

**EXETER CITY COUNCIL**  
**SCRUTINY COMMITTEE – ECONOMY**  
**3 SEPTEMBER 2009**

**ECONOMY UPDATE**

**1.0 PURPOSE OF REPORT**

- 1.1 To provide Members with an update on the trends in the national, regional and local economy.

**2.0 BACKGROUND**

- 2.1 Exeter's sub-region is recognised as a principal economic driver in the region, making it an important part of the South West economy. The June Scrutiny Committee report gave a briefing on the significant deterioration in the UK and global economies, which in turn has had an adverse impact on Exeter. However, it appears at this juncture that the city overall has performed better than many other parts of the South West Region.

2.2

In May 2009, the South West RDA produced their Economics Review issue 16. In essence the review argued the following:

- there are indications that the rate of decline in the world economy is slowing down and modest growth may be seen in 2010
- 'the UK economy needs to make large structural adjustments, suggesting its labour market will remain depressed well into 2010
- 'the South West economy is relatively dependent on household spending, raising worries about unemployment and household debt constraining expenditure on tourism and leisure, retail sales and other services and their suppliers. Conversely Government's injection of additional cash flow into the economy, much lower mortgage payments and a good exchange rate for overseas visitors may assist the tourism sector and contribute to sustaining other sectors during 2009
- in terms of business and sectoral impact within the South West...
  - business confidence is generally low, impact across the region varies, and job cuts may continue long after any 'bottom' is reached in output
  - construction sector 'heavily dependent on public sector contracts and increasingly on smaller residential jobs'
  - tourism displays a mixed picture, with some locations securing good level of enquiries and bookings, however in some cases the norm of 2-3 night breaks are now being booked as one night only; business tourism has declined and this may impact on the viability of conferences later on in the year.

2.3

Further reports on the recession from the South West RDA expected by the end of August 2009. Any salient additional information to this report will be reported at Committee. Views on the national and regional economy have been sourced from a range of avenues including ONS, the Government's statistical service that produces data on the state of the national and regional economy.

**3.0 ECONOMY UPDATE**

- 3.1 This section provides a 'pen picture' update of the national, regional and local

situation in Exeter. For more detail on the impact of the recession on Exeter, see Appendix 1.

- 3.2 Inflation continues to fall. In June, the Consumer Price Index declined to 1.8%, below the 2% Government target rate for the Bank of England and down 3.4% from a 5.2% peak in September 2008. Similarly, the Retail Price Index, which includes mortgage costs, continues to show prices falling, standing at -1.6% in June 2009.
- 3.3 Commentators anticipate that inflation will continue to fall. This could well put pressure on businesses competing on price to encourage sales, seen keenly for example in the retail sector.  
Whilst, falling prices in some commodities may be welcome for those with spending power, it also raises the spectre of deflation, as consumers may be tempted to put off making a planned purchase in the hope that prices will fall further. In an effort to mitigate against this risk, the Bank of England has continued to set low interest rates, whilst hoping that their recent policy of 'quantitative easing' – injecting money in the economy, will encourage cash flow and thus consumption for businesses and consumers alike.
- 3.4 From the beginning of 2009, unemployment has continued to rise across all parts of the country, albeit recently, at a slower rate. For instance, in April, unemployment saw its biggest rise nationally since the recession of the early 1980's, yet in June the rise in people losing their jobs was just below 24,000, less than had been expected. Nevertheless, there are now 1.56 million people unemployed, a national rate of around 6.9%.
- 3.5 The worst affected regions with rates above 6% upto 12% can be found in areas such as the Midlands, South Wales, London and towards the coastal edges around Essex, the North and North East and also cutting a swathe right across mid-Scotland from Edinburgh to Glasgow and to Ayr.
- 3.6 Within the South West, the highest rates of unemployment can be seen in the far east of the region, those areas bordering on the Midlands and the South East, for example the Forest of Dean and Swindon with rates of over 10% unemployment. That said, some of the coastal areas too are heavily affected, in part perhaps by their trading and tourism links or structural bias towards the manufacturing sector such in Plymouth and Weymouth and Portland with rates of over 8%.
- 3.7 Following the national trend, the rate of increase has also slowed down locally in Exeter; in fact, the city's unemployment fell by 0.2% to 2.7% as 140 people came off the job seekers claimants register in June 2009. This change in claimant count may just be a seasonal impact. However, whether an increase will be seen in subsequent months remains to be seen and August figures will be reported at the Scrutiny Committee meeting. Employment levels will take some time to recover; e.g. research undertaken by Professor Paul Gregg of Bristol University supports this view.
- 3.8 On 30 June 2009, in their 'tale of 3 recessions', the BBC reported on unemployment across the country, drawing on the knowledge of Professor Gregg. Based on evidence of the recessions of the 1980's and 1990's, job recovery may well take around 5 years to reach the employment levels seen before the recession started, and unemployment is likely to be highest for the unskilled workforce and will more severely affect deprived areas in the country.

