



Monthly Economy Update

June 2010

SEEDA Research & Economics

Agenda

1 Economy Update

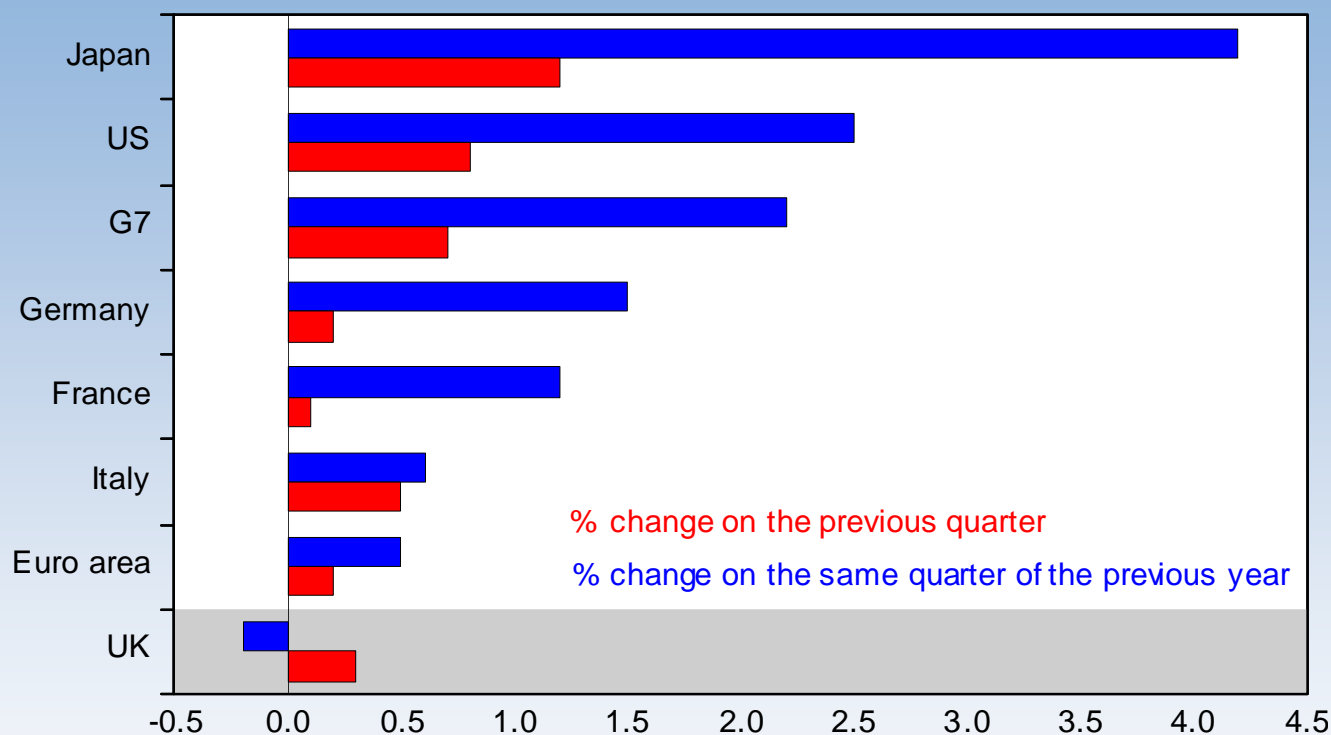
Javier Papa

2 Labour Market Update

Will Lecky

Fears of double-dip recession in major economies

Quarterly GDP Growth, Q1 2009

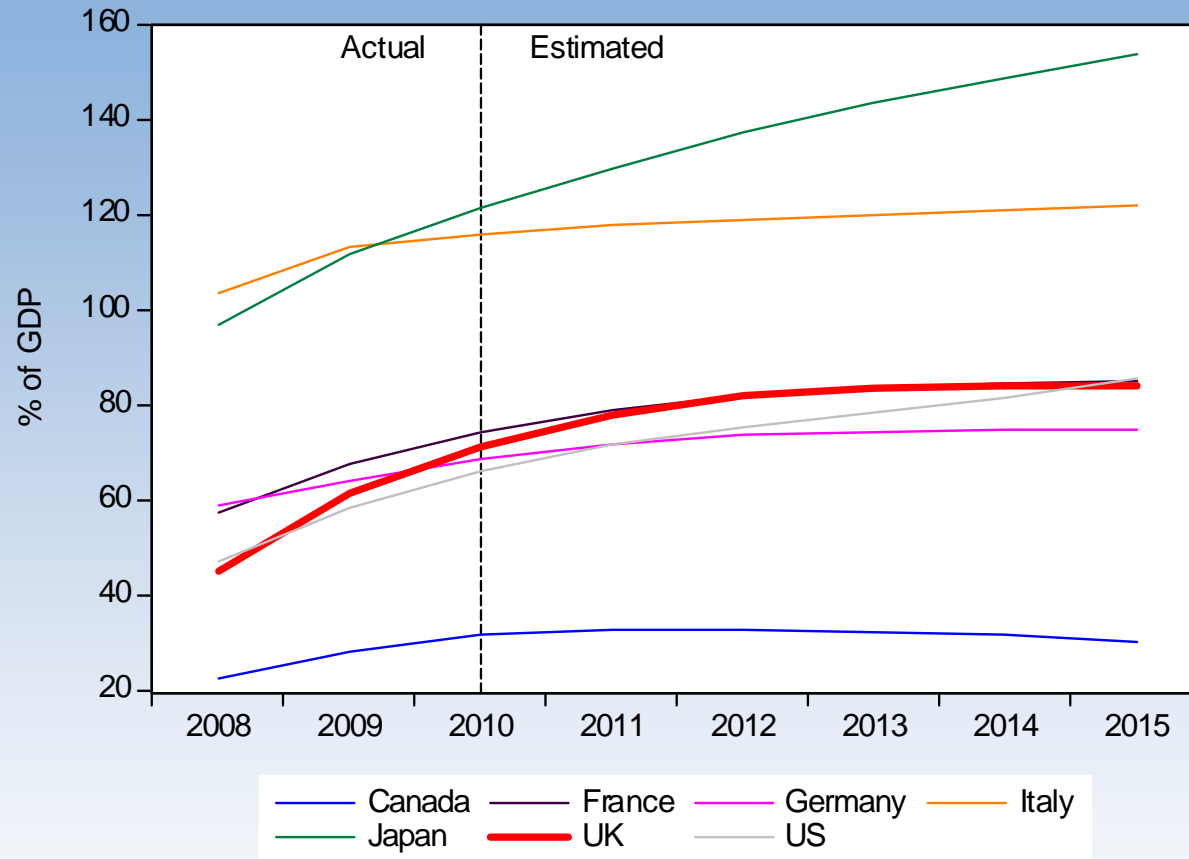


Source: OECD

- UK economic recovery larger than the Euro area in Q1 2010 but...
- Still negative in the year-on-year comparison with other major economies, which indicates the late entrance of the UK into recession.

Recent debt crisis and fiscal tightening

Government Net Debt as % of GDP

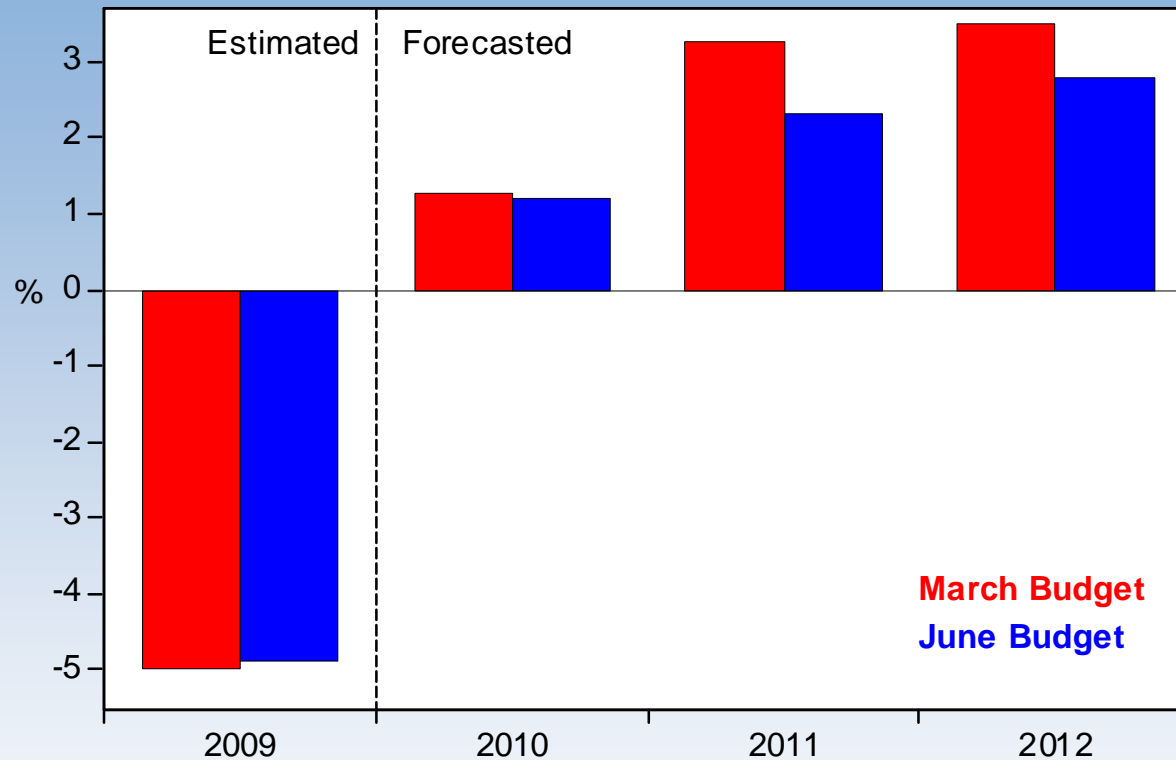


Source: IMF

- Projected UK indebtedness level is equal to or lower than other major economies but...
- For the new government it is still too high and should be adjusted

