

**EXETER CITY COUNCIL
SCRUTINY COMMITTEE – ECONOMY**

2 SEPTEMBER 2010

ECONOMY UPDATE

1.0 PURPOSE OF REPORT

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

2.0 BACKGROUND

- 2.1 In June 2010, this Committee received a report providing an update on the national, regional, and local economic picture, a summary of which appears below.
- 2.2 Nationally, the economy showed continued signs of improved activity. However, the economic outlook remained uncertain and was seen as likely to remain weak throughout the rest of the year. Consequently, the Bank Rate was held at 0.5% with forecasts suggesting inflation would gradually decline from 3.4% to below 2% by the end of 2010.
- 2.3 Average earnings growth had also continued to remain weak, and the numbers claiming Job Seekers Allowance (JSA) had fallen nationally to 4.9% of the workforce (March 2010). Conversely, JSA claimants in Exeter had risen from 2.4% in December 2009 to 2.7% in March, albeit below the national rate. In terms of the gender of unemployment in Exeter, the male rate stood at 3.7% and the female rate was 1.5% (March 2010). Long term unemployment of over 6 months had continued to rise, with the younger workforce, aged 18-24 years, continuing to be the most adversely affected, accounting for 30.7% of all JSA claimants.
- 2.4 The Exeter Chamber of Commerce survey (March 2010) continued to report mainly positive findings on confidence and sales. More businesses had indicated that they had employed more staff. However, there had been a small decrease in the percentage of businesses reporting that profit margins were up and cash flow had improved.
- 2.5 The number of business insolvencies had risen in the last quarter of 2009 in Exeter compared with the same period in 2008, similar to the regional picture. Nationally however, numbers had been decreasing.
- 2.6 Exeter's retail premises vacancy rate had remained around 8%, lower than national rates of around 12%.
- 2.8 House prices in the city had declined marginally by around 1.6% from Q4 2008 to Q4 2009, slightly more than seen regionally. However, nationally positive signs were observed in the housing and rental markets with fewer repossessions orders made by the courts.
- 2.9 Exeter Citizen Advice Bureau (CAB) data showed an upward trend in request for debt related support combined with an increase in welfare benefit and employment related enquiries.

3.0 ECONOMY UPDATE

Nationally

- 3.1 The Bank of England in August 2010 published a revised view on inflationary pressures and the revival of economic vitality in the UK economy. Whilst the recovery has continued during the first half of 2010, the next two years are forecast to be difficult:
- banks are likely to lack full capability to lend in order to stimulate growth;
 - the national debt burden is being reduced to avoid an economic crisis;
 - public and private consumption is expected to decrease and;
 - inflation is anticipated to be higher than previously forecast, principally due to the Government's decision to raise VAT to 20% from 17.5% in January 2011, which will contribute to higher levels throughout that year
 - the UK economy would face a shift in the balance of activities which stimulate economic growth "away from private and public consumption and towards net exports".
- 3.2 Research produced in July by the Chartered Institute of Personnel and Development (CIPD) suggests that one-third of public sector employers anticipate reducing employee numbers over the next 3 months. Overall, across all sectors, employers envisage making on average 5.5% of their workforce redundant.
- 3.3 The July 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 3.4% in June to 3.2% in July 2010 whilst Retail Price Inflation Index (RPI) fell from 5.1% to 5.0%.
 - forecasts from the Monetary Policy Committee (MPC) suggest inflation staying above the Bank of England 2% target for some months to come, whilst the rise in VAT is likely to add to inflationary pressures. A growing number of analysts have suggested a number of inflationary pressures such as rising price of fuel and wheat may soon 'force' the Bank to raise interest rates to counter inflationary pressures. Nevertheless, the Bank of England kept the base rate at 0.5% in July;
 - retail sales rose slightly again but consumer confidence showed signs of weakening;
 - there was a slight decline in the number of home mortgages approved and according to the Nationwide survey, house prices have changed little month to month in 2010. Supply of houses for sale on the market is reported to be increasing, but demand continues to remain weak, with home purchase mortgage approvals remaining half their long term level;
 - headline average earnings growth including bonuses across the economy also fell from 4.2% to 2.7%;
 - the number of people claiming JSA fell in June to 1.46 million people. The wider International Labour Organisation (ILO) measure, which additionally includes jobseekers who are not claiming benefits also fell by a similar amount to 2.47 million (7.8% of the economically active population);
 - GDP growth figures for Q1 2010 were revised upwards from 0.2 to 0.3 percent, partly due to the strength of business investment over the quarter, and the growth of production output, within which manufacturing grew by 1.2%. Q2 initial estimates for GDP highlight a 1.1% growth over the quarter, driven by demand in business services, finance, and construction.

