2009 change	Year on year change	Growth cycle outlook
OECD area	1.5	-1.9	Recovery
Euro area	1.9	1.4	Recovery
Canada	1.3	-2.2	Recovery
France	1.3	4.6	Possible expansion
Japan	1.4	-6.6	Recovery
Germany	2.3	-2	Recovery
Italy	2.7	8	Possible expansion
UK	1.3	1.2	Recovery
USA	1.6	-4.3	Recovery
Brazil	0.2	-9.8	Possible trough
China	1.5	-0.7	Recovery
India	1.3	-1.1	Recovery
Russia	1.3	-13.6	Recovery

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

The global economy may recover earlier than first thought

“Given the positive economic news and based on incoming high-frequency indicators, OECD short-term forecasting models point to an earlier recovery than envisaged a few months ago. As a consequence, the unprecedented rate of deterioration in labour market conditions witnessed over the past year should ease. Nonetheless, numerous headwinds imply that the pace of the recovery is likely to be modest for some time to come. Ample spare capacity, low levels of profitability, high and rising unemployment, anaemic growth in labour income and ongoing housing market corrections will moderate any uptake in private demand. At the same time, the need remains for households, businesses, financial institutions and governments to repair the damage to their balance sheets.”

Despite this more upbeat message the report suggested that the UK economy would shrink by 4.7% this year, down on an earlier forecast of a 4.3% projected decline. This compares to a prediction of a fall of 3.5% from the Treasury.

Source: OECD, Paris, 3rd September, What is the economic outlook for OECD countries? An interim assessment.

European Central Bank, Monthly Bulletin September.

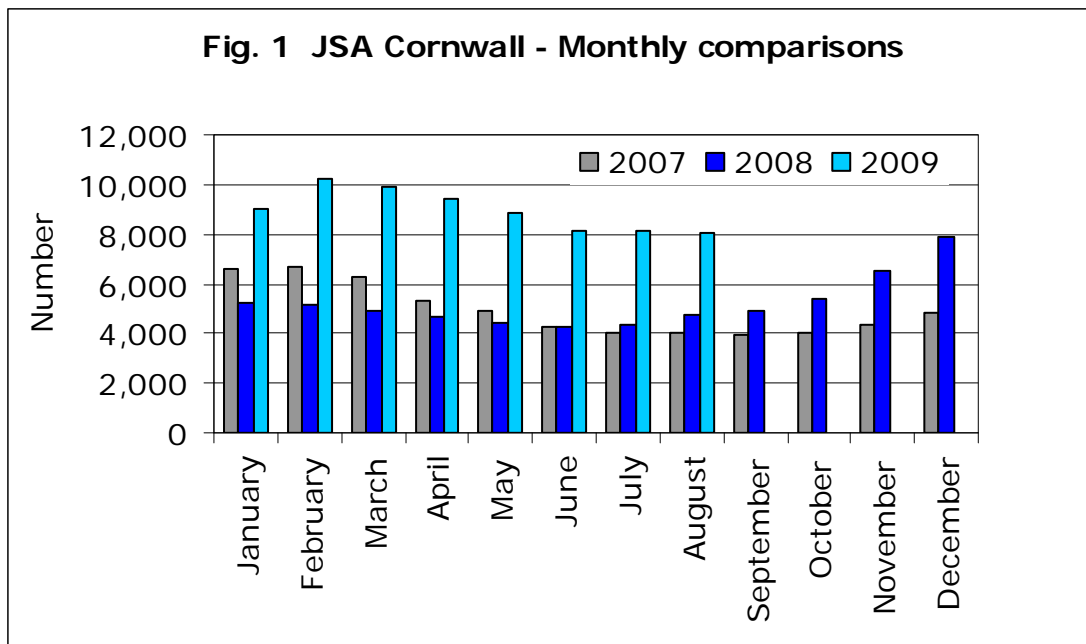
The ECB consider that the latest survey indicators “support the view that the euro area economy is stabilising further.” The bank believes that recovery will be aided by a rise in exports, the impact of the macroeconomic stimulus, measures taken to restore the functioning of the financial system, together with restocking of inventories. The ECB cautions that “uncertainty remains high and the persistent volatility in incoming data warrants a cautious interpretation of available information.” Due to the temporary nature of some policy mechanisms and the current tendency to balance sheet correction an uneven recovery is forecast.

The latest macroeconomic projections for the euro area suggest that “average annual real GDP growth will range between -4.4% and -3.8% in 2009 and between -0.5% and +0.9% in 2010. Compared with the June 2009 Eurosystem staff macroeconomic projections, this implies an upward revision of the ranges for both 2009 and 2010, reflecting mainly the recent, more positive developments and information.”

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

IMF Managing Director Dominique Strauss-Kahn Sees Renewed Stability But Remains Cautious About Global Economic Recovery, Notes Need For Continued Policy Actions.

“International Monetary Fund Managing Director Dominique Strauss-Kahn, delivering the 2009 Bundesbank Lecture ..., said stimulus measures adopted



The claimant count rates for August, were Cornwall 2.6%, UK 4.2%, GB 4.2% and SW 3%. Between August 2008 and August 2009, Cornwall's rate increase, from 1.5% to 2.6% equals a rise of 73%. This is the third lowest rise for authorities across the SW. The highest rate increase, of 150% was recorded in South Gloucestershire.

The data shows that there was a slight fall in the numbers claiming between July and August. The question arises, is this expected, does it give us any clue as to what is happening in the labour market? It indicates that there is a degree of variation from year to year with a peak at the time of the recession in the early 1990s, followed by declines or no change from 2002-2007 – the boom years and a significant increase in 2008.

Vacancies

The latest vacancies data was released on 16th September 2009. There were 3,192 notified vacancies in Cornwall in August. This represents an increase of 867 since July (+ 37%). This increase is above the increases across Britain (28%) and SW England (27%). Compared to August 2008, vacancies are up by 13%. The situation in Cornwall is in direct contrast to the figures for the GB (-16%) and SW (-8%), and for most Unitaries/counties. Other areas in the South West similar to Cornwall are Devon, Plymouth, North Somerset, and Poole.

[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

to combat the global crisis should be withdrawn only when the economic recovery has taken hold and unemployment is set to decline. While acknowledging that the global economy appears to be emerging from the worst financial and economic crisis in the post-war period, Mr. Strauss-Kahn emphasized that the recovery will be sluggish and that a jobless recovery remains a risk. 'I am concerned about the social and economic costs of high unemployment, which will persist even as financial markets and output stabilizes.'

Given the fragility of the recovery, he warned that 'Policymakers should err on the side of caution as they decide when to exit from their crisis response policies.' He added, however, that governments should develop their exit plans now so that they are able to build public support and act when the time is right. Mr. Strauss-Kahn underlined that international policy coordination has been an essential part of the response to the crisis and that 'coordination of exit strategies will be just as important.' Thanks to concerted and forceful policy actions, the crisis had been contained, he said. He focused on three policy areas essential to ensure a sustainable recovery:"

1. Identifying New Sources of Growth
2. Reforming the Financial Sector
3. Strengthening the International Monetary System

Source: IMF, Press Release No.09/295, 4th September 2009.

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

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30th September 2009

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