Fears that cuts will weigh on growth

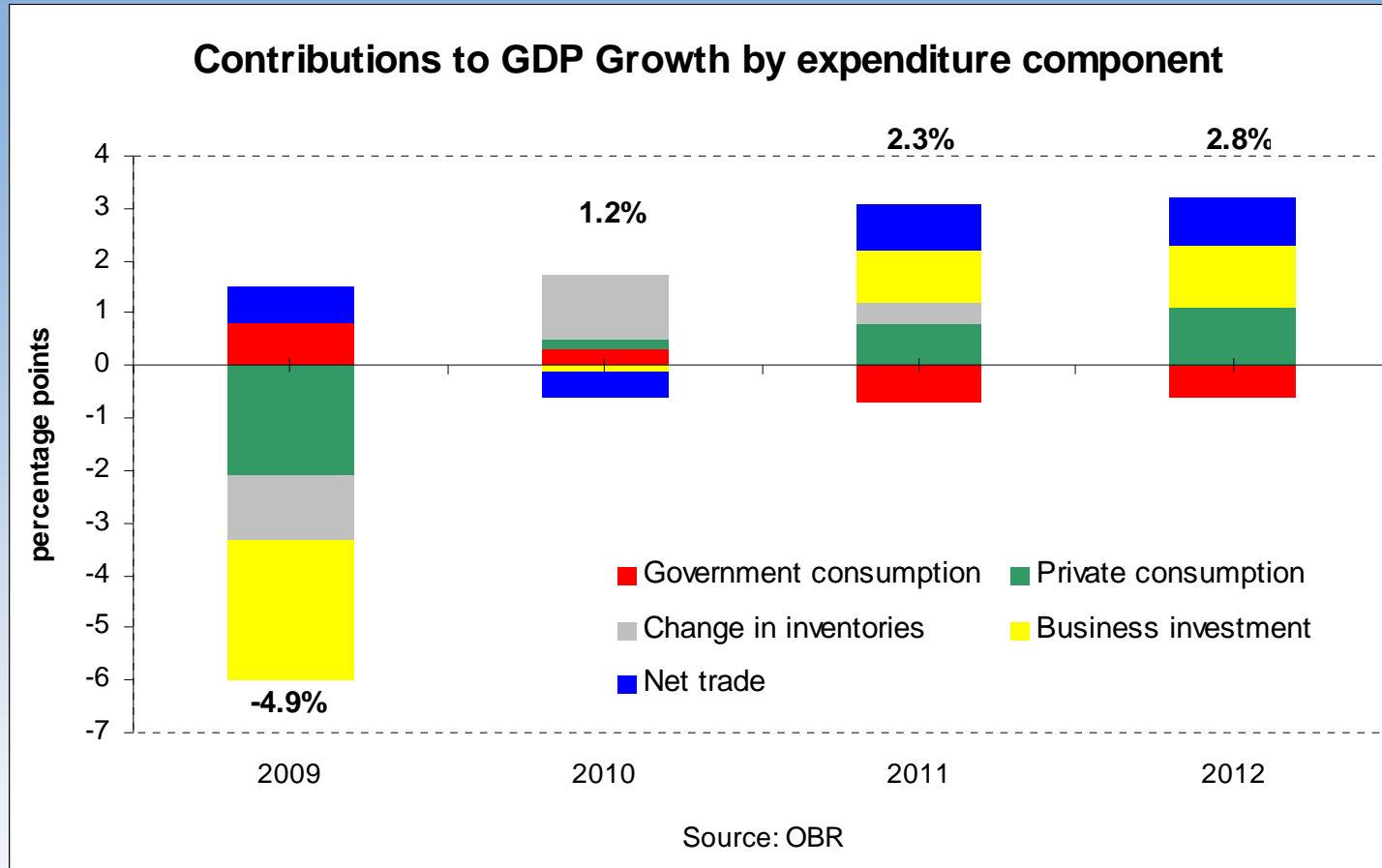
UK GDP Growth Revised



Source: HM Treasury

- Opinion is divided over the new budget leading to a double-dip recession.
- However, it is agreed that GDP growth will be lower in the years ahead.

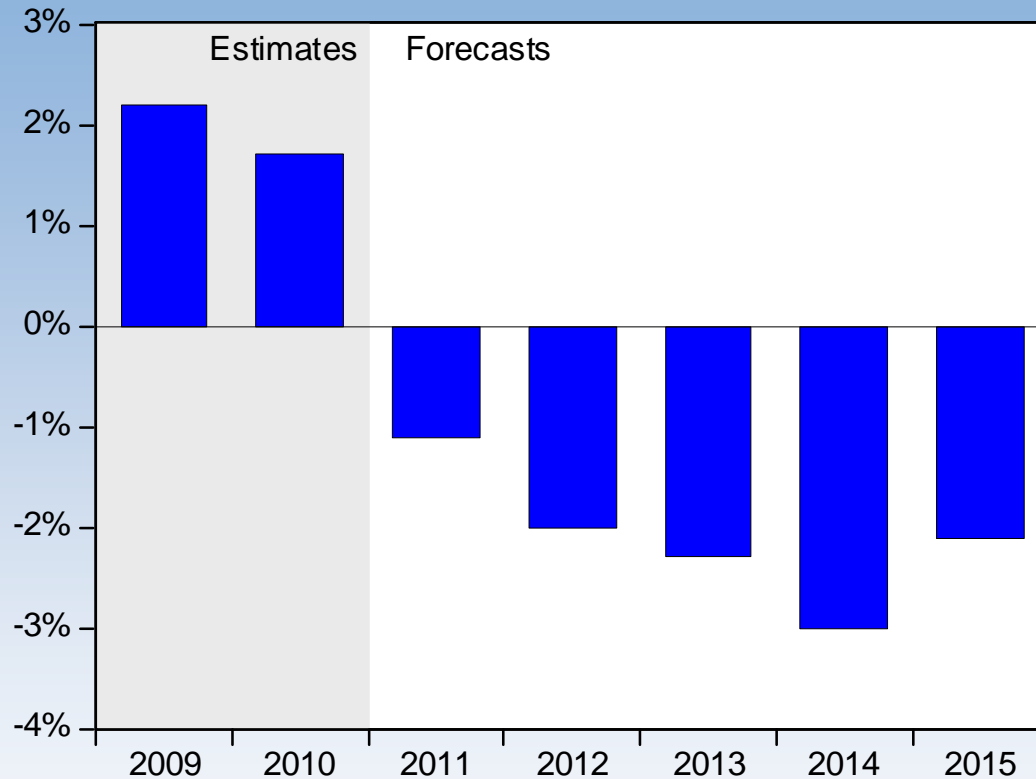
Less public sector and more private sector for growth



- Growth in 2010 (1.2%) estimated to be led by firms re-stocking their inventories
- Private consumption and investment are expected to make a major contribution to GDP growth in 2011 and 2012.

