HERTFORDSHIRE ECONOMIC BRIEFING
AUGUST 2009

This is a regular briefing note designed to give a snapshot of the state of the Herts economy. It contains a combination of statistical information and 'soft' intelligence. The soft intelligence in particular should be treated with caution since, by its nature, it is not always possible to verify.

THE ECONOMY INTERNATIONALLY

The prospects for economic recovery in the UK were improved by recent GDP estimates from three of the world's leading economies. France, Germany and Japan were all estimated to have grown in the second quarter, marking an end to their recessions. Output in the Euro zone as a whole only fell by 0.1%, despite poor performance in Holland, Italy and Spain (particularly the latter, whose economy shrank by a further 1%).

THE ECONOMY NATIONALLY

The depth of the UK recession was highlighted at the end of July when the **Office for National Statistics** estimated that that in the second quarter the economy contracted by 0.8%. This news followed a month after the downward revision of the first quarter's data on which we reported last month. This means that the economy contracted by 5.7% compared to a year previous, the largest fall on record. Nevertheless, the pace of contraction has moderated from the previous quarterly fall of 2.4%.

A major reason for the fall was the 0.7% decrease in output from business services and finance, with computer services contributing the biggest share of the decrease. As with the economy as a whole, the pace of contraction has moderated - the decrease of business services and finance output in the previous quarter was 2.5 %.

Services output as a whole was estimated to have fallen by 0.6%. Output within transport, storage and communication decreased by 2.1 % compared with a decrease of 3.0% in the previous quarter. Land transport and transport support made the largest contribution to the decrease in output. Government and other services decreased by 0.2% (after increasing by the same amount in the previous quarter).

Output within construction decreased by 2.2 % compared with a decrease of 6.9 % in the previous quarter.

Manufacturing output decreased by 0.3 %.

The widely quoted **Purchasing Manager's Indexes** from the Chartered Institute of Purchasing and Supply (CIPS)/ Markit provide support for the view that recovery is under way. Like with many such indexes, figures above 50 indicate increases. Their services index shows activity growing at the fastest pace since February 2008. The July figure was 53.2 compared with 51.6 in June.

The construction index posted a reading of 47 in July, up from June's figure of 44.5.. Contraction was at a slower rate - the slowest in sixteen months. All three sub-sectors - commercial, civil engineering and housing construction - reported continued contraction, though housing fared the worst. There were slight falls in the level of new orders and job losses continued to be heavy. Suppliers were able to improve on delivery times however, and faster than in June. Due to increased competition, buyers were able to secure more favourable prices.

Confidence in the recovery of the economy was given a small boost, as the index for manufacturing posted a 50.8 reading in July. Up from June's figure of 47.4, this is the first time the index has risen above 50 since March 2008.

David Noble, Chief Executive Officer at CIPS, said:

"The services sector is rebounding at an unprecedented rate after what has arguably been the most savage economic downturn since the end of World War II. After hitting an all time low in November, July saw the sector make marked gains with new business activity rising for the third month running and at the sharpest rate in almost a year- and-a-half….Nonetheless, the scars inflicted on the sector by the troubled economy will take time to fade as companies are still cautious about committing to substantial spending. We're still seeing companies reduce their prices and the job landscape remains difficult with wage pressures blunted as overall staff levels continue to fall steeply.

"Optimism is returning to the UK construction sector on the back of a perceived improvement in economic conditions. Whilst the current situation still looks very bleak, an upturn looks much closer than it did just a few months ago. However, times are still tough as steep competition and difficult market conditions pushed the sector into its seventeenth month of retrenchment…..What's more, though optimism in future sector performance continued to improve, unemployment levels are still high with over a quarter of firms admitting to axing their staff in July.

"The manufacturing sector has clearly pulled out of the nosedive it was in earlier this year and is no longer plummeting….output and new orders are both now rising as firms need to order new stock to meet sales. Whilst this is positive news, the manufacturing sector is still far from healthy and smaller firms continue to bear the brunt."

