

## Reporting the Local Impact of the Credit Crunch December 2008



### Introduction

The current economic slowdown, which started as a crisis of credit, has now hit the 'real economy' and is beginning to register across most economic indicators. In November, the US shed 533,000 jobs, saw its highest unemployment rate since 1993, cut interest rates to 1% in an attempt to stimulate spending and posted an estimated contraction in its GDP of 4%. Further evidence of a world economy in recession can be found in the price of crude oil, which peaked at \$147 a barrel earlier this year but is currently valued at around \$40 a barrel.

Set against these sobering statistics, it makes sense to monitor the local impact of the slowdown.

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## Key Points

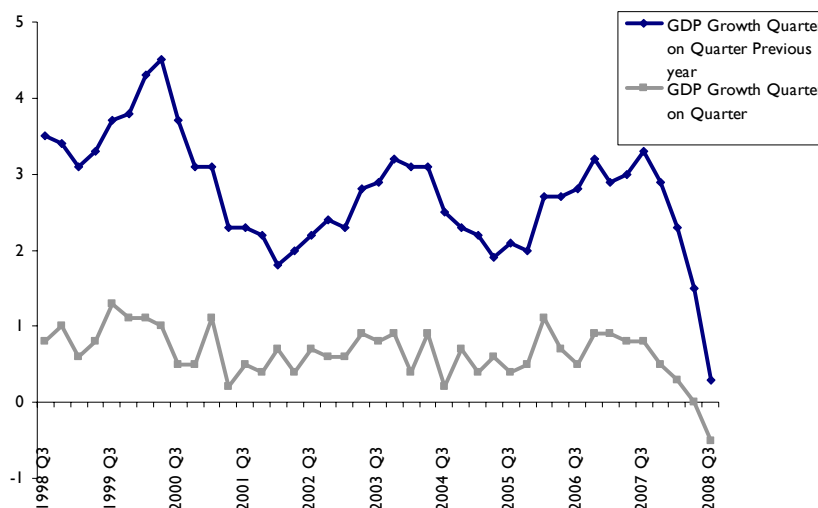
- Nationally GDP data shows a negative growth rate for 2008 between Q2 and Q3
- October 2008 also saw a decline in inflation after months of consecutive rises this year
- After falling last month, Leicester City has seen a rise in JSA claimants from 8,483 claimants and a rate of 4.4% in October 2008 to 8,779 and a rate of 4.6% in November 2008
- While claimant rates in the City have not reached the highs of late 2006, region, national and County rates are higher than any other month in the last 4 years. County claimant rates are 1.7% for November 2008 compared to 1.2% in November 2007 and 1.4% in November 2006
- Blaby followed by Harborough, are considered the most *vulnerable* districts in the County, with Oadby and Wigston the least. Blaby also appeared in the top 10 most vulnerable districts in the UK in the Oxford Economics report
- Unfilled vacancies in Construction in the City remain low, declining further in November 2008
- House sale prices are back to March 2006 levels in the County and May 2006 levels in the City
- In Summer 2008 39% of visitors in the County's town and village centres expected to be worse off over the next year
- Business Optimism is at its lowest level since 1994 with manufacturing businesses the least optimistic

## National Picture

### Output

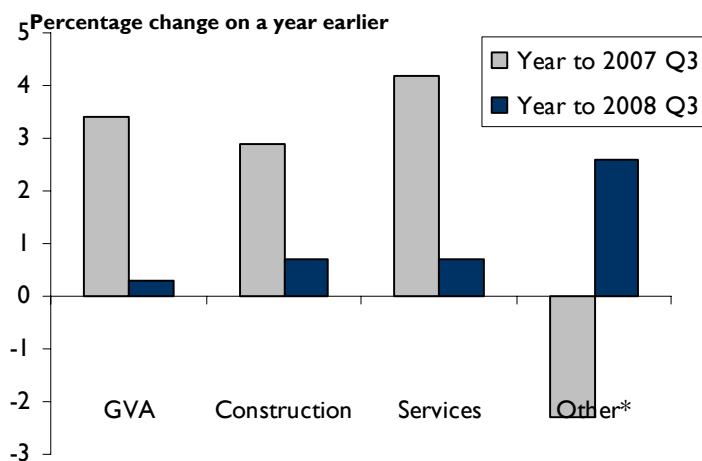
The most recent data on GDP growth shows that between Q2 and Q3 the UK posted a negative growth rate, contracting by 0.5% and with a flat growth rate between Q1 and Q2. The GDP growth rate for each quarter on previous years shows a noticeable reduction (of 3%) since Q3 of 2007. Clearly compared with the slowdown of the late 1990s (which was relatively contained within South East Asia and the US), the current recession is, and is expected to be, significantly more acute and sustained.