Britain facing biggest budget cuts in decades

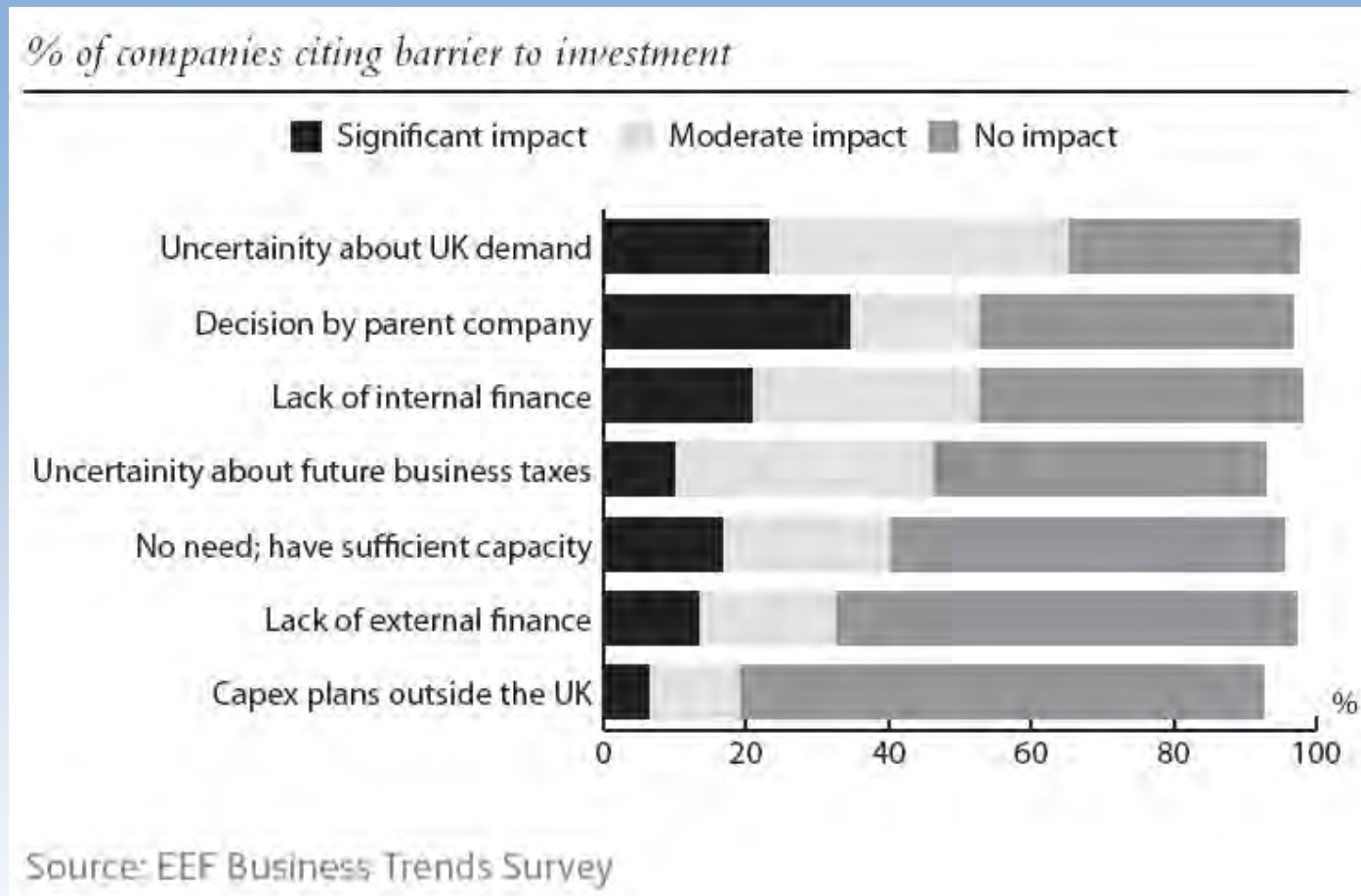
Government Consumption Growth, annual change



Source: OBR

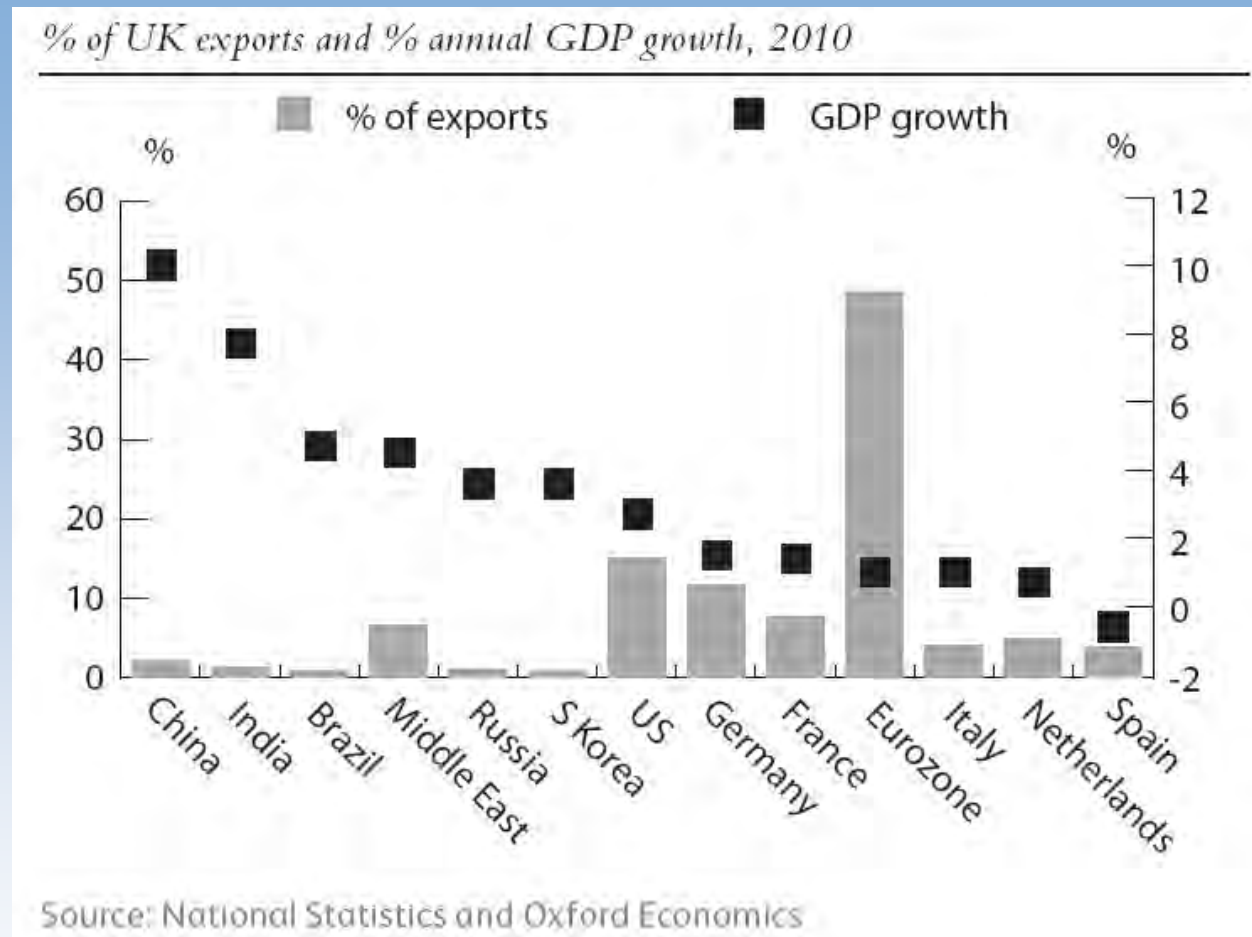
- Government consumption is expected to make no contribution to UK recovery
- No room for public spending to avoid potential double-dip recession

Private investment might not play critical role as expected



- Government projects private investment to grow around 10% per year but...
- Business investment still held back by uncertainty, finance and spare capacity

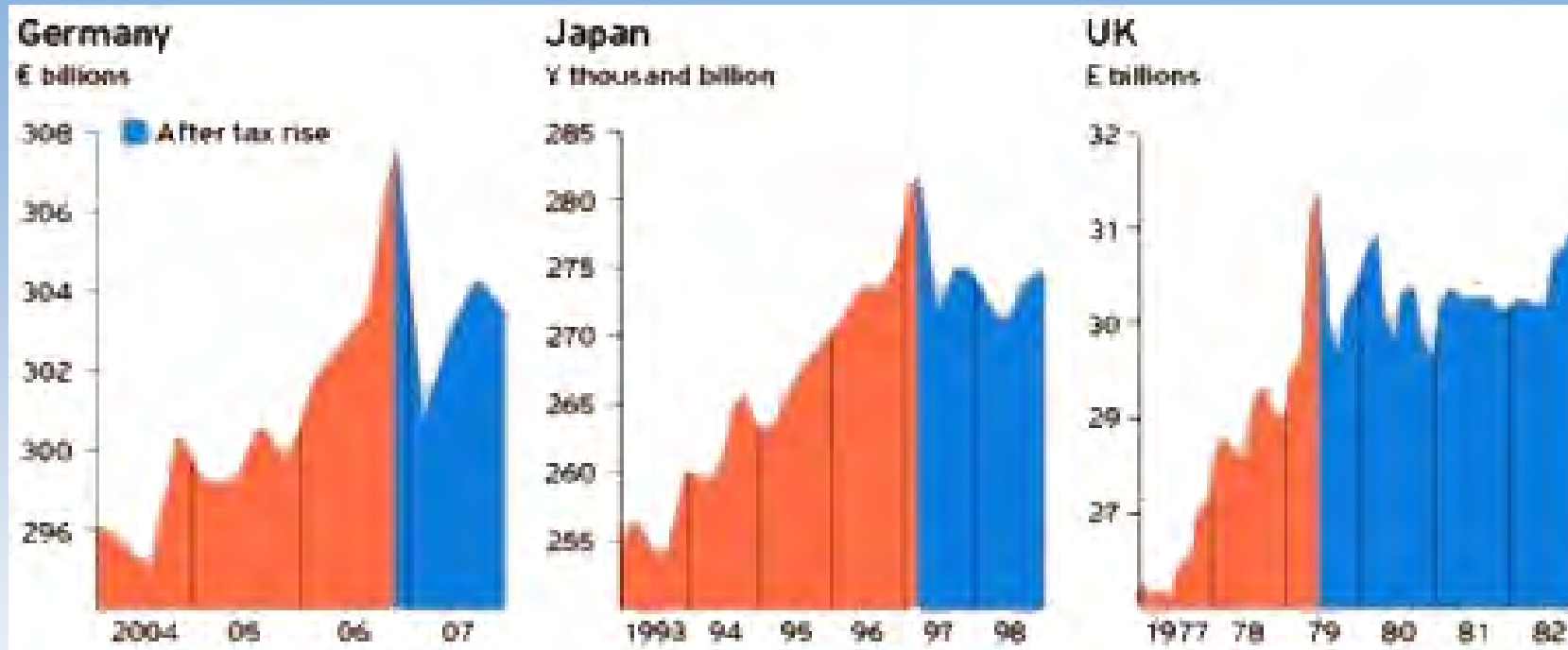
Weaker growth forecast for biggest UK export markets