Inflation

The Consumer Prices Index (CPI), which fell below the Bank of England's target rate of 2% in June for the first time since 2007 remained at 1.8% in July.

The Retail Prices Index (RPI) inflation measure, which includes mortgage interest payments and housing costs, after falling to its lowest ever level (-1.6%) in June, rose to -1.4% in July.

In its Quarterly Inflation Report, the **Bank of England** stated that it is more likely than not that inflation will temporarily fall below 1% in the autumn, requiring an open letter from the Governor to the Chancellor, before rebounding to around the target.
The report takes account of the Bank of England’s decision earlier in August to increase its ‘quantitative easing’ programme by £50 billion to £175 billion, while keeping its interest rate unchanged at 1.5%. This took the total over the £150 billion set aside by the Chancellor and reflects concern about the depth of the UK recession. (Quantitative Easing is the creation of money through the Bank of England buying assets from the Banks, the idea is that the latter then lend the money to businesses and consumers whose subsequent purchases stimulate the economy.)

It subsequently became clear in the Monetary Policy Committee minutes that the Governor of the Bank of England had favoured a bigger stimulus. Commenting on the minutes, David Kern, Chief Economist at the British Chambers of Commerce (BCC), said:

“The minutes highlight an appreciation from the MPC of the severe recessionary threats still facing the economy. It is particularly welcome that three members, including the Governor, voted for an increase in quantitative easing to £200 million. The MPC rightly realises that the risk of inaction at the present time greatly exceeds the dangers of pursuing a large stimulus.

“In view of the dangers facing businesses, the MPC should reject suggestions to reduce or suspend the QE programme following this week’s inflation figures. The main priority must be to alleviate the recession by getting money back into the real economy, and to help stem the persistent rise in unemployment.”

Housing nationally

According to the latest data from **FT Acadametrics**, the average house price in England & Wales increased in July by 0.1%. Revised figures for June also show a small increase from the previous month. The annual decline is 10.9% and that from the February 2008 peak is 13.8%. The average mix- and seasonally- adjusted dwelling price in England & Wales was £199,903 in July.

Department of Communities and Local Government house building figures for 2009 Quarter 2 show a rebound from the position in Quarter 1. New starts increased by 68.2% % and were only 9.3% down on the year. This is a more positive indication than provided by the Purchasing Managers Index reported above.

The Royal Institution of Chartered Surveyors (**RICS)** in its July housing survey
found that:

- Buyer enquiries increased again but at a slower rate than in June leading to a further increase in the number of newly agreed sales
- Price expectations after turning positive in June for the first time since May 2007, were even more positive in July.

The July survey provides more evidence that activity in the housing market is recovering, albeit from historic lows. New buyer enquiries have now increased for nine months in a row.

New vendor instructions to sell property actually edged into positive territory in July. A net balance of 2% of surveyors suggested that new instructions had increased compared with June. This is the first time since May 2007 that this series has produced a positive outcome. This, significantly, has contributed to a modest rise in the number of unsold properties on surveyors' books.

The only narrative from Hertfordshire relayed by RICS suggests this might not be a problem locally. Kevin Rolfe MRICS, of Aitchisons, Hemel Hempstead, stated 'Confidence in the housing market is continuing to improve, but supply shortages remain'.

Insolvencies nationally

The **Insolvency Service** reported that among companies there were 5,055 compulsory liquidations and creditors' voluntary liquidations in total in England and Wales in the second quarter of 2009 (on a seasonally adjusted basis). This was an increase of 2.9% on the previous quarter and an increase of 39.1% on the same period a year ago.

There were 33,073 individual insolvencies in England and Wales in the second quarter of 2009. This was an increase of 27.4% on the same period a year ago.

Both company and individual insolvencies increased rapidly throughout 2008 and 2009 but the increase in the former (only 2.9% on the previous quarter) has slowed down.