Figure 1: UK GDP Growth over the last 10 years



In identifying the major sectors which might account for the fall in output growth/driving the downturn, construction and services sectors showed significantly slower growth rates through Quarter 3. Unfortunately the estimates for output growth in Q3 this year for manufacturing have not yet been published.

Figure 2: GVA growth by sector

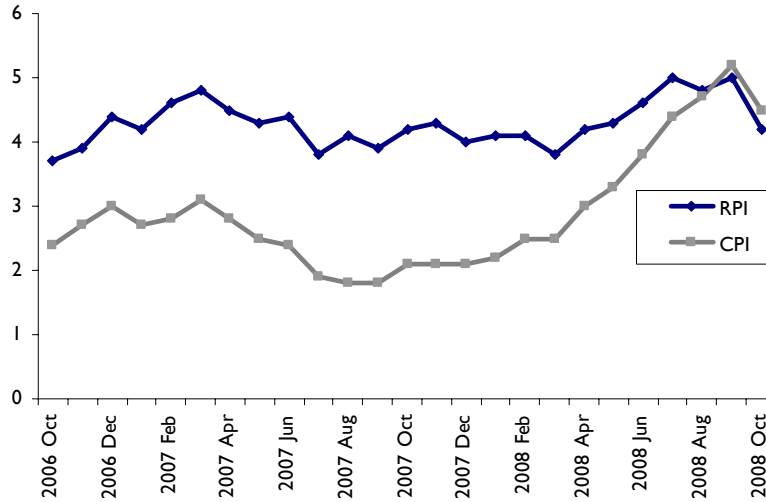


\*Other includes agriculture, forestry and fishing, mining and quarrying

## Inflation

Until recently slowing growth rates had coincided with rising inflation; however, October saw a fall in inflation as measured by both Retail Price Index and Consumer Price Index, which is likely to be a function of the falling price of oil and reduced demand in supermarkets and on the high street.

**Figure 3: Downward pressure on inflation as CPI down to 4.5%; RPI down to 4.2%**

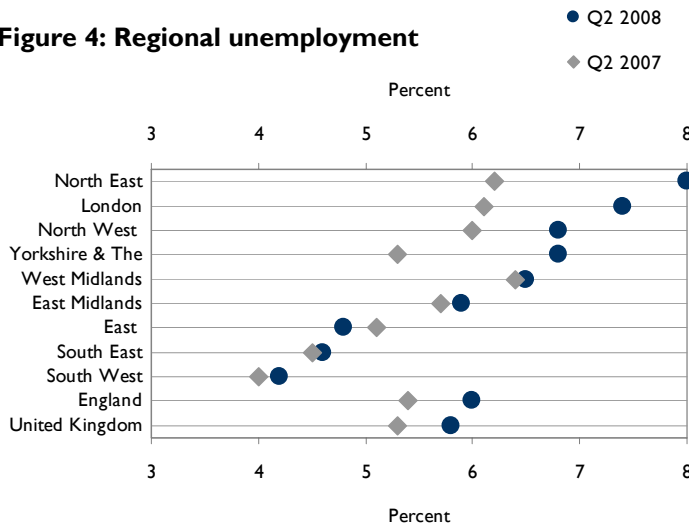


## Unemployment

Traditionally there is a lag between changes in output and levels of employment. The most recent International Labour Organisation measure of unemployment, which measures proportions of the population who are out-of-work, are available to start work in the next two weeks and who have looked for work in the last four weeks, is available to Quarter 2 of this year.