- 3.9 The rise in unemployment and the pressure on employers to compete and stay solvent has had an apparent effect on pay and working hours with employees reducing their expectations and employers seeking to retain key staff rather than making them redundant.
- 3.10 According to Income Data Services in their June report, average earnings, including bonuses, have fallen in the private sector from an increase recorded in September 2007 of 4.4%, to one of negative growth in both January and February 2009, rising again in April to 3.7%. In the public sector, respective average earnings increases were 3% in September 2007 and 3.5% in April this year.
- 3.11 In terms of pay settlements, Income Data Services reported in June that the median pay settlement for the whole economy was 2% between January and April 2009, 'with a third of settlements set as pay freezes'.
- 3.12 As the downward pressure on businesses to survive continues, insolvencies nationally have increased by 13% between quarters 1 of 2008 and 2009 respectively. However, it seems at this juncture that the impact on the South West region and within Exeter may indicate that firms are weathering the recession better. Between the same quarters, the Region saw a decrease of 54% in insolvencies, whilst Exeter saw no increase/decrease during this period.
- 3.13 In terms of home ownership the Financial Services Authority (FSA) reported in June that house repossessions were up by 62% in the first quarter of 2009 in comparison to Q1 in 2008. That said the Council of Mortgage Lenders have revised downwards their predictions for repossessions in 2009. It is suggested that low interest rates may help many to stay in their homes and this combined with courts in England allowing advice to be given as a last chance for homeowners to resolve issues over debt, may mean this will have a positive impact. Despite this, forecasts indicate that more homes will be repossessed this year than in 2008. However, within Exeter, mortgage repossessions were down by 24% between Q's 1 2008 and 2009.
- 3.14 House prices for Q1 2009 have decreased from Q1 2008. Nationally they are down by 9%, within the South West by nearly 11% and within Exeter by nearly 16%. This downward pressure, brought about in part by fewer house sales in the economy, is mirrored to some extent in the commercial property market.
- 3.15 The Investment Property Databank reports that rental income is down across retail, office and industrial properties. The trend data suggests a marked fall on returns from mid-2007 onwards, with further falls reported in the first quarter of 2009, for all property types, down by around 7%. This downward trend on rents has also been seen in Exeter as seen in the levels of rent expected in the current economic climate.
- 3.16 Tourism is also being affected. A report published in May 2009 by the South West Regional Economic Task Group has produced a number of scenarios on the impact of the recession on this sector. It stated: 'The latest travel and tourism research shows that a large number of Britons will be scaling back on holidays this year. The sector predicted a strong year in the South West, but this is not borne out by recent research undertaken by South West Tourism (SWT). The key factors that would affect the performance of the tourism sector in 2009 were viewed as:

- weather – the MET Office medium term forecast was positive for this summer
  - consumer confidence
  - exchange rates
  - response from our competitors overseas and within the UK
  - perceptions of the UK and South West – e.g. expense
  - the impact of swine flu
  - value – customers will want good deals, discounts etc.’
- 3.17 Anecdotally, it seems the tourism sector is fairing well, especially Monday through to Thursday, boosted by the ‘Business Tourism’ market into Exeter. Similarly, the city is performing well in attracting overseas visitors from Germany who are drawn to Exeter, on the basis of it having featured as a film location in a German TV produced series of films of Rosamunde Pilcher novels.
- 3.18 Retail, according to the ONS, shows a picture of underlying, if varied growth in sales overall by 0.6% in Q2 2009 against the same period in 2008. That said this growth from last year was primarily in non-food stores, such as clothing and shoes, up by 7.1%. Whilst spending on household goods fell by 7.3%, sales volume of non-store retailing and items purchased for repair grew in the volume of sales by just over 10% nationally from the same period in 2008.
- 3.19 However, if one ignores the 12 month comparison and looks at the data for the 3 months leading up to May 2009, a picture of slowing growth and decline emerges. Nationally, total sales decreased in all areas of retail apart from non-store retailing and items purchased for repair, which grew only by 0.1%, although there was sharp increase of 9.1% in such sales in May 2009.
- 3.20 In May 2009, the South West RDA published a paper, ‘The Recession in South West England -sector vulnerability amongst the Sub-regions’. Within this document, Devon is profiled as having relatively higher proportions of retail, distribution and links to the motor trade – all 3 of which are a considerable source of employment in Exeter. In essence, if declines in these 3 broad sectoral areas continued, the city might suffer a disproportionate economic impact than other areas of the region.
- 3.21 That said the retail picture for Exeter thus far in 2009 as reported in the June Committee remains positive in comparison to other retail centres, with vacancy rates in retail premises of around 8% to a national picture of some 15%. Whilst the detailed impact on the motor trade in Exeter is not known, it is understood to be depressed as in other parts of the country. There are also signs that companies are considering their distribution options and locations, not least of which is the closure of DHL in August/September in Exeter, with the loss of nearly 200 jobs; the main artery of distribution activity has been consolidated to Swindon to a larger distribution handling facility.
- 3.22 As can be seen, the impact of the recession varies geographically across the country and the region, primarily based on the nature of the structural mix of industries and sectors within any one area. Exeter’s strengths have hitherto been underpinned by its employer base in professional and business services, tourism, retail and the public sector.
- 3.23 Tourism and retail is to a great extent dependent on consumer confidence, which for some is being knocked by worries over job losses and paying essential bills, let alone concerns about swine flu, the impact of which is as yet unknown and the nature too of the weather. For those consumers with the capacity to spend, the risk to the economy may be the choice to hold back their planned spending until

prices drop further, with consequent effects on business cash flow and sustainability. Added to this is the growing picture of national debt with borrowing rising to a record £800 billion and a decrease in anticipated tax revenues and growing costs to support the economy – be it through benefits to individuals or, injections to help the economy or keep businesses trading. Locally, the City Council's revenue income has decreased, whilst demands for services have increased, all of which place pressure on the capacity of the public sector to deliver amidst competing priorities.

- 3.24 Thus whilst Exeter has so far performed strongly and continues to do so, external influences as indicated may affect its key employment sectors in the short-term. Notwithstanding the potential for the recession to deepen its impact on the city, confidence in Exeter remains strong within the business community. Princesshay continues to be a considerable success and acts as a flagship for retail in the region.
- 3.25 Developments at the University of Exeter continue with a £250 million investment in and around the campus, importantly playing a leading role in the strengthening of the city's scientific base. This, combined with the partnership with the Met Office, the City Council, and others for the planned development of Exeter Science Park and other developments including Cranbrook and Skypark, all point the way towards the city strengthening itself by diversifying its economy and focusing on its strengths and the known opportunities for future employment growth. The recent announcement of an additional £12m investment by the SWRDA is critical to progressing these developments.
- 3.26 Meanwhile, as outlined at the June Scrutiny Committee, the City Council continues to work proactively to help mitigate the impact of the recession on individuals and small businesses. The package of anti-recession measures approved by Members in June continues to be seen as an appropriate response by the City Council. Officers are working with partners to support local businesses, actively promoting Exeter to help support retail and tourism and also seeking out opportunities, should they arise, for inward investment into the city.

#### **4.0 FINANCIAL IMPLICATIONS**

- 4.1 There are no financial implications arising from this report.

#### **5.0 RECOMMENDATION that**

- 5.1 Members note the report and make comments.

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**HEAD OF ECONOMY AND TOURISM**

#### **ECONOMY AND DEVELOPMENT DIRECTORATE**

Local Government (Access to Information) Act 1985 (as amended)  
Background papers used in compiling this report:

1. 'Tourism and the Recession' (May 2009) South West Regional Economic Task Group
2. 'Economics Review Issue 16' (May 2009) South West RDA