

EXETER CITY COUNCIL
SCRUTINY COMMITTEE – ECONOMY
12 NOVEMBER 2009

ECONOMY UPDATE

1.0 PURPOSE OF REPORT

- 1.1 To advise Members with a brief update on the effect the recession is having in Exeter.

2.0 BACKGROUND

- 2.1 In September, this Committee received a paper on the economic trends nationally, regionally and locally together with an appendix that briefed Members on a range of indicators about the health of Exeter's economy. In summary, the appendix indicated the following impact for Exeter: -

Business

- 2.2 Levels of business confidence in the city had been increasing since November 2008; 90% reported medium to high levels. Possibly contributing to this level of confidence was the fact that the number of business insolvencies in Exeter had seen no change during the 12 month period between the first quarters (Q1) of 2008 and 2009. Understandably, many businesses have been trying to reduce their bottom line costs. For example, there had been an increase in enquiries handled by the City Council from local businesses searching for new premises, reflecting the desire to find cheaper accommodation.

Unemployment

- 2.3 The nature of unemployment was showing signs of change. Whilst the rate of job loss appeared to be decreasing, the numbers of people unemployed for 6 months or more was increasing. As more people have become unemployed, those who had been registering for longer were finding it increasingly difficult to secure work. The most affected by unemployment were males and the 18-24 year age group. Job vacancies had correspondingly decreased since November 2008. The sectors most affected were banking, finance, and insurance, whilst opportunities for lower skilled jobs had remained static since February 2009.

Housing Market/Residents

- 2.4 Whilst average house prices had fallen since Q2 2008, the house price to salary ratio remained high, maintaining the difficulty for first time buyers securing adequate mortgage finance. Data also showed that mortgage repossessions in Exeter were slightly higher than the national average. Exeter CAB data also confirmed that enquires had increased seeking help in the management of debt related to overdrafts, credit cards, and loans.

3.0 ECONOMY UPDATE

- 3.1 The following extract from the South West Regional Development Agency's (SWRDA) most recent economic review of the South West, suggest that cities with strong commuting patterns, such as Exeter, may be more resilient than other urban areas adversely affected by the recession.

“(...) the downturn has blighted traditional growth centres in Swindon and Bournemouth-Poole and the wider ‘northern arc’ of the region. We can expect some of this lost activity to bounce back relatively quickly but further restructuring is possible across many industries. Either way, these areas and their commuter zones, particularly in our South West city-region around Bristol and more locally near Exeter, can be relatively resilient and able to recover in response to an upturn in the wider UK/world economy”.

(Nigel F Jump, Chief Economist, SWRDA Economics Review, Issue 17; Q3 August 2009)

3.2 The September 2009 edition of the Local Government Employment Digest provides a useful commentary on key aspects related to the national economy, extracts of which are set out below:

- the economy showed further signs of improved activity in August 2009 although the economic outlook remains uncertain and the Bank Rate was again held at 0.5% in September
- inflation (as measured by CPI) remained at 1.8 per cent in August, with the view reported that inflation is now less likely to fall in the remainder of 2009, it may rise in the short term before falling again
- the housing market continued to show further signs of recovery during August, with house prices rising again, and 5% higher than their April low point; there was a further slight increase in mortgage approvals in July to 50,000; it is suggested that prices are likely to continue to increase in the next few months influenced by an excess of demand over supply albeit at low levels; whilst a lack of mortgage finance remains a cause for concern in the housing finance sector
- the latest estimates of retail sales were for growth of 1% in Quarter 2 of 2009 and points to similar growth in Quarter 3; however overall consumption levels were estimated to have fallen by 0.9 per cent in Quarter 2, a weaker performance than expected
- economic output contracted by 5.5% over the past year, the biggest annual fall since records began in 1955; the latest data suggested that output may have stabilised in the middle of the year and growth in the second half of the year might be positive
- manufacturing output grew strongly in July; however sustained economic growth in the remainder of 2009 may not occur.
- average earnings growth across the economy remained weak, reflecting the economic situation, with the average earnings excluding bonuses falling from 2.4 per cent to 2.2 per cent
- unemployment reached almost 2.5 million, the highest level since 1995 and putting downward pressure on wage growth.

Business

3.3 The latest Exeter Chamber survey of its membership (September 2009) shows a number of encouraging improvements since the June survey. The Chamber reports an increase of 3% to 93% of businesses reporting medium to high levels of confidence; 46% reporting sales increased, up from 42% in June 2009.

3.4 Similarly, 20% of businesses surveyed reported profit margins had increased; only 6% reporting this in September 2008. Cash flow has also improved, with 21% reporting an increase, as opposed to 11% in June 2009. Importantly 21% of firms confirmed that numbers of people employed had also increased, up from 12% in June 2009, continuing the reported rise over the last three Chamber surveys. The percentage of employers forecasting they will take on more employees has also

increased from 14% in June to 24% in September. The downward fall of unemployment in the city mirrors the Chamber statistics.