Overall, unemployment in the UK and England increased by around 0.5% between Q2 of 2007 and Q2 of 2008. Between these two years unemployment increased the most in the North East and London, whilst the East and West Midlands, South East and South West saw only slight increases.

**Figure 4: Regional unemployment**



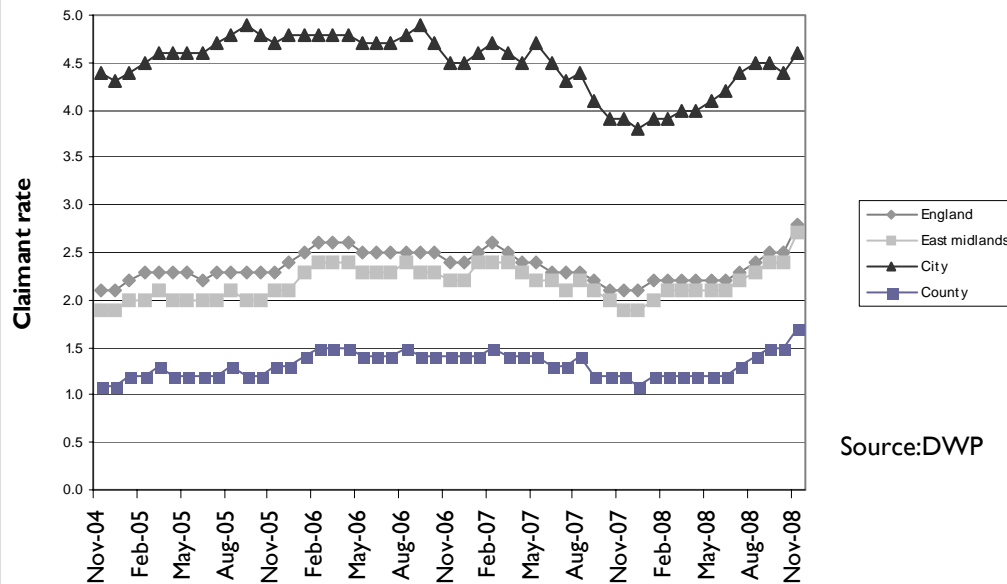
## Negotiating the recession in Leicester and Leicestershire

### Unemployment

After falling the previous month, Leicester City has seen a rise in claimants from 8,483 claimants and a rate of 4.4% in October 2008 to 8,779 and a rate of 4.6% in November 2008. The total number of claimants in England has risen from 808,874 in October 2008 (2.5%) to 878,047 in November 2008 (2.8%).

While rates in the City have not reached the highs of late 2006, region, national and County rates are higher than any other month in the last 4 years. County claimant rates are 1.7% for November 2008 compared to 1.2% in November 2007 and 1.4% in November 2006.

Figure 5: Claimant Rate November 2004 to November 2008



Source:DWP

In the County, November 2008 figures showed an increased claimant rate in all districts and the majority of wards. North West Leicestershire had the highest rate increase from 1.6% in October 2008 to 2.0% in November 2008. This compares with a rate of 1.2% in November 2007. Loughborough Lemyngton ward, in Charnwood, had the highest rate increase from 3.5% in October 2008 to 4.3% in November 2008.

After a decrease in claimant rates in many City wards between September 2008 and October 2008, rates rose again for the majority of wards in November 2008. Eyres Monsell has the highest rate increase from 5.2% in October 2008 to 5.8% in November 2008, followed by Fosse, increasing from 3.3% to 3.8%.

The East Midlands unemployment rate in November 2008 (2.7%) is lower than national rates (2.8%), although interrogation into the employment sectors in Leicester City and County suggest that they may be more vulnerable than other areas in the East Midlands.