Banking nationally

According to data from the **British Bankers' Association (BBA)** lending to small businesses by the high street banks rose by £391 million in June, their deposits increased by £577 million and there were almost 50,000 new small business banking relationships established. (Total lending to small businesses was £55,968 million and these businesses' deposits totalled £54,127 million).

Seasonally-adjusted net mortgage lending increased by £1.6 billion in July as opposed to £2.6 billion in June and £2.4 billion in May. This is the lowest figure since October 2000. This fall is due to repayments. The number of new approvals for house purchases has now been rising for seven months and is 76.7% above the figure for July 2008. Approvals for re-mortgaging although they are increasing continue to run well below the level of a year previous (down 42.3%). This reflects the relative attraction of standard variable rates relative to new fixed-rate deals.

Seasonally-adjusted net credit card lending rose by £0.1 billion in July, but new personal loans at £1.3 billion were lower than in May and June after seasonal adjustment and were 38.8% lower than in July 2008. Contrary to expectations, the increase in private sales of cars in June and July (see below) has not been associated with an increase in this type of lending.

Impact of the scrappage scheme for cars

The number of new cars sold in the UK during July was 157,149 according to the **Society of Motor Manufacturers and Traders (SMMT)** This represents an increase of 2.4% compared with July 2008. This was the first rise for 15 months and a major rebound, even compared to June (which had sales 15.7% down on a year previously). The SMMT attributed the rise to the scrappage incentive scheme, worth £2,000 a car, which came into effect in May. Despite the marked improvement, sales so far this year are still down 22.8% on the same period last year.

THE ECONOMY IN HERTFORDSHIRE

Unemployment

- The official seasonally adjusted unemployment rate for the three month rolling period of April – June 2009 in the UK (using the ILO definition) is 7.8% (2,435,000) and 6.5% (194,000) within the East of England. Comparable figures for Hertfordshire are not available.
- The claimant count for Hertfordshire in July 2009 increased by 306 (1.6%) compared with June and now stands at 19,631 (3.0% of the working age population, the same as in May, there having been a decrease in June). This compares with 8,278 (1.3%) in July 2008.
- The Stevenage figure of 4.3% remains above the UK proportion of 4.2% but this district and Broxbourne (3.5%) are now joined by Watford (3.5%) in exceeding the regional proportion of 3.4%. Other claimant count proportions were 4.2% for the UK, 4.3% for London and 3.0% for the South East.
- Both the off flow (people stopping claiming) and the on-flow increased compared with June. The off-flow was 4,346 compared to a peak of 4,625 in May. The on-flow, at 4,643 was significantly lower than the February peak of 6,540.

- There were3,554 Jobcentre Plus live unfilled vacancies in July 2009 compared to 3,288 in June 2009 and 5,094 in July 2008. Whereas in February 2009 the number was 56% lower than a year previously, in July the figure was only 30% down on the year.

Redundancies

Jobcentre Plus' overview of redundancy trends in Hertfordshire between June and August shows a total of 968 jobs being made redundant. This involves 24 companies in a variety of sectors spanning Legal Services, Software Solutions, Manufacturing, Further Education, Engineering, Retail, Hotel and Catering, Publishing, Construction, Recruitment, Finance, Consultancies, Telephone Services and Aerospace. Towns affected include Hatfield, Bishop's Stortford, Borehamwood, Elstree, Watford, Hemel Hempstead, St. Albans, and Welwyn Garden City. Two companies employ more than 800 on site, eight are small-scale with a maximum of 100 and the rest are medium scale from 100-300 employees.

The next nine months show a potential job loss of 1,106 involving around 18 companies in sectors including Warehousing, Manufacturing, Pharmaceutical, Retail, Hospitality, Construction and Electrical Components. Towns affected include Hemel Hempstead, Welwyn, Watford, Stevenage, Ware and St.Albans. One company is large scale with more than 2000 employees, two companies have 500-900, three have with 200-400 employees and the rest are medium scale with 100-200 employees.