- Majority of UK exports destined for slower growing developed economies
- Exports to high-growth emerging markets starting from a low base

Increased VAT might affect private consumption expansion

Effect of a rise in VAT on household consumption, selected countries

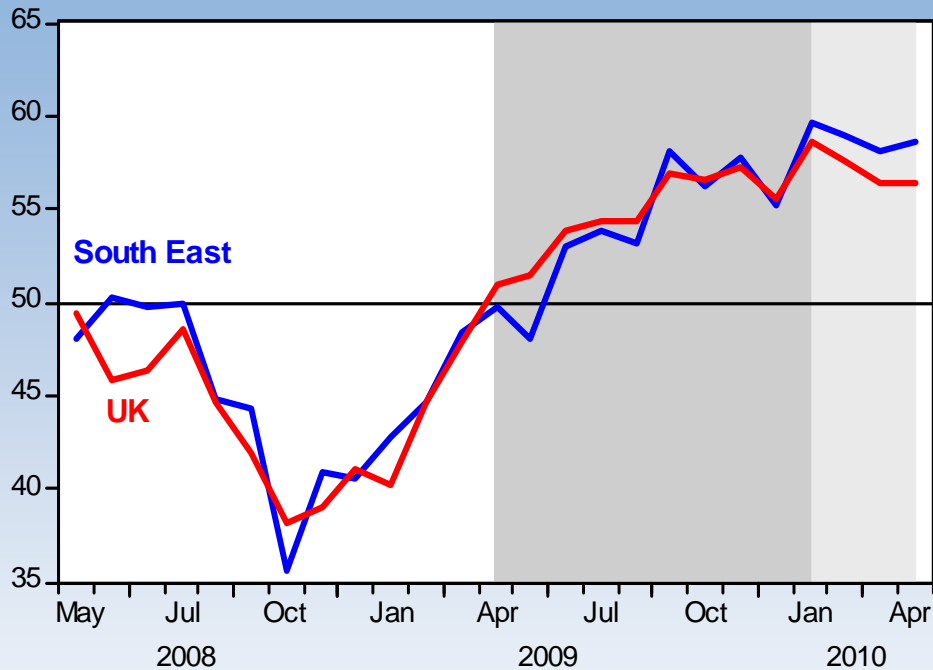


Source: Fathom Consulting

- Household consumption is expected to lead the UK economic growth
- However, raising VAT to 20pc would be a inflationary move which could cause a double-dip recession

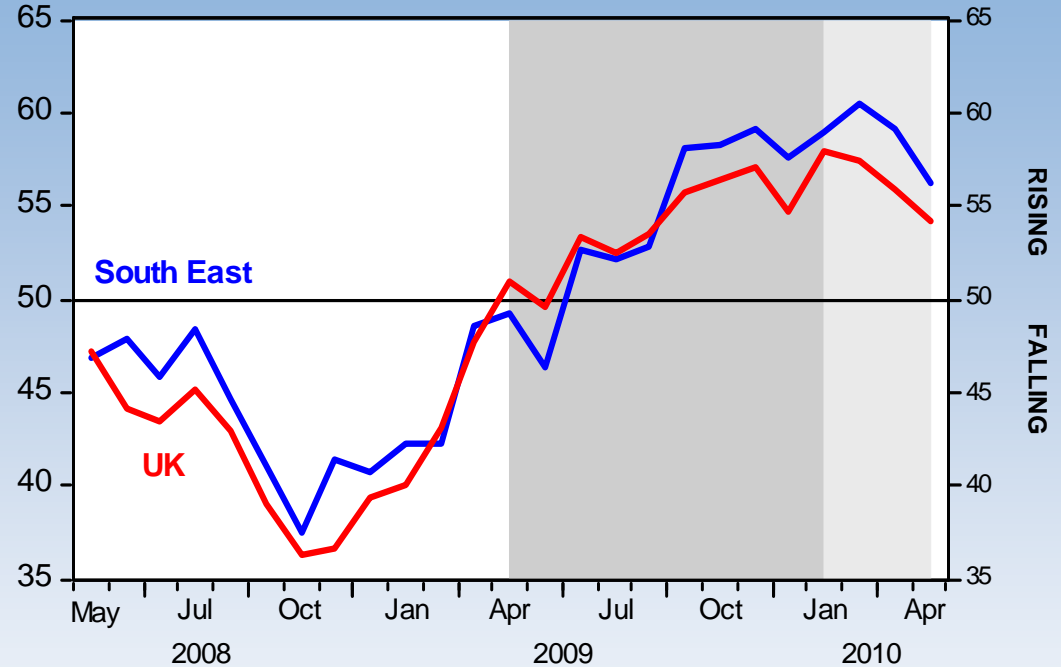
Output continued to rise in May at a lower pace though

Business Activity (output)



Source: RDA PMI

New Orders (incoming businesses)



Source: RDA PMI

- Activity growth remained among sharpest of all UK regions but...
- New orders growth slowed to eight-month low

Where will the impacts of fiscal tightening be felt?

Ranked Regional Impacts of Fiscal tightening

Region/ Measure	London	SE	SW	East	E Mids	W Mids	NE	NW	Wales	Yorks & Humber
Higher Higher/ Top Rate Income Taxes	1	2	4	3	5	6	9	7	10	8
Higher VAT	10	9	7	8	6	4	1	5	2	3
Public-Sector Pay Freeze - impact on service delivery	1	2	3	4	4	4	7	7	10	7
Public-Sector Pay Freeze - impact on disposable income	10	8	4	9	7	6	2	5	1	3
Lower Public Sector Capital Investment	1	8	9	3	6	5	9	4	2	7
Lower Social Security Spending	6	10	8	9	7	4	1	3	2	5

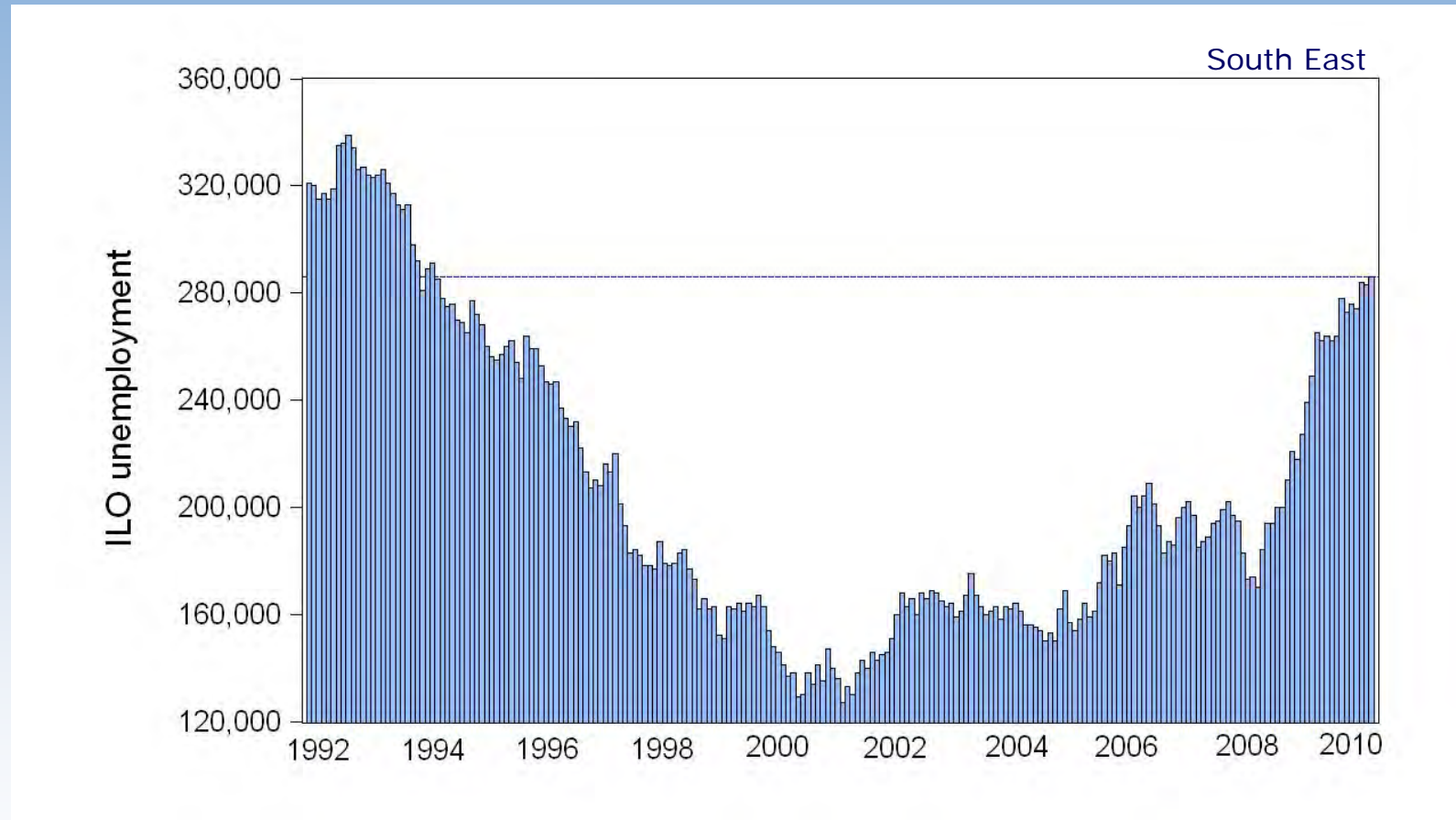
■ High Economic Impact
 ■ Medium Economic Impact
 ■ Low Economic Impact

Source: NLP Analysis

- Increases in income tax and VAT are not likely not impact on the SE
- But public sector pay freeze is likely to affect recruitment and disposable income in the SE.