### Employment

Adapting a method recently used by Oxford Economics in July 2008, a vulnerability score has been applied to each sector and then this score is applied to the share of employment in that sector for each district and ward in Leicestershire. Leicester City has an over represented proportion of its employees in 'Labour recruitment and provision of personnel,' which is currently vulnerable.

The County also relies quite heavily on 'Retail of non-specialist stores.' Financial services are currently the most vulnerable sector, of which Leicester City has a higher proportion in some sub-sectors compared to the region. Sub-sectors of Construction in both City and County are also over represented. (All these sectors are currently vulnerable). 6

On a positive note, the City and County are not as reliant as other areas on 'Hotels', 'Restaurants', 'Real estate activities', 'Software consultancy' or 'Legal, accounting etc' which are all currently vulnerable. Nottingham is considered the most vulnerable area in the East Midlands due to its high reliance on 'Software consultancy', 'Legal, accounting etc' and 'Labour recruitment'.

Blaby, followed by Harborough, are considered the most *vulnerable* districts in the County, with Oadby and Wigston the least. Blaby also appeared in the top 10 most vulnerable districts in the UK in the Oxford Economics report.

The following table ranks the most vulnerable wards in Leicestershire based on the number of employees working in these wards.

rank	Ward	District	Vulnerable sectors
1	Pastures	Blaby	Monetary
2	Melton Warwick	Melton	Legal, Monetary, Sale of specialist goods, Bars
3	Peatling	Harborough	Bars, Restaurants, Building construction parts
4	Market Harborough - Logan	Harborough	Monetary, Real estate, Retail of non-specialist goods
5	Millfield	Blaby	Building of construction parts, Sale of household goods
6	Loughborough Shelthorpe	Charnwood	Retail of non-specialist goods
7	Ravenhurst and Fosse	Blaby	Sale of motor vehicles, Restaurants, Hotels
8	Wyndham	Melton	Hotels, Real estate, Letting own property, Building of
9	Freemen	Leicester	Building of construction parts
10	Shepshed West	Charnwood	Real estate

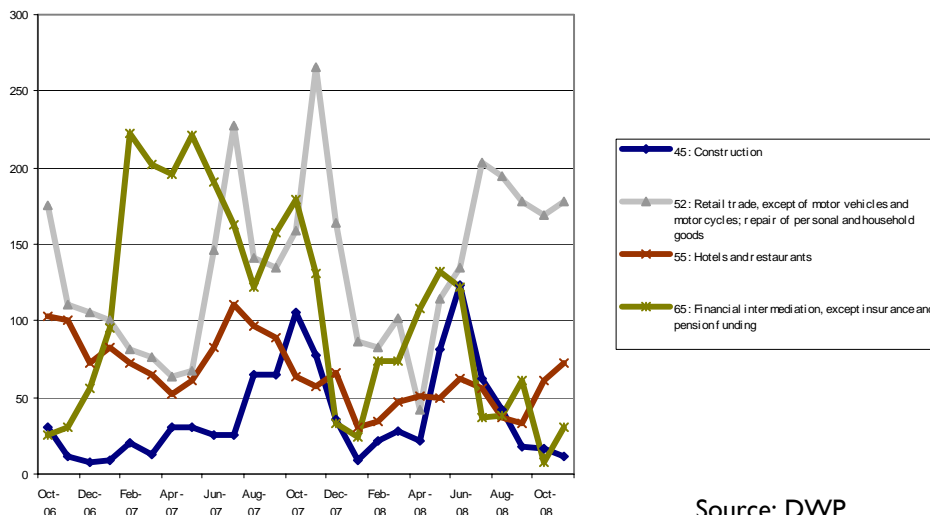
Pre-recession sector growth has shown that the County did not follow recent national and regional trends of financial sector growth, with highest growth in the County actually in public sector employment. This sector also represented a third of City employment. Hotels and restaurants had also already declined by 2006 (more so than regionally and nationally) both in the City and County. These pre-recession trends suggest that the sub-region is well placed for coping with the sudden decline in vulnerable sectors.