New jobs

A new LIDL (budget supermarket) in Waltham Cross has been approved by Broxbourne Council. The site is that of the former PNG car dealership which was announced to close earlier in the year with the loss of 79 jobs. LIDL will create 25 part-time and 5 full-time jobs.
(Hertfordshire Mercury - Cheshunt/ Waltham Cross Edition)

Business intelligence

At the end of June there was speculation that Deutsche Telekom, the parent of **T–Mobile,** was contemplating a possible sale of Britain's fourth largest network. If such a sale were to go ahead, this could have been significant for Hertfordshire, as approximately 3,000 people are employed at T- Mobile's Hatfield Business Park HQ. The prospect of a sale has now receded. A new Chief Executive, Richard Moat, with experience of turning round Orange's Danish operation has the task of improving the performance of the weakest of the UK's four major networks. However, he has stated, in a Guardian interview "T-Mobile was scaled up to handle the sort of customer base that … it has never achieved. Therefore the cost base has got out of kilter with the market potential. ….I don't think there is any business in the UK mobile telecoms sector which is of a proper size to address the recession ….." It therefore seems likely that fewer than the quoted 6,398 people working for it in the UK (almost half in Hatfield) will work for it in future.

Housing market

According to the latest data from **FT Acadametrics**, the decline in Hertfordshire house prices halted in June. They increased by 0.3% on the month. This means they were 12.7% lower on the year and 15.5% below their April 2008 peak. The average mix- and seasonally- adjusted dwelling price in Hertfordshire was £274,129 in May.

Department of Communities and Local Government house building figures for 2009 Quarter 2 are not available for Hertfordshire but the regional figures show a rebound from the position in Quarter 1 similar to that in England. New starts increased by 105.6% and were only 9.3% down on the year.

Ministry of Justice data on mortgage repossession claims for Quarter 2 2009 show, for the first time, trends and rates on a local authority district basis. They show 350 in Hertfordshire as a whole or 0.8 per 1,000 households. This is below the England & Wales rate of 1.2. In Hertfordshire they fell faster than in England & Wales from a year previously (down 39% as opposed to 32%). The position in Broxbourne (1.5 per 1,000 households and down 25%) and Stevenage (1.2 and 29%) is notably worse than in other parts of the county.

Responses

Bishop's Stortford Job Club/ Executive Job Forum. NextStep Bishop's Stortford (partners: Business Link East, Borough of Broxbourne, Hertford Regional College, East Herts Council and Jobcentre Plus) on the back of the regular Job Club that it has been running this year and a trial-run Executive Job Forum which started in July, is launching a four week Executive Job Forum from 9 September. This is intended to provide relevant information and networking opportunities to executives who are facing redundancy or unemployed.

HertSavers Credit Union, built on the foundations of Hatfield Credit Union, was launched in May 2009. As of July 2009, it had approximately 600 members who have collectively saved £210,000. Since the service started loans totalling over £750,000 had been granted to members. On 20 August it launched its website: www.hertsavers.co.uk which enables anyone who lives or works in Hertfordshire to join online and keep track of their account. It is also issuing all its members with a PayPoint card which enables members to make deposits is accepted at any Post Office or outlet displaying the PayPoint logo. Gerri Dobson, Manager, said "we know that many people in Herts are struggling to make ends meet and all they need is a relatively small loan. This is part of the market where other financial service providers charge high rates of interest. HertSavers is committed to providing low cost loans to its members and, of course, everyone living or working in the County can join and start enjoying the benefits of membership of the Credit Union."

The **Hertfordshire External Resources Network** (www.hertsdirect.org/hern) is holding its annual funding fair at the University of Hertfordshire's Fielder Centre on 14 October. This will give opportunities for Hertfordshire based organisations to learn how best to tap the external funding that will be required in order to support individuals and communities through current economic challenges.

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