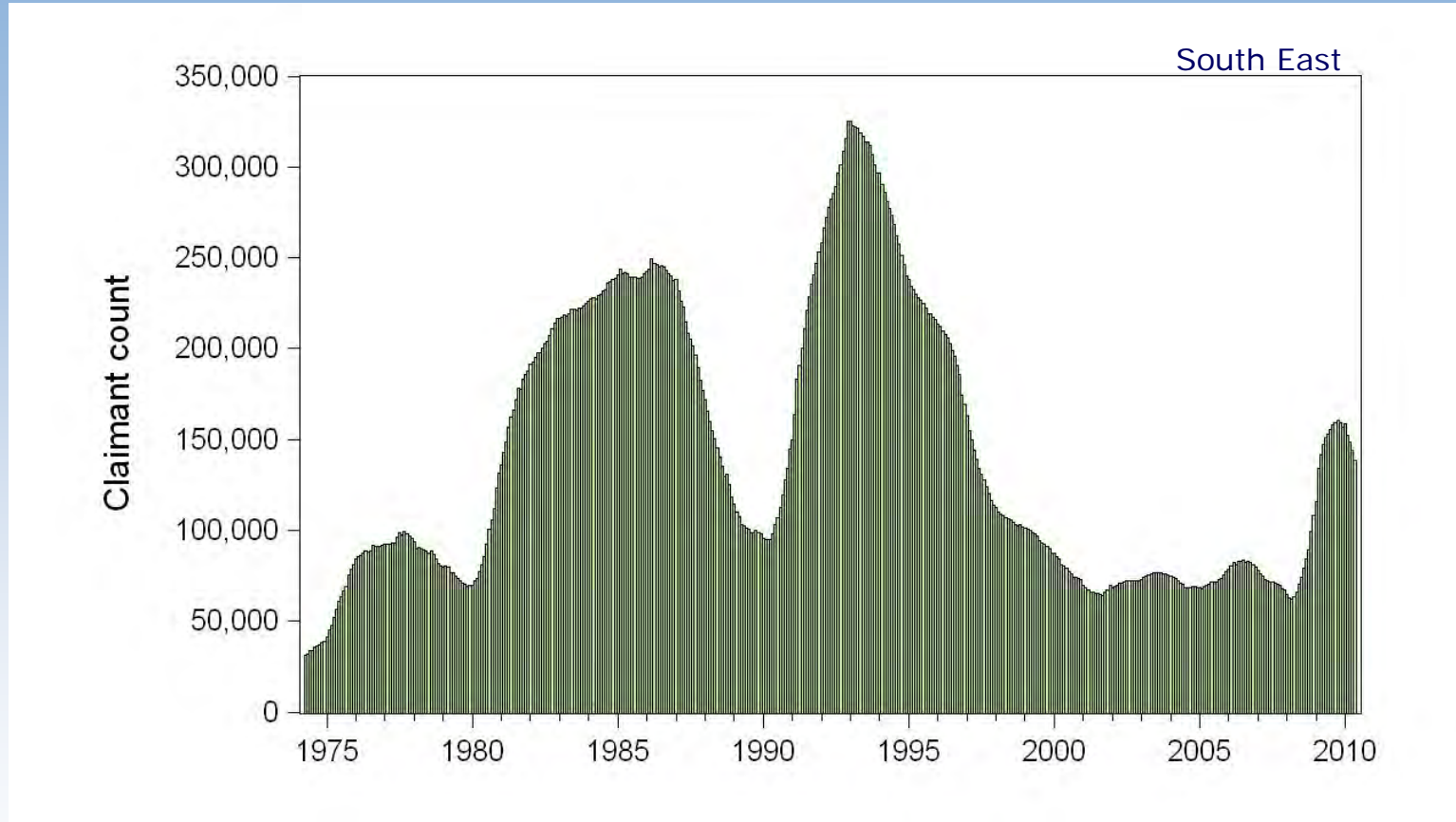
Labour Market

Unemployment remains at its highest level since 1994...