The City, however, had substantial growth in construction between 2004 and 2006; Construction has already been hit hard by the recession and with no sign that interest rate cuts will kick-start demand for housing in the short-term, the sector is particularly vulnerable.

## Vacancies

Nationally, numbers of unfilled vacancies in vulnerable sectors have been low since January 2008 whereas Leicester City saw increases over Summer 2008 in Construction and Retail, possibly due to the opening of the High Cross shopping centre in September 2008. Unfilled vacancies in retail remain relatively high in the City. However, Construction and Financial unfilled vacancies have seen the biggest decline in the City over recent months with Construction continuing to fall in November 2008.

**Figure 6: Unfilled Vacancies in Leicester City**

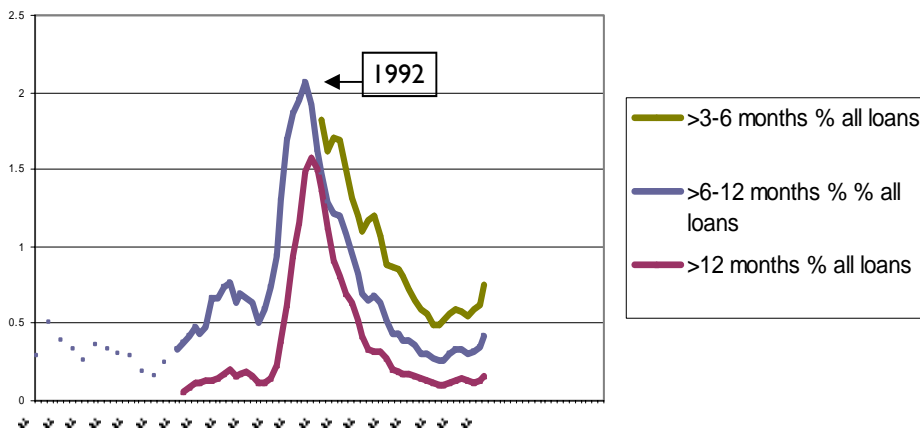


Source: DWP

## Property and mortgages

Nationally, numbers of people in mortgage arrears have been rising over the last year. In the early 90s 4.7% of outstanding mortgages were at least 3 months in arrears. This decreased to 0.8% in 2004 but has now risen to 1.3% for first half of 2008.