3.4 The July data on UK purchasing activity from the Purchasing Managers Index (PMI) produced jointly by the Chartered Institute of Purchasing & Supply and 'Markit' for manufacturing, construction and the services sectors showed a mixed picture with a slowing and weakening of activity. In summary:

- manufacturing reported an increase in both production and new work orders and production increased, albeit at its weakest rate, for the 14th month running. Job creation continued for the 4th consecutive month, partly due to companies focusing on reducing a backlog of work. However, future orders for work fell for the first time in 4 months. Exports and overseas sales had virtually stagnated in July, which had been preceded by strong growth in the previous months;
- expansion in construction activity slowed to its weakest in 4 months, although new orders were sustained, albeit at slower rate. Despite sustained rises in new orders and output, employment increases failed to materialise. This ended a two-month period where staffing levels had increased. Alongside the slowdown in new order growth, the fall in headcount was attributed to cost cutting reviews and freezes on recruitment. The use of sub-contractors had similarly decreased. Whilst some companies remained confident of economic improvements boosting demand for their services, overall, positive sentiment had decreased within the industry amidst concerns over public sector spending cuts;
- services activity weakened further as decreased demand from the public sector was reported to have hit growth. Activity levels and new business rose at their slowest rates since June 2009, resulting in a slight decline in payroll numbers for the second time in 3 months as the backlog of work had been completed and demand for services remained weak. Business to business services had fared least well, whilst demand for personal services had seen strong growth. There were a number of reports of cancelled contracts from the public sector. Amidst these concerns of further public sector contraction, confidence within this sector remained historically low.

Regionally

3.5 The July edition of the England Regional PMI's for private manufacturing and services sectors companies mirrors the emerging picture within the UK economy, extracts of which are set out below:

- business activity across all the nine English regions saw its weakest rise in the previous 10 months, suggesting momentum is slowing through reduced orders and concerns about the sustainability of recent demand for products and services. The slowest improvement in new business was in the South East and South West. Overall, the data suggests recent GDP growth may have been temporary with the largest loss in momentum seen in the 'Greater' South East, with those areas dependent on the public sector maintaining momentum – for the time being;
- overall, the South West's PMI index shows that business activity increased for a 15th successive month, although the data suggests the region's recovery lags behind elsewhere in the UK. Growth had been driven primarily in the manufacturing sector by new orders, but demand in the service sector had remained at low levels with reported activity declining as the backlog of work had been cleared and demand for new work had remained weak.

Local Business

- 3.7 The June Exeter Chamber of Commerce quarterly survey of its membership showed a potentially worsening picture since the March 2010. That said, a high percentage of businesses still reported medium to high confidence levels at 88%, down 2% from March.
- 3.8 Profit margins had decreased for 28% of businesses, compared to 25% in March, with only 24% claiming they had risen as opposed to 28% in the previous quarter. Some 10% of businesses indicated a reduction in staff, compared to only 7% in March, with less reporting an increase, 25% in comparison to 27% previously, reversing an upward trend since June 2009. In addition, 43% had introduced a pay freeze, up 5% from March, with a further 4% expecting to do over the 3rd quarter.
- 3.9 However, against this picture, 50% reported they planned to make investments in the next quarter, up markedly from the March survey when 26% planned to do so.
- 3.10 The following figures represent court activity for Exeter and not the actual numbers of individual or business insolvencies. The Insolvency Service publishes national data, but this is not available for Exeter. According to the Insolvency Service, there was an increase of 0.5% of compulsory and creditors' voluntary liquidations in Q2 2010 from Q1 2010, but a 19.1% decrease on the same period in 2009.
- 3.11 There was only 1 company winding up in Exeter in Q1 2010 following a court order and none in Q2 of this year. Between Q3 2009 to Q2 2010 there have been 9 orders issued and no recorded change on the same period last year Q3 2008 and Q2 2009. Regionally there has been a 19% decline and across England & Wales, a 15% fall.
- 3.12 In terms of insolvencies brought about by creditor petitioned bankruptcies from suppliers seeking repayment of debt, 9 petitions were received in Q1 2010 and 5 in Q2 of this year. Between Q3 2009 to Q2 2010 there had been 55, a decline of 14% from Q3 2008 to Q2 2009.
- 3.13 There was a marked decrease in Exeter for debtors' bankruptcy petitions – companies with outstanding debt closing down with 116 petitions in Q1 2010 and 76 in Q2 of this year. Overall, between Q3 2009 and Q2 2010 there were 425 petitions, a decrease of 29% from the same period Q3 2008 to Q2 2009. The trend is also downwards regionally and nationally, but less so than seen in Exeter, by -10% and -4% respectively.
- 3.14 In terms of city centre retail property, the premises vacancy rate has improved, down to 7.5%, from around 8% reported in February. This is against an average national rate of some 12%.

Unemployment

- 3.15 The population figures used to calculate the percentage of the resident workforce claiming JSA have changed from working age defined as 16 years to 59 years for females and up to 64 for males to aged 16-64 for both males and females. In addition, the mid-year population estimates for 2009 has been used and in some cases, such as Exeter, the estimated number of people living in the city has been reduced. The changes affect rates for all dates. Thus, the new rates quoted are not exactly comparable to those previously used.

