

**EXETER CITY COUNCIL
SCRUTINY COMMITTEE – ECONOMY**

3 JUNE 2010

ECONOMY UPDATE

1.0 PURPOSE OF REPORT

- 1.1 To provide Members with a brief update on the performance of the national and local economy.

2.0 BACKGROUND

- 2.1 In January 2010, this Committee received a report providing an update on the broad effect of the recession nationally and in particular on Exeter. The January update is summarised below.
- 2.2 Nationally, the economy showed continued signs of improved activity, although the economic outlook remained uncertain. Forecasts suggested inflation may rise to above 2% and then decline gradually in 2010. Consumer spending had increased prior to the return of the 17.5% VAT rate, whilst manufacturing outlook largely remained stable.
- 2.3 Average earnings growth had continued to remain weak, whilst claimant forecasts for job seekers allowance (JSA) claimants indicated a rise in numbers during 2010.
- 2.4 Within Exeter, the Chamber of Commerce survey (December 2009) reported mainly positive findings on confidence, sales, profit margins and cash flow.
- 2.5 The number of business insolvencies had seen no real change in Exeter, whilst regionally and nationally they had decreased in numbers between 2008 and 2009.
- 2.6 In terms of Exeter's retail vacancy rate, this remained around 8 percent, lower than national rates.
- 2.7 The percentage of the workforce claiming JSA in Exeter stood at 2.5% (November 2009), having been 2.6% in September. Male and Female unemployment had fallen, although males continued to be more affected, at 3.5% in comparison to 1.5% for females. Long term unemployment of over 6 months had continued to rise, with the younger workforce, aged 18-24 years, more adversely affected, accounting for 33% of all JSA claimants.
- 2.8 House prices in the city had declined by around 10% from 2008 to 2009 whilst repossession had showed a continued downward trend.
- 2.9 Exeter CAB data showed a continued drop in request for debt related support but an increase in welfare benefit enquiries.

3.0 ECONOMY UPDATE

Nationally

3.1 The March 2010 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 (CPI), which excludes house prices, fell from 3.5% to 3.0% in February 2010 whilst Retail Price Inflation was unchanged at 3.7%. However, CPI for March 2010 rose to 3.4%, as a result of rising gas bills, fuel costs and air transport fares. Forecasts suggest a decline in inflation 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%.
- house prices fell by 1 percent in February according to Nationwide, whilst gross mortgage lending rose 3 percent year on year to £11.5 billion in March according to the Council of Mortgage Lenders. The market continued to show further signs of recovery but some economists argue that overvalued properties persist in some areas against a background of lower income growth.
- manufacturing investment fell further in the last 3 months of 2009 and uncertainty remains on public finances and sustainability of the recovery in key export markets.
- average earnings growth across the economy remained weak, with the average annual increase in earnings including bonuses being 0.9% in January 2010.
- the number of people claiming JSA fell in March to 1.61 million people (4.9% of the workforce). However, the wider International Labour Organisation (ILO) measure, which additionally include jobseekers who are not claiming benefits rose by 43,000 to around 2.502 million (8.0% of the workforce).
- GDP growth figures for Q1 2010 weakened unexpectedly to 0.2 percent, confounding expectations of a continuation of the pace of growth seen in the last three months of 2009 (+0.4%) and underlying the fragile state of the economic recovery. Some analysts suggest that harsh winter weather, the worst in 30 years, depressed output in the retail sector and industry. Nonetheless, industrial output grew by 0.7 percent in Q1 2010, the strongest in four years whilst business services and finance grew by 0.6 percent, its best performance in two years.

Local Business

3.2 The latest Exeter Chamber of Commerce survey of its membership (March 2010) continued to report mainly positive findings. The Chamber survey suggested a continued high proportion of businesses reporting medium to high levels of confidence at 90% (89% in December 2009); whilst 19% reported high levels of confidence (23% in December 2009). In terms of sales, 55% reported they had increased, up from 49% in December.

3.3 However, 28% of businesses surveyed reported profit margins were up, as opposed to 33% in December 2009. Similarly, the percentage of businesses reporting a positive cash flow had also fallen, with just 24% reporting an increase, as opposed to 33% in December. Some 27% of firms confirmed that the numbers of people employed had increased on last quarter, up from 24% in December, continuing the reported rise over the last four Chamber surveys. The percentage of employers

forecasting that they will take on more employees has also increased to 27%, being 23% in December.