**Figure 7: % of Mortgages in arrears 1969 to 2008**



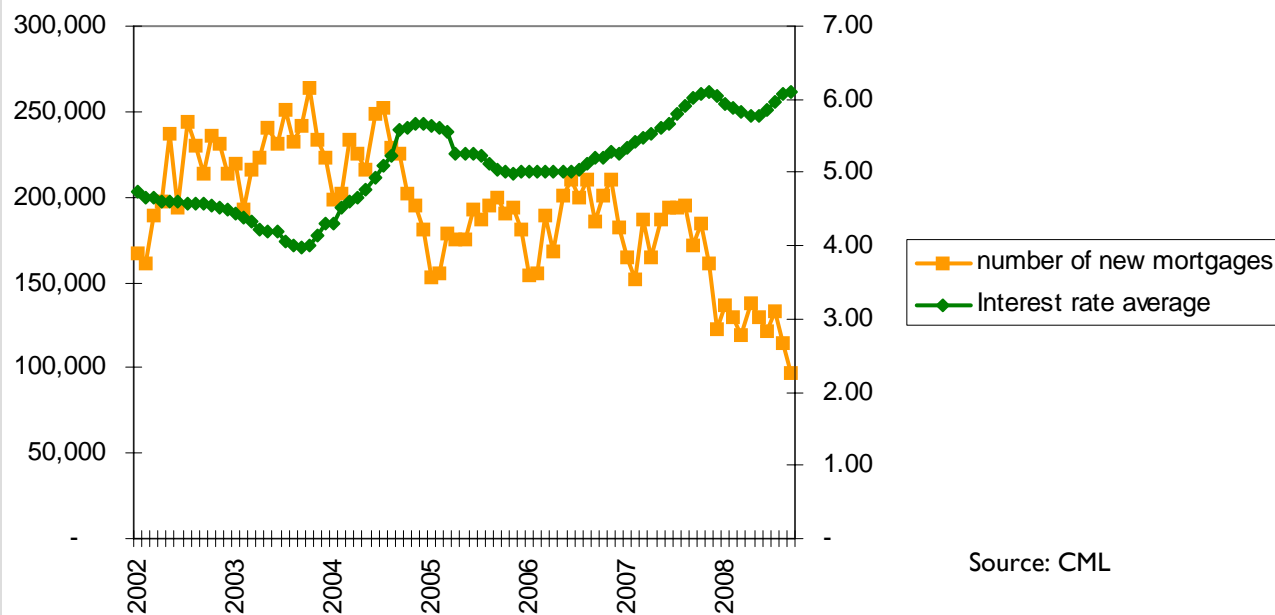
Source: CML Research

Property prices have also fallen since October 2007 with the average house sale price in Leicestershire now £183,402 (July-September 08). Melton has seen the biggest decrease on last year's prices, by 17.7%. Average sale prices in the City are now £141,364, a 4.2% decrease on last year's prices.\* Conversely, North West Leicestershire saw increases by 5.9% on last year's sale prices and 6.5% increase on last quarter's. Overall, sale prices are back to March 2006 levels in Leicestershire County and May 2006 levels in the City.

\* Land Registry

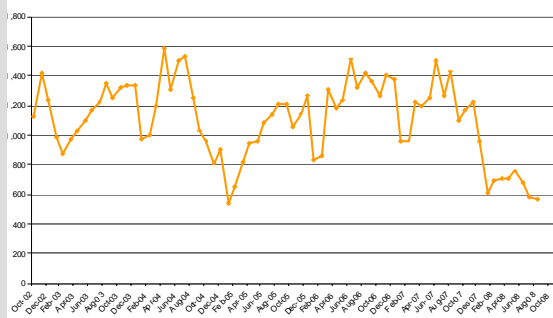
The numbers of new mortgages in the UK have also decreased, almost monthly, since summer 2007. Numbers are now at levels much lower than those over the last 6 years. Quarterly figures show that numbers in Q3 of 2008 are similar to numbers in mid 90's. The UK seasonal trend of summer peaks did not occur in 2008 and the following months are likely to see numbers even lower. In the past an increase in interest rates has impacted on a decrease in house sales and indeed average interest rates have risen between April and October 2008, as well as other periods over last few year. However, a sudden drop in interest rates now may not guarantee an increase in new mortgages, when mortgages have become much more difficult to access.

**Figure 8 Numbers of new mortgages against average interest rates UK**

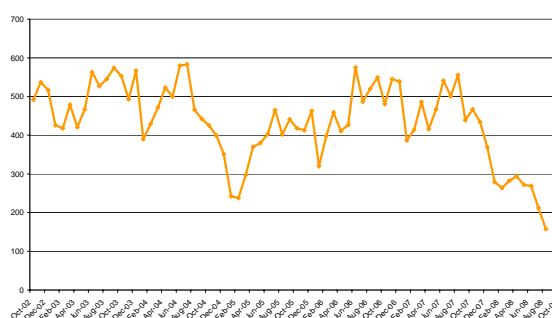


Numbers of house sales have also decreased in both City and County, with significant falls in sales volumes from December 2007 for the County and January 2008 for the City. In the City the number of sales decreased from 556 in August 2007 to 158 in August 2008 and in the County there was a similar change - from 1,425 to 564. Sales in the City have decreased to lowest volumes in the past 6 years. This slow down in sales and property prices has led to increases in the supply of rentable properties, pushing rents lower.