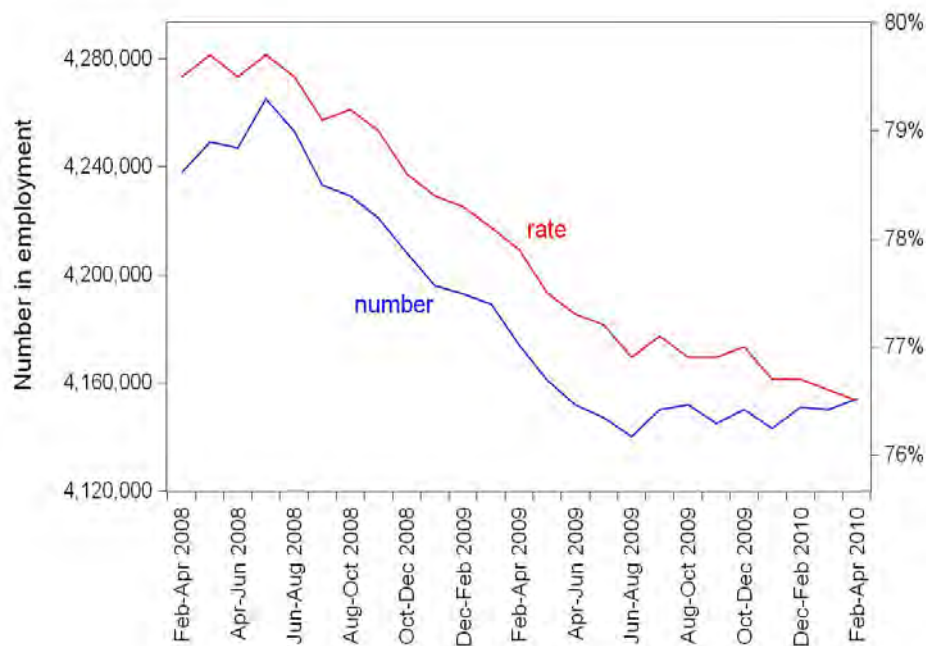
Source: ONS Labour Market Statistics

...though fewer people are claiming JSA



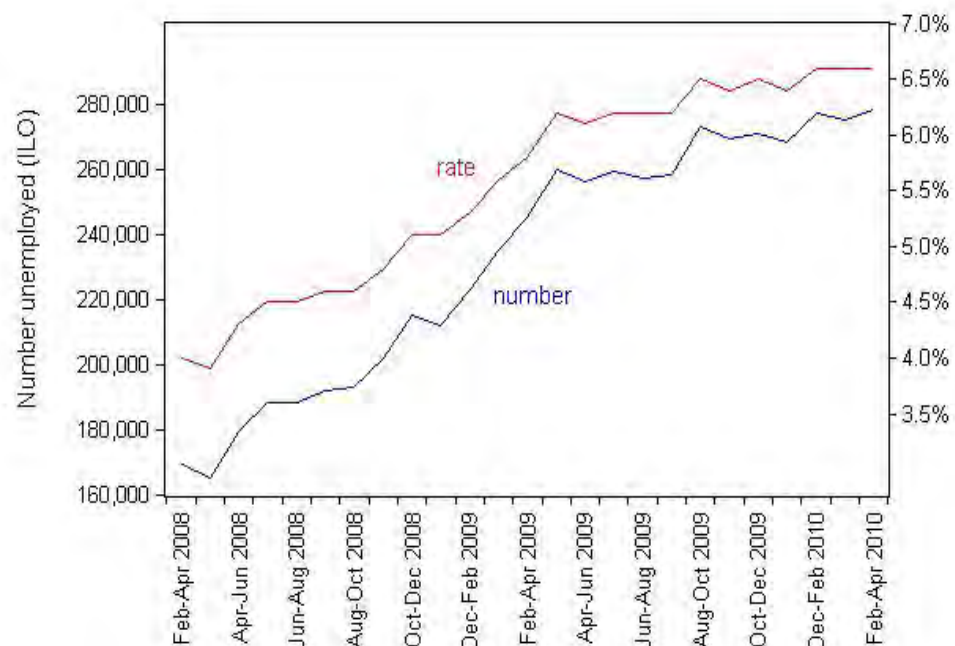
There has been some stabilisation

Fall in employment levelled out



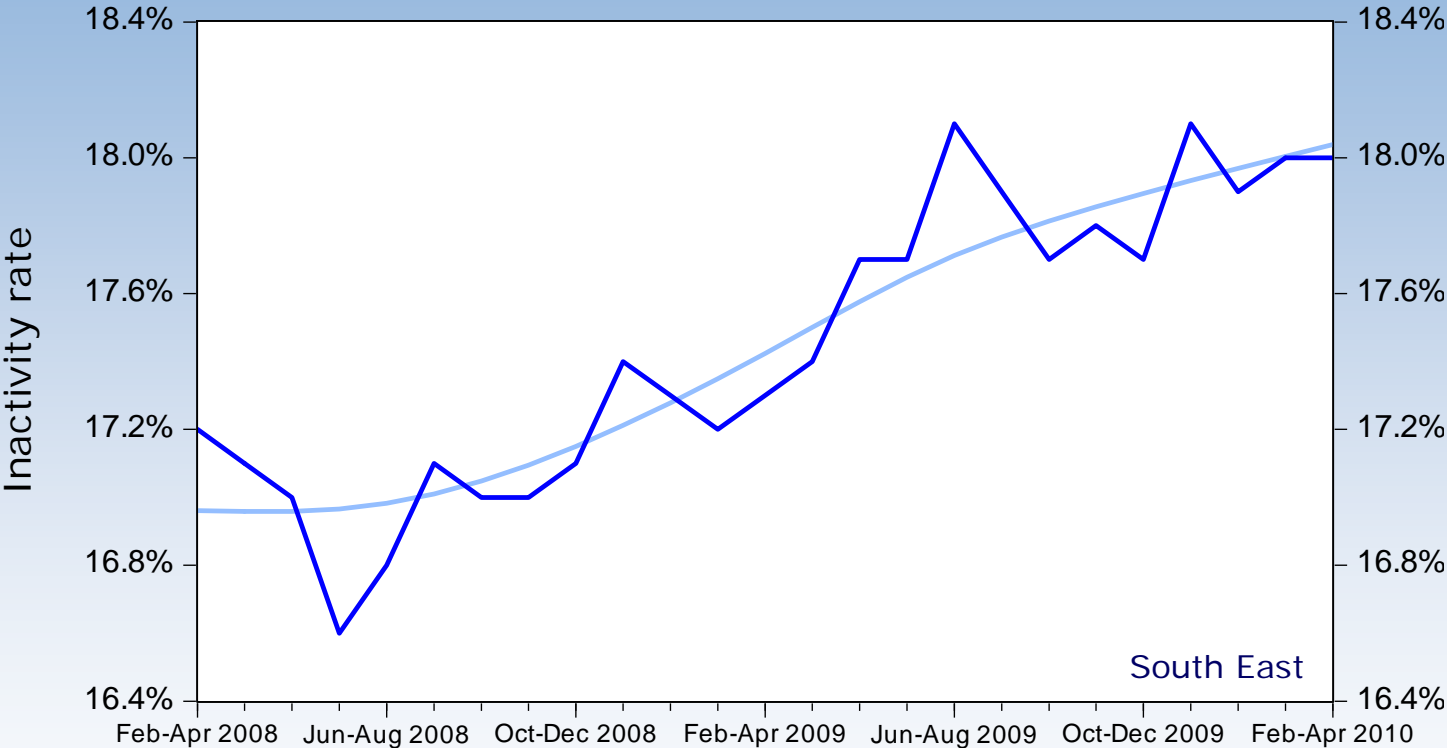
source: ONS Labour Market Statistics

Much smaller increases in unemployment



source: ONS Labour Market Statistics

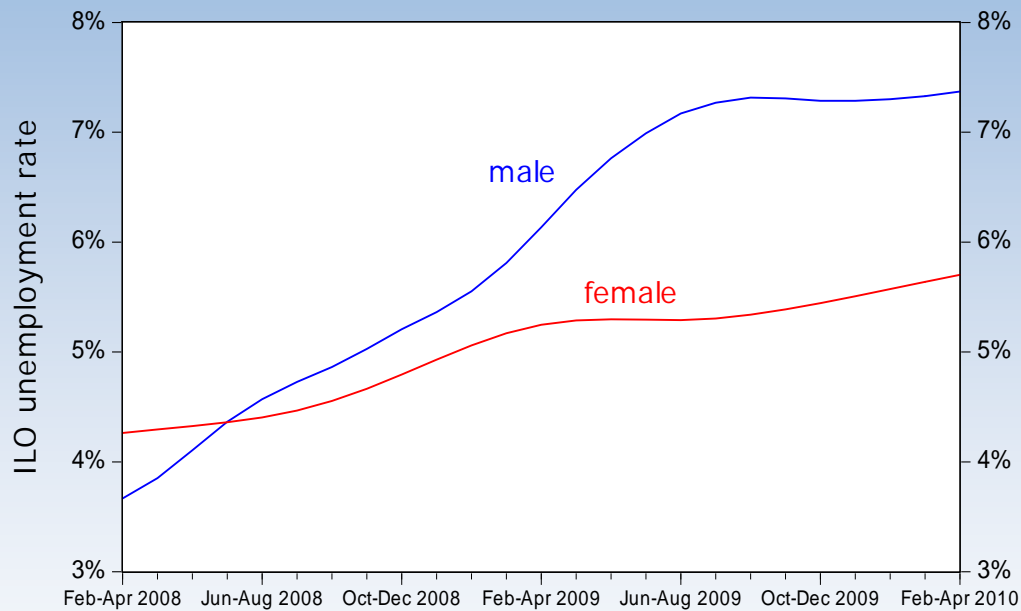
Rise in the inactivity rate



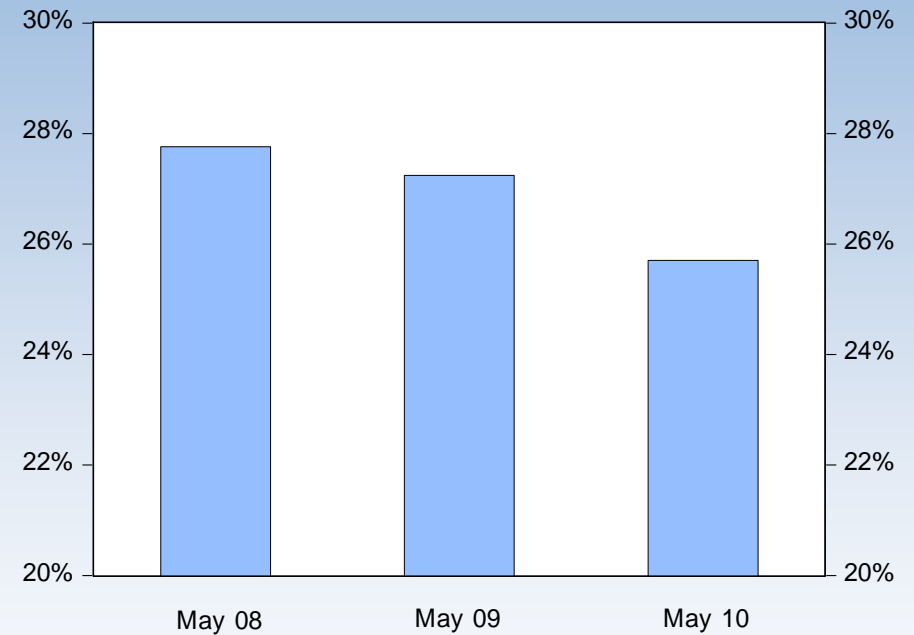