- 3.16 Importantly, the numbers of live unfilled vacancies registered with Job Centre Plus in Exeter increased from 856 in March to 1,025 in July.
- 3.17 The total claimant count for JSA has continued to fall in Exeter since March to July 2010 from 2,224 people to 1,907, representing a rate of 2.3%. This downward trend was mirrored across England and Wales, South West, Devon, Plymouth and Torbay. The rates respectively in July were 3.5%, 2.4%, 1.8%, and 3.5% for both Plymouth and Torbay. Unsurprisingly for urban areas in the county, the rates are above the rate for Devon.
- 3.18 From the start of this year, male claimants of JSA have continued to decrease gradually from 1,643 men in January to 1,320 in July; the rate falling from 4.0% to 3.2%. In contrast, the number of female claimants have risen slightly from 571 in January, to 587 in July; the rate remained the same at 1.4%. Twelve months previously, July 2009, the claimant count was higher, with the number of male and female JSA claimants in Exeter standing at 1,616 and 662 people respectively.
- 3.19 Data for Exeter suggests that those claiming JSA for over 6 months has fallen by around 15 people since March from 595 to 580 persons in July, representing 30.5% of all claimants. This is below the rates for Plymouth, Torbay, the South West and England and Wales, which range from 33% to 36.9%.
- 3.20 However, the numbers of people unemployed who have been claiming for over 12 months has risen slightly by around 10 people from 245 in March to 255 in July, representing 13.5% of all claimants. This rate for Exeter is less than the other areas mentioned, where the rates range from 14.5% to 18.3%.
- 3.21 Job seekers, especially lower skilled and younger claimants, are often disproportionately affected by adverse conditions in the job market and are often likely to stay on benefits for longer period as more qualified and skilled people will be competing with them for available jobs. However, since April 2009 when the number of young people on JSA reached a peak of 795 individuals, numbers have gradually decreased and around 540 persons aged 18-24 years were claiming JSA in July 2010 (680 in March), around a third being female.
- 3.22 In terms of the impact of unemployment on minority ethnic groups, the latest available data, suggests the numbers seeking work in June 2010 has remained unchanged since January at around 70 people. This is still substantially higher than the 30 persons recorded back in May 2008. However, these figures may be understating the position. In May 2008, the data shows that around 40 people preferred not to say what their ethnic origin was, or it was unknown, and for June this year such numbers had increased to around 85 people.

Housing Market/Residents

- 3.23 The overall average house price in Exeter for Q2 2010 stands at £197,900, a fall of £12,400 (-5.8%) from Q1 2010. However, when compared with the same quarter in 2009, prices have remained relatively stable, recording only a 0.2% rise. That said, higher rises over the same period occurred regionally and nationally, up 10.2% and 13.4% respectively. Prices in the city are still below values seen in Q2 2008 and consequently stand at 8.9 times resident median full-time earnings.
- 3.24 During the course of the second quarter of 2010, around 432 properties were sold in the city, (271 in Q1). This compares with 367 transactions during the second quarter

of 2009, a rise of 17.7%. For the same periods in 2008 and 2007 respectively, the numbers sold were 397 and 638.

- 3.25 There continues to be positive signs in the housing market with a downward trend for mortgage and landlord repossessions in Exeter in comparison to regional and national averages. The following figures summarise mortgage and landlord repossession orders by the courts, which represent actions taken for possession and not actual homes repossessed. Repossessions can occur without a court order being made, while not all court orders result in repossession taking place.
- 3.26 For the twelve month period between July 2009 and June 2010 there were 75 mortgage repossession orders issued for Exeter (25 to date in 2010), a decline of 42 % from the 12 month period July 2008 to June 2009. Similarly, the South West and England & Wales had both seen a decline of 29%.
- 3.27 Between July 2009 and June 2010, there were 170 landlord repossession orders issued for Exeter (82 to date in 2010), a decline of 17% from the 12 month period July 2008 to June 2009. Similarly, the South West and England & Wales had seen a decline by 11% and 6% respectively
- 3.28 Debt and welfare benefit enquiries are showing a rather negative picture. Data for June 2010 from Exeter CAB indicates an upward trend in the level of recorded debt related enquires since April 2010, whereas data from November 2009 had shown a decline. Debt enquiries are now around 5.6% higher than in June 2009 but around 41% higher on May 2010. Similarly, enquiries relating to welfare benefits have increased and are now at an all time high. There has also been a noticeable rise in enquiries on bankruptcy and debt relief orders which have nearly tripled on last month and now stand at their highest level since their peak recorded in October 2009.

4.0 FINANCIAL IMPLICATIONS

4.1 There are no financial implications arising from this report.

5.0 RECOMMENDATION that

- (1) Members' comments are sought on the content of this report.

RICHARD BALL
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. Scrutiny Committee – Economy June 2010 - Economy Update