**Figure 9: Sales Volume County 2002-2008**



**Figure 10: Sales Volume City 2002-2008**



Source: Land Registry



## Consumer Spending

A recent survey, in summer 2008, of over 3,000 visitors to Market Town and Village centres in the County found that 39% of visitors expected to be worse off over the next 12 months, with only 8% expecting to be better off. Respondents in Melton, Blaby and Broughton Astley were most optimistic, though even here the average erred towards the negative, whilst the least optimistic visitors were those to Shepshed and South Wigston.

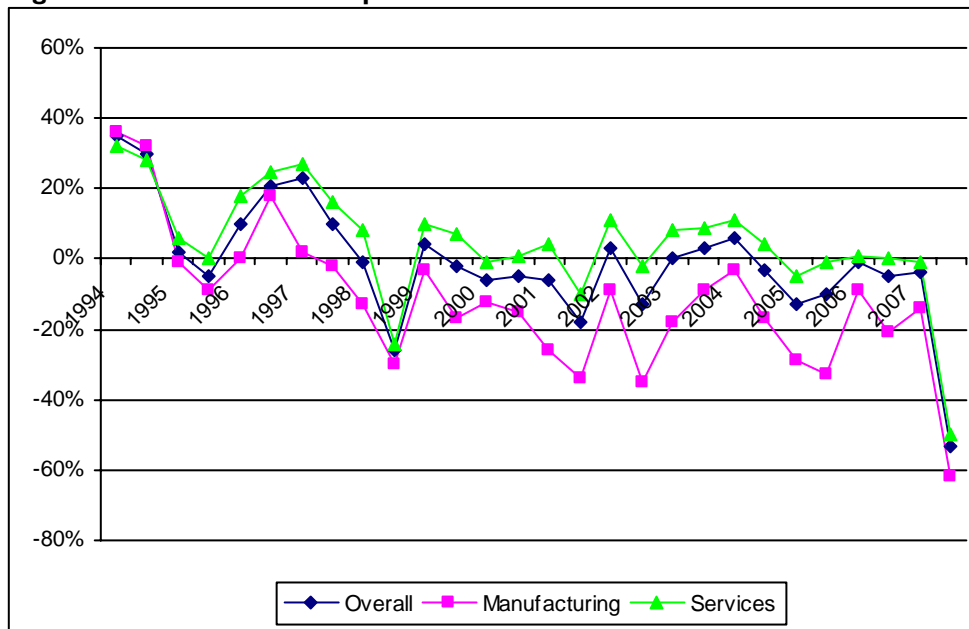
Of all those visitors surveyed, 40% stated that the national slowdown had already impacted upon their spending in centres. Those centres hit harder by the reduction in spending appear to be Loughborough, Lutterworth, South Wigston, Syston and Thurmaston.

'Leicestershire Towns and Village Centres Survey 2008' available soon on [www.lsr-online.org](http://www.lsr-online.org)

## Business optimism

A business survey conducted in October 2008 of over 1,000 businesses in the City and County showed that business optimism was at the lowest level since the surveys started in 1994. Optimism in the manufacturing sector was lower than in the service sector. Confidence in the financial and business services sector was very low in contrast to previous surveys where this sector was usually the most optimistic.

**Figure 11: Rate of business optimism**



Manufacturing companies (44%) were more likely than service sector firms (30%) to think of their sector as in decline. Almost half (49%) of construction companies thought their sector was in decline.

'Business Survey - Summer 2008' available soon on [www.lsr-online.org](http://www.lsr-online.org)

## **In Next Month's report (23rd January 2009)**

- December 2008 unemployment figures
- December 2008 vacancy figures

If you require further information please contact

Joelle Bradly  
Research Manager  
Research and Information Team,  
Chief Executive's Department  
Leicestershire County Council  
Tel: 0116 3055883  
E: [jbradly@leics.gov.uk](mailto:jbradly@leics.gov.uk)

For more information on a range of economic and social information about Leicestershire and the East Midlands, please visit the Research & Information Team web page on the Leicestershire County Council website at [www.leics.gov.uk/statistics](http://www.leics.gov.uk/statistics), or Leicestershire Statistics & Research Online at [www.lsr-online.org](http://www.lsr-online.org)