Source: ONS Labour Market Statistics

Characteristics of the unemployed

Male & Female unemployment rates

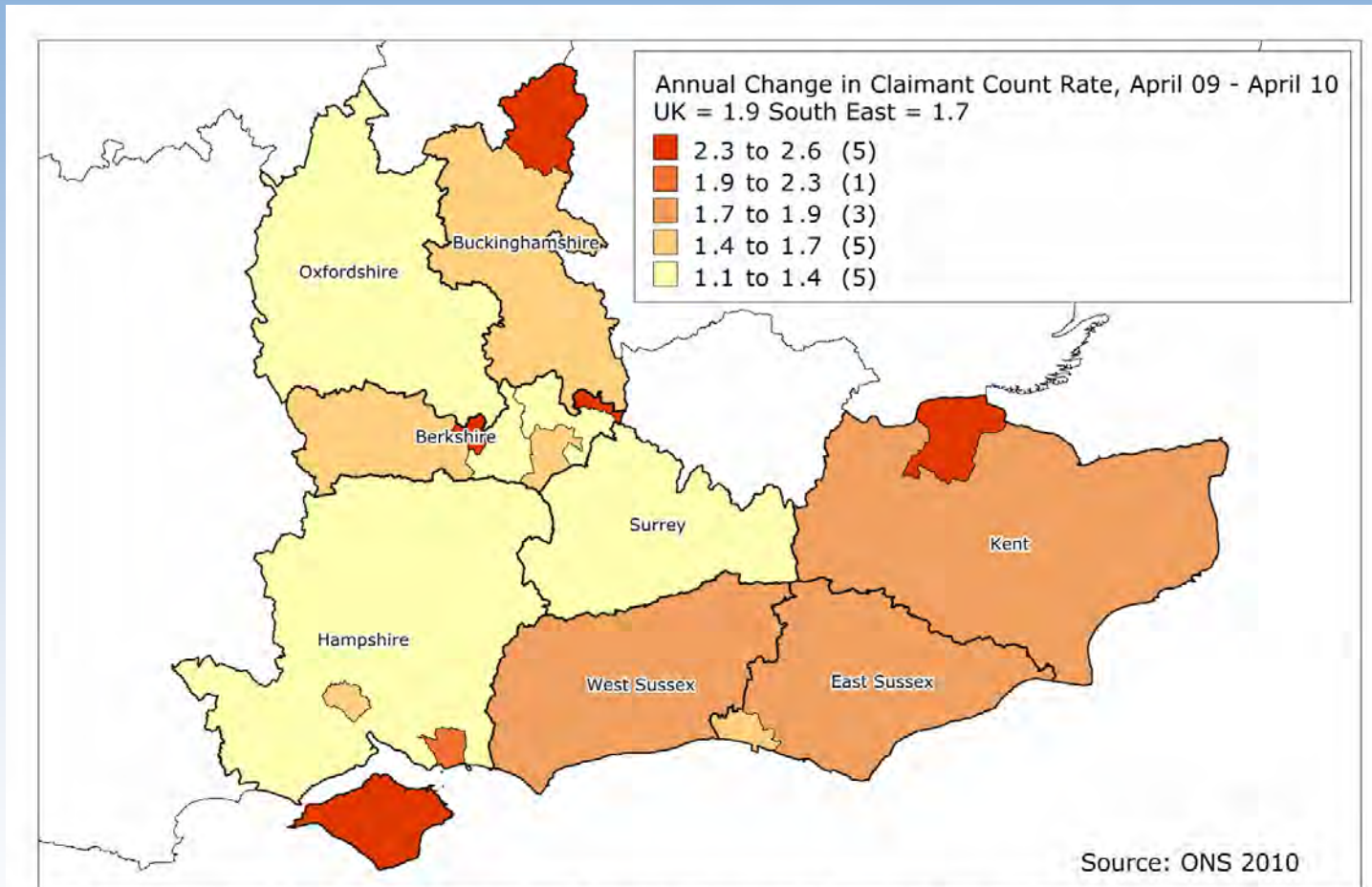


18-24 year olds as proportion of claimants



Source: ONS

Coastal areas most affected

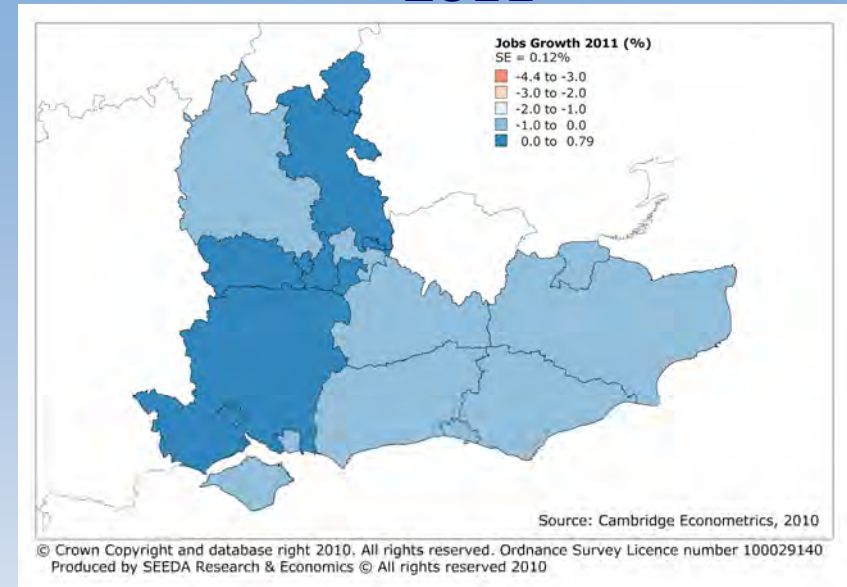
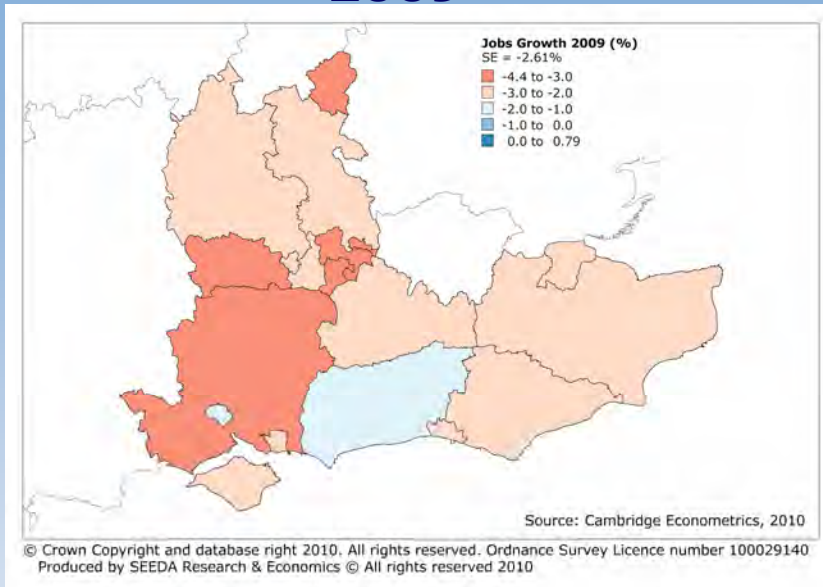


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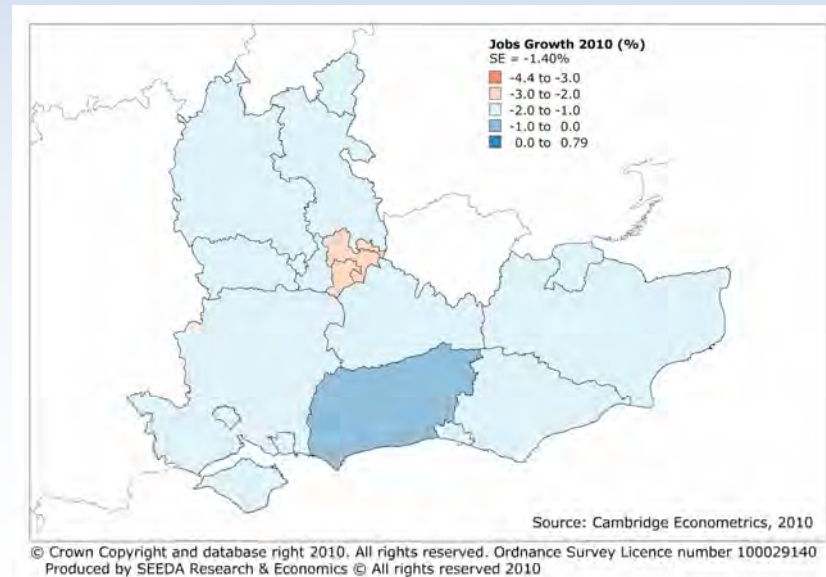
Cambridge Econometrics forecasts for jobs growth