- 3.4 There were 3 companies winding up in Exeter in Q4 2009 following courts orders, with no real change since Q4 2008. Regionally, numbers closing rose by 8% whilst nationally, closures declined by -21% over the same period.
- 3.5 In terms of insolvencies brought about by creditor petitioned bankruptcies from suppliers seeking repayment of debt there has been a 21% increase in the rate in Exeter when comparing Q4 2008 (14 petitions) to Q4 2009 (17 petitions). There has also been an increase of 9% regionally but a 12% decrease nationally.
- 3.6 There was a marked decrease in Exeter for debtors' bankruptcy petitions – companies with outstanding debt closing down (36% less in total since Q4 2008), with 105 petitions in Q4 2009. The trend is also downwards regionally and nationally, at -17% and -11% respectively.
- 3.7 In terms of city centre retail property, the vacancy rate was less than 8% in February 2010; nationally the rate is at an average of 12%.

Unemployment

- 3.8 The percentage of the workforce claiming JSA in Exeter for both February and March 2010 was 2.7% (2.8% March 2009), representing 2,224 people. It is above the rate for Devon at 2.4% (10,328), but below that of Plymouth at 4% (6,489), Torbay at 4.8% (3,652), the South West at 3.0% and England and Wales at 4.2%. The numbers of live unfilled vacancies registered with Job Centre Plus have decreased from 1,426 in November 2009 to 856 in March 2010.
- 3.9 Male claimants of JSA decreased gradually in the second half of 2009 but have since increased in the first quarter of 2010. From 1,459 in December 2009, the figure is now 1,621 in March 2010 (a rate of 3.7%). Similarly, female claimant numbers fell in 2009 to 546 in December but have since increased to 603 claimants in March 2010 (a rate of 1.5%).
- 3.10 Whilst it continues to be welcome that employment opportunities continue 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.
- 3.11 The number of people who have been claiming JSA for six months or longer has continued rising; around 26.9% for March 2010 (595) compared to 15.5% in March 2009 (360). Similarly, numbers of those who have been claiming for 1-2 years are up from 3.6% a year ago (80) to 9.7% in March 2010 (215).
- 3.12 Job seekers, especially lower skilled and younger claimants, are perhaps more likely to stay on benefits for longer periods in times of high unemployment as more qualified and skilled people will be competing with them for the jobs available. Around 680 individuals aged 18-24 years were claiming JSA in March 2010 (630 in December 2009 but 780 in March 2009), with now almost three quarters being male.
- 3.13 In terms of the impact of unemployment on minority ethnic groups, the latest available data on the numbers seeking work is January 2010, where numbers have risen to 70 people from 65 in December, still significantly higher than the 30 recorded back in August 2008.

Housing Market/Residents

- 3.14 House prices in Exeter have declined slightly more than seen regionally and nationally. The overall average house price for Exeter for Q4 2009 stands at £197,000, a decrease of 1.6% on average prices recorded for Q4 2008 (£200,300). In Q3 2009, the value was £195,700. Prices are still below values seen in 2008 and prices for first time buyers stood at 8.8 times resident median full-time earnings in Q4 2009.
- 3.15 During the course of 2009, around 1,511 properties were sold in the city. This compares with 1,322 transactions during 2008, a rise of 14.3%, (2,463 for the same period in 2007, - 38.6%).
- 3.16 There continues to be positive signs in the housing and rental market with a downward trend for mortgage and landlord repossessions in Exeter in comparison to regional and national averages.
- 3.17 There were a total of 185 mortgage possession orders made by the courts in Exeter between Q1 2009 and Q4 2009, a decrease of - 44% on the same period for 2008. Regionally and nationally, the decrease has been -34% and -35% respectively. In terms of landlord possessions claims leading to orders, there has also been a decline in Exeter over the same time period of - 13%. Regionally and nationally the decline has been -13% and -10% respectively.
- 3.18 Debt and welfare benefit enquiries continue to show a mixed picture. Data for March 2010 from Exeter CAB shows an upward trend in the level of recorded debt related enquires since the start of the year whereas data from November 2009 had shown a decline. However, they are still around 27% lower than in March 2009. Similarly, enquiries relating to welfare benefits have increased and are close to the levels recorded in 2009. There has also been a rise in employment related enquiries as a consequence of rising concern over unemployment and redundancies.

4.0 FINANCIAL IMPLICATIONS

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

5.0 RECOMMENDATION

Members are asked to consider the content of this report.

RICHARD BALL
HEAD OF ECONOMY AND TOURISM

KARIME HASSAN
INTERIM DIRECTOR ECONOMY AND DEVELOPMENT

ECONOMY AND DEVELOPMENT DIRECTORATE

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

1. Scrutiny Committee – Economy January 2010 - Economy Update