

**EXETER CITY COUNCIL
SCRUTINY COMMITTEE – ECONOMY**

21 JANUARY 2010

ECONOMY UPDATE

1.0 PURPOSE OF REPORT

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

2.0 BACKGROUND

- 2.1 In November 2009, this Committee received a report providing an update on the broad effect of the recession nationally and in particular on Exeter. The November update is summarised below.
- 2.2 Nationally, the economy was showing some signs of recovery through improved activity – house prices and mortgage approvals were starting to increase, retail sales had shown marginal growth and manufacturing output had been growing strongly. However, economic forecasts suggested that inflation could start to rise in the short-term, growth in average earnings had remained weak, and unemployment had continued to rise affecting 2.5 million people.
- 2.3 The South West Regional Development Agency in their Q3 2009 report on the regional economy had indicated that cities like Exeter, with strong commuting patterns were more resilient during the recession and likely to be more able to respond to any upturn in the wider economy.
- 2.4 The Exeter Chamber of Commerce survey (September 2009) showed local business confidence had remained high, just below 50% reported sales increases and around 20% had seen their profit margins and cash flows improve. This picture may also have reflected the fact that the rate of bankruptcies had decreased.
- 2.5 Retail property vacancies in the city remained low whilst the tourism industry had seen some growth. According to South West Tourism, around 1/3rd of accommodation providers within Devon had increased numbers of visitors; the broad view being that more people within the UK chose to not holiday abroad in 2009.
- 2.6 The numbers claiming job seekers allowance had continued to fall since May 2009, although male unemployment rates remained higher than females, 3.5% to 1.5% respectively. Importantly, people unemployed over 6 and 12 months had continued to rise as had the rate of young people (18 to 24 years) being unemployed, accounting for nearly 34% of all claimants. Anecdotally, it appeared that more young people were choosing to go onto Exeter College than enter the job market.
- 2.7 Exeter had started to see a rise in average house prices in 2009, although they were still below values seen in 2008 and prices of houses for first time buyers stood at 9.3 times resident median full-time earnings. This is more likely to be due to shortage of supply rather than significant increases in demand.
- 2.8 Positive signs were seen in a reduction in the number of mortgage and landlord repossessions in 2009 compared with 2008 figures. Whilst data from Exeter CAB showed a slight decrease in debt and welfare benefit enquiries, they remained higher than those seen Q3 2008.

3.0 ECONOMY UPDATE

Nationally

- 3.1 The December 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:
- inflation as measured by the Consumer Price Index (which excludes house prices) rose to 1.9% in November 2009, up from 1.5% in October, brought about by a rise in motor fuel prices. In 2010, the return of VAT at 17.5% may cause inflation to rise above 2%, with forecasts suggesting a decline to below 2% at the end of 2010 as economic activity is likely to remain weak throughout the year
 - the economy showed continued signs of improved activity although as the economic outlook continues to remain uncertain, the Bank Rate remains held at 0.5%
 - the housing market continued to show further signs of recovery in November driven by rising demand and a shortage of supply; there was a further increase in mortgage approvals in November 2009, although still 60% below 'normal market conditions'
 - consumer spending was up 3.7% in November 2009 from the same period in 2008, driven perhaps by the effect of the Government's vehicle 'scrappage' scheme and household expenditure increasing prior to the return in January 2010 of the 17.5% VAT rate. It is unclear if consumer spending will be maintained at this level or more in 2010
 - manufacturing output remained stable, but whilst some companies are reporting steady output and order books, forecasts indicate sustained growth in 2010 is not expected.
 - average earnings growth across the economy remained weak, with the average annual increase in earnings including bonuses being 1.5%
 - the number of people claiming job seekers allowance (JSA) fell by over 6,000 in November to 1.63 million people (5% of the workforce); median JSA claimant count forecasts indicate a rise during 2010, reaching 1.82 million people by Q4. However of all people looking for work and defined as unemployed, the figure remained around 2.5 million (7.9% of the workforce), and in fact increased by 21,000 people between August to October 2009.
- 3.2 According to Thompson Reuters, the proportion of the unemployed that were out of work for more than twelve months reached 25% in November. Moreover, the number of 18 to 24 year olds in work continued to decline, whilst other age groups saw employment gains in the three months to October 2009.

Local Business

- 3.3 The latest Exeter Chamber survey of its membership (December 2009) continues to mainly report positive findings. The Chamber survey suggests a slight fall in those businesses reporting medium to high levels of confidence to 89% (93% in September 2009); whilst 23% reported high levels of confidence (20% in September 2009). In terms of sales, 49% reported they had increased, up from 46% in September.
- 3.4 Similarly, 33% of businesses surveyed reported profit margins had increased from the previous quarter (20% September 2009). Cash flow has also improved, with 33% reporting an increase, as opposed to 21% in September. Importantly 24% of firms confirmed that numbers of people employed had also increased, up from 21% in September, continuing the reported rise over the last four Chamber surveys. The percentage of employers forecasting they will take on more employees has remained broadly the same at 23% (December 2009), being 24% in September.
- 3.5 The rate of business insolvencies in Exeter Q3 2008 to Q3 2009 suggest that there has been no real increase in the number of companies 'choosing' to wind up (5 in Q3 2009). Regionally and nationally the number has also declined over the same period, by - 52% and - 3% respectively.
- 3.6 In terms of insolvencies brought about by creditor petitioned bankruptcies from suppliers seeking repayment of debt there has been no real change in the rate in Exeter over the 2008 to 2009 time frame. However, there has been an increase of 10% regionally and a 6% decrease nationally.