- 3.5 Between June and September 2009 data on business insolvencies in Exeter suggest that there has been no real increase in the number of companies winding up or insolvencies brought about by creditor petitioned bankruptcies from suppliers seeking repayment of debt. In fact, there has been a 23% decrease in the total number of creditors bankruptcies in the year to June 2009 compared with the period to June 2008.
- 3.6 There has been an increase in Exeter in debtors' bankruptcy petitions – companies with outstanding debt closing down, albeit at a slower pace than regional and national trends. There were 289 such petitions in the first half of 2009, an increase of 14% on the same period in 2008. Regionally and nationally, the respective increases in 2009 on the same period for 2008 are 15% and 19%.
- 3.7 The recession may be having an impact on the level of investment enquiries handled by the City Council. This is the first year since the investment advisory service was established in 1998 that enquiry numbers have not continued to grow markedly. Since the beginning of 2009, there have been nearly 600 enquiries (September 2009); recently however, the number of enquiries has been increasing to a level higher than seen in previous months this year.
- 3.8 The percentage of enquiries from within Exeter and the Heart of Devon area remains broadly the same at 60%. Similarly, the types of enquiry for office, retail, light industrial and hotels and restaurants had broadly remained the same, with a marginal increase in the percentage of enquiries related to commercial investment.
- 3.9 In terms of the retail property, the vacancy rate is around 8% and re-lettings of both the City Council's own stock and units in Princesshay have been going well.
- 3.10 Data published by South West Tourism compares the 2009 season with 2008. In summary, the evidence suggests that across Devon, 34% of accommodation providers reported seeing an increase in visitors, 43% saw no change and 22% experienced a decrease. Overall, the average across the South West for accommodation providers was 21% seeing an increase in visitors, whilst 20% reported a decrease.
- 3.11 In terms of visitor attractions, these have done better than accommodation providers. For example, the following Devon 'attractions' all reported an increase in visitor numbers: 50% of visitor/leisure attractions, 61% of food and drink related businesses and 64% of retail business (excluding food and drinks). This seems to confirm 2009 was a more "stay at home" year. In fact, the South West Tourism paper suggests that overall, visitor numbers into the region have increased from 2008 in 2009 for both domestic and overseas visitors; however, the increase in volume has been greater from people resident in Britain.

Unemployment

- 3.12 The unemployment rate in Exeter for September 2009, based on the claimant count for Job Seeker Allowance (JSA), continues to show a gradual decline, having fallen to 2.6% from 2.7% in June 2009. It remains below the rates for Devon (including Plymouth & Torbay) at 3%, the South West at 3% and England and Wales at 4.2%. The numbers of live unfilled vacancies registered with Job Centre Plus have increased from 805 in June to 1,408 in September.

- 3.13 Between June and September 2009 the unemployment count has reduced by 103 people with more males than females finding work. However, males are experiencing a higher rate of unemployment than females, currently at 3.5% for males and 1.6% for females (September 2009).
- 3.14 Whilst it continues to be welcome that employment is picking up within Exeter and in the surrounding areas, a number of recent redundancies within Exeter may not feature in the statistics and moreover, there continues to be an increase in the number of people unemployed for over 6 months and also for 12 plus months, the majority being males.
- 3.15 Since June, 80 more people out of a total of 615 have been claiming JSA in Exeter for over 6 months. The total claiming for over 12 months has risen by 50 people, now standing at 180. In both periods, the majority of the change in numbers derives from additional males, 75 (for 6 months +) and 40 (for 12 months +). The younger age group of 18-24 year olds account for just over 13% of people claiming JSA for over 6 or 12 months duration, although the numbers claiming for over 6 months for this age group grew by 30 young people between June and September this year.
- 3.16 Overall, 18-24 year olds account for 32.6% of JSA claimants, with 51.7% from the 25-49 year olds and 13.7% from people over 50 years of age. In September 2007, 18-24 year olds accounted for 28% of all claimants, suggesting a more rapid rise in unemployment for this age group since the onset of the recession. Evidence from other partners suggests that there has been a rise in 16-18 year olds going on to Exeter College rather than going on directly to employment
- 3.17 In terms of the impact of unemployment on minority ethnic groups, the numbers seeking work in August 2009 has fallen to 70 people from 85 in June, but still significantly higher than the 30 recorded in August 2008.

Housing Market/Residents

- 3.18 Exeter has seen its first rise in house prices since Q3 2008; the average home was valued at £197,600 in Q2 2009 (£180,400 in Q1 2009), but notably below that of Q2 2008 at £211,300. This equates to an overall decrease in value within the city of around 6.5%, which compares to regional and national declines respectively of -9.4% and -7.3%. Nevertheless, the decline in Exeter still leaves houses valued at 9.3 times residential median full time earnings.
- 3.19 The number of houses sold over the 12 month period between Q2 of 2008 and Q2 of 2009 in comparison to the same period 2007 to 2008 is down by 75% from 2,747 house sales to 1,508. However, when comparing quarters, there are tentative signs that the housing market is picking up. In Q1 of both 2008 and 2009 respectively, there were 355 and 174 house sales, whereas in Q2 for 2008 and 2009 respectively, there were 397 and 367 homes sold.
- 3.20 Other positive signs are apparent in the downward trend for mortgage and landlord repossession orders in Exeter in comparison to regional and national averages. There were a total of 260 mortgage possession orders made by the courts in Exeter between Q3 2008 and Q2 2009, a decrease of 15% on the same period for 2007-2008, slightly better than both the South West rate (-9%) and the national average (-10%). Data for Q 3 2009 will be published mid November.
- 3.21 Similarly, there were 100 landlord possession orders made in Q2 2009, a decrease of -12% on 2008 levels; better than the regional reduction of -4% and slightly more than the national decrease of -11%.

3.22 Data from Exeter CAB also shows a slight downward trend in the level of debt and welfare enquires for Q3 2009 from the previous quarter (-5.6% and – 1.6% respectively). However, these enquiries remain at a higher level than seen in Q3 2008.

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.

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Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling this report:
None.