2009

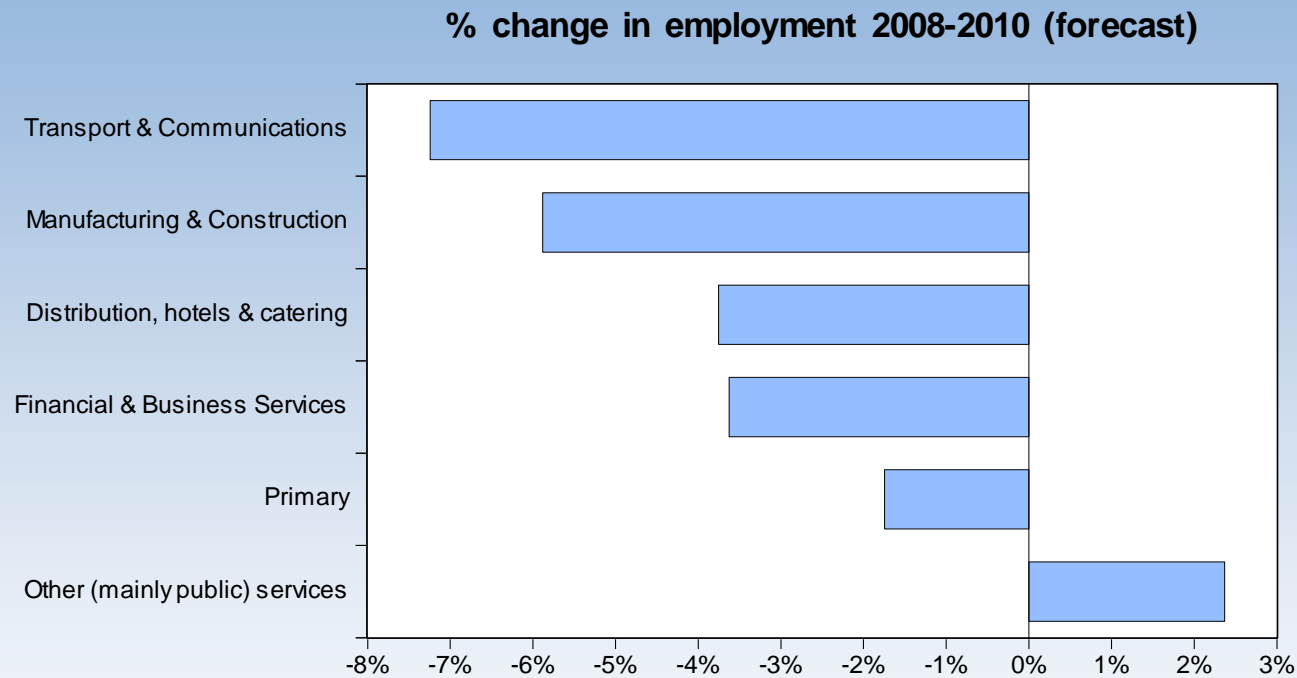
2011



2010



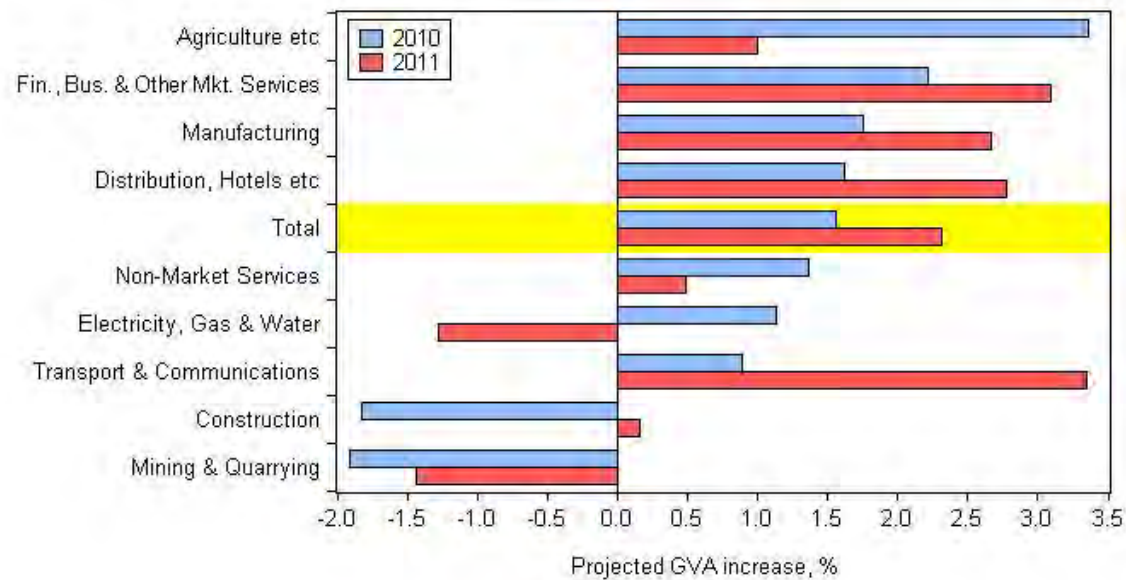
Transport, Communications, Manufacturing & Construction Have all been badly affected



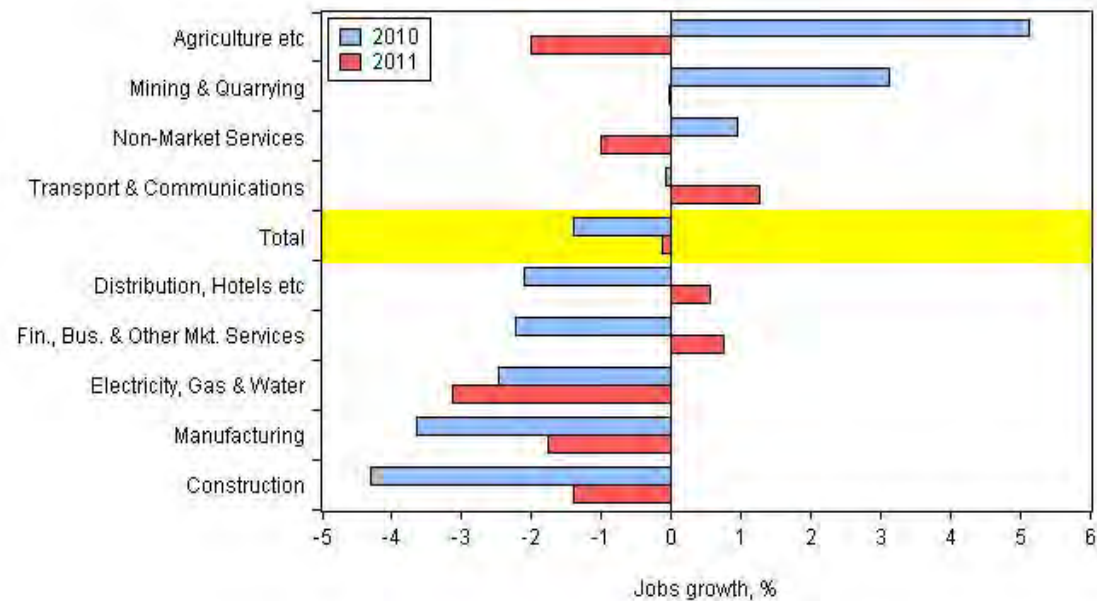
Source: Experian Regional Planning Service

Cambridge Econometrics – growth by sector

Output



Jobs

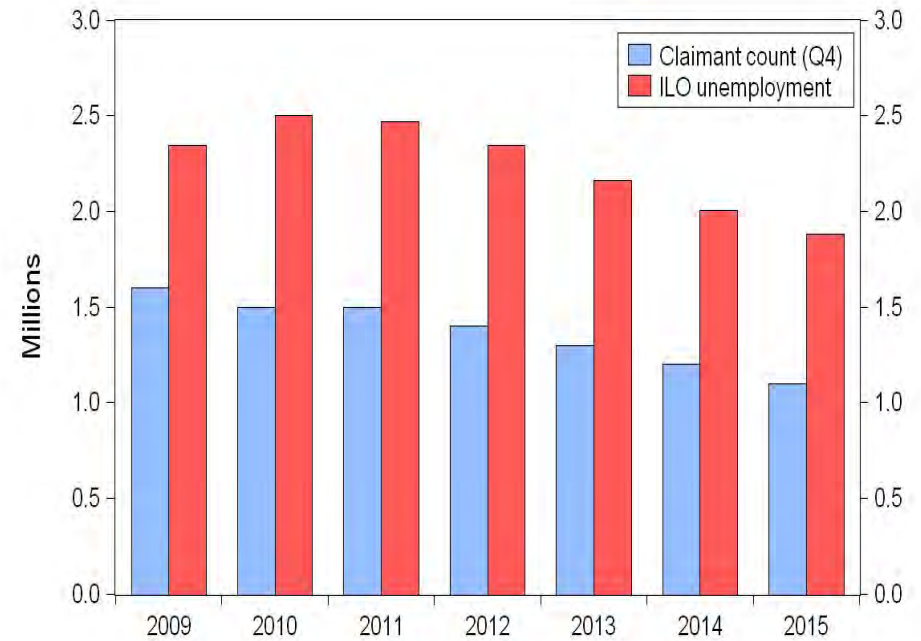
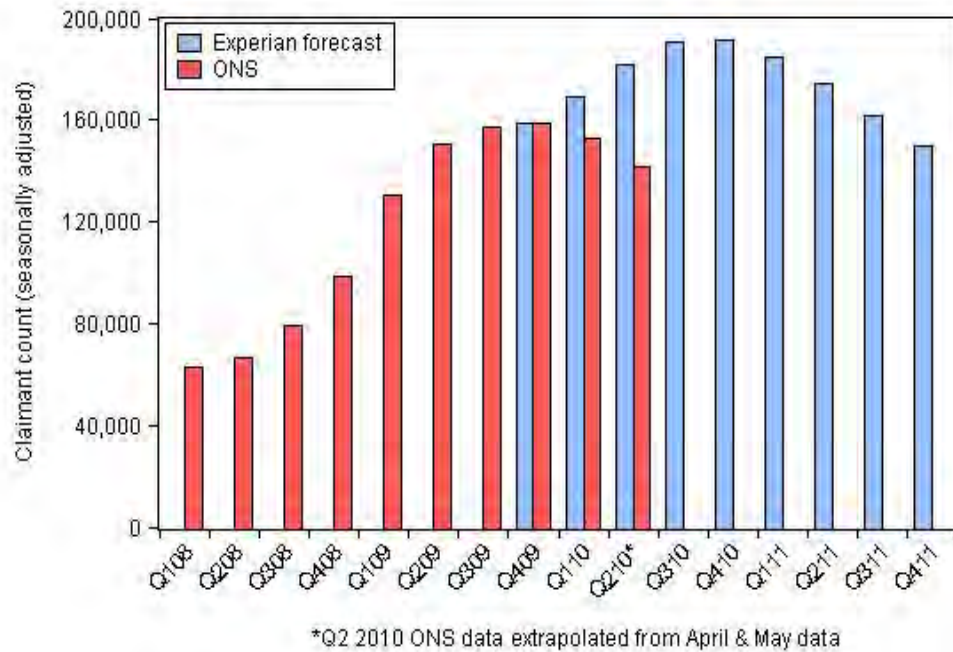


Source: Cambridge Econometrics

Unemployment – looking forward

Experian and ONS

Office for Budget Responsibility (national)



Source: ONS, Experian Regional Planning Biannual Forecast (Spring 2010)

Source: OBR Budget Forecast, June 2010

Conclusions

- Improvements in the labour market tend to lag behind improvements in output, so it may be some time before we see a full recovery.
- Unemployment may be nearing its peak, though some downward pressure in recent months has come from people becoming inactive in the labour market.
- 18-24 year olds are now making up a smaller proportion of JSA claimants.
- The number of jobs in the South East is forecast to fall this year and remain broadly stable in 2011, though growth rates should pick up after then.
- In 2010 and 2011 claimant count unemployment should continue to fall, though ILO unemployment may take longer to see major decreases

Thank you

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