- 3.7 There was a decrease in Exeter for debtors' bankruptcy petitions – companies with outstanding debt closing down (10% less in Q3 2009 in comparison to Q3 2008), with 417 petitions up to Q3 2009. Regionally and nationally, the respective increases in 2009 on the same period for 2008 are 10% and 15%.
- 3.8 The recession is likely to have had 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. During 2009, there were a total of 776 enquiries (1068 in 2008).
- 3.9 The percentage of enquiries from within Exeter and the Heart of Devon area remains broadly the same at 59%, with 33% originating from national and international sources. Similarly, the types of enquiry for office, retail, light industrial and hotels and restaurants has broadly remained the same, although the number industrial enquiries have declined reflecting the current nature of the market.
- 3.10 In terms of city centre retail property, the vacancy rate is less than 8% and re-lettings of both the City Council's own stock and units in Princesshay have been going well.

Unemployment

- 3.11 The unemployment rate in Exeter for October and November 2009, based on the claimant count for Job Seeker Allowance (JSA), was 2.5% (2.6% September 2009), representing 2,068 people. It is above the rate for Devon at 2.2%, but below that of Plymouth at 4%, Torbay at 4.5%, the South West at 2.9% and England and Wales at 4.1%. The numbers of live unfilled vacancies registered with Job Centre Plus have increased from 1,408 in September to 1,573 in November.
- 3.12 Male claimants of JSA decreased gradually in the second half of 2009. In May 2009 the number reached a peak of 1,768. In September, the figure was 1,543 and 1,471 in November 2009 (a rate of 3.5%). Female claimant numbers have also fallen from the high levels of 657 people in April 2009 to 633 in September, and 597 in November (a rate of 1.5%).
- 3.13 Whilst it continues to be welcome that employment opportunities continues to improve within Exeter and in the surrounding areas, there continues to be an increase in the number of people unemployed for over 6 months and also for 12 plus months, the majority of which are males.
- 3.14 The number of people who have been claiming for six months or longer has been rising fairly rapidly; around 25.8% for November 2009 compared to 15.8% in November 2008. Similarly, numbers of those who have been claiming for 1-2 years are up from 3.9% a year ago to 8.9% in November 2009.
- 3.15 Job seekers, especially lower skilled and younger claimants, are perhaps more likely to stay on benefits for longer periods. Around 685 individuals aged 18-24 years were claiming JSA in November 2009 (495 in November 2008). Whilst there has been a small drop from the September figure of 710 young claimants, young people still account for 33% of all JSA claimants, the majority being male.
- 3.16 In terms of the impact of unemployment on minority ethnic groups, the numbers seeking work in October 2009 has fallen to 60 people from 70 in September, but still significantly higher than the 30 recorded in August 2008.

Housing Market/Residents

- 3.17 House prices in Exeter have declined slightly more than seen regionally and nationally. The overall average house price for Exeter for Q3 2009 stands at £195,700, a decrease of 10.1% on average prices recorded for Q3 2008 (£217,800). In Q2 2009, the value was £197,600.
- 3.18 During the first 9 months of 2009, 980 properties were sold in the city. This compares with 1,062 transactions during the first 9 months of 2008, a drop of 7.7%, (1,912 for the same period in 2007, - 48.7%).

- 3.19 There are positive signs in housing and rental market via a continued downward trend for mortgage and landlord repossessions in Exeter in comparison to regional and national averages.
- 3.20 There were a total of 225 mortgage possession orders made by the courts in Exeter between Q4 2008 and Q3 2009, a decrease of - 30% on the same period for 2007-2008. Regionally and nationally, the decrease has been -21% and -23% respectively. In terms of landlord possessions there has also been a decline in Exeter over the same time period of - 25%. Regionally and nationally the decline has been -7% and -8% respectively.
- 3.21 Debt and welfare benefit enquiries show a mixed picture. Data for November 2009 from Exeter CAB shows a continued downward trend in the level of recorded debt related enquires, although they are still around 50% higher than in November 2008. Similarly, enquiries relating to welfare benefits are nearly 58% higher than recorded in 2008.

4.0 FINANCIAL IMPLICATIONS

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

5.0 RECOMMENDATION that

Members note the report.

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

1. Scrutiny Committee – Economy 12 November 2009 - Economy Update