

# QUARTERLY ECONOMIC OUTLOOK

January 2012

# Quarterly Economic Outlook

The Greater Manchester QEO assesses the current economic climate, based on the latest detailed intelligence available on trends in the area, including unemployment, business start-ups and survival, house prices and the commercial property market.

All the current signs point towards 2012 being just as challenging as 2011. Further rises in national unemployment have been predicted, while the Office for Budget Responsibility forecasts economic growth to be 0.9% in 2012, down from the previous estimate of 1.7%. The Chancellor's Autumn Statement provided further evidence that public sector cuts are going to be even more severe – by £15 billion more than originally envisaged – and continuing until 2017 as opposed to the original plan of 2015.

The UK economy actually grew slightly faster than expected in Q3 2011, by 0.6%. Nonetheless, the still developing eurozone crisis means the risk of a double dip recession remains very much a possibility.

As a result of the economic downturn, the number of people out of work in GM has been rising on an annual basis. There are now nearly 10,000 more JSA claimants in GM than there were 12 months ago. However, analysis undertaken by New Economy shows that these unemployment trends are less severe than those seen in previous recessions. There is no single reason why the 2008 recession has so far not seen resultant increase in the level of unemployment to the same degree as in other recessions. Rather, there are a combination of factors.

Firstly, there is evidence of labour hoarding by employers, as shown by an increase in part time working from 2004–11 and a decline in the number of hours worked between 2008 and 2011. Secondly, there has been a decline in real wages, with employees either

experiencing a decline in real wages, which has reduced pressure on employers to make staff redundant. Finally, less significant rises have been observed in self-employment and people removing themselves from the labour market – the 'hidden' unemployed.

Despite unemployment trends being less severe than in previous recessions, they remain a major impact in absolute terms upon Greater Manchester's residents. It is therefore still critical that new opportunities in the labour market are created.

The most recent GM Forecasting Model indicates that job growth is expected to return in 2013, driven by rises in the business services sector. Clearly however, the fortunes of this sector and in particular financial & professional services, are closely related to wider economic recovery. Recent work by New Economy with [pro.manchester](http://pro.manchester) shows that employment growth in the F&PS sector could be 5-7% lower than originally envisaged by 2020.

Despite the fairly negative outlook for the economy at the start of the year, there are reasons to be positive about the next 12 months. In particular, Manchester Airport is still growing passenger numbers, while GCSE results show that levels of attainment have risen across GM. Taking a longer term perspective, major projects such as the second phase of development at MediaCityUK and the Airport City Enterprise Zone should bring significant economic benefits to GM in the form of new employment opportunities and attracting new investment.

## Key Data for Greater Manchester

| Indicator                            | Date     | Value          | Annual Change |
|--------------------------------------|----------|----------------|---------------|
| Total Jobseekers Allowance Claimants | Nov 2011 | 81,738         | ↑             |
| Youth JSA Claimants (16-24)          | Nov 2011 | 26,435         | ↑             |
| Long-term JSA Claimants (6 months+)  | Nov 2011 | 32,260         | ↑             |
| Average house price                  | Nov 2011 | £105,929       | ↓             |
| Manchester Airport passenger numbers | Oct 2011 | 1,683,901      | ↑             |
| Average GM hotel occupancy rate      | Nov 2011 | 80.2%          | ↑             |
| Manchester office take up (sq. ft)   | Q3 2011  | 156,803 sq. ft | ↓             |

# PEOPLE OUTLOOK

## UNEMPLOYMENT RISING ON AN ANNUAL BASIS IN GM DESPITE SEASONAL BOOST TO EMPLOYMENT

The total number of people claiming Jobseeker’s Allowance in GM has risen on an annual basis. Nearly 82,000 JSA claimants were recorded in November 2011, which was 13.8% higher (+9,900) than in November 2010. On a monthly basis, JSA claimants in GM fell slightly by 0.6% (-500), reflecting the short-term boost provided by temporary jobs associated with the Christmas period.

The number of people claiming for 6-months or longer in GM increased on a monthly basis between September 2011 and October 2011, rising to 32,300. The latest data for November 2011 show that long-term claimants have remained at this figure. More worryingly, over a 12 month period this represents an increase of 35.8% (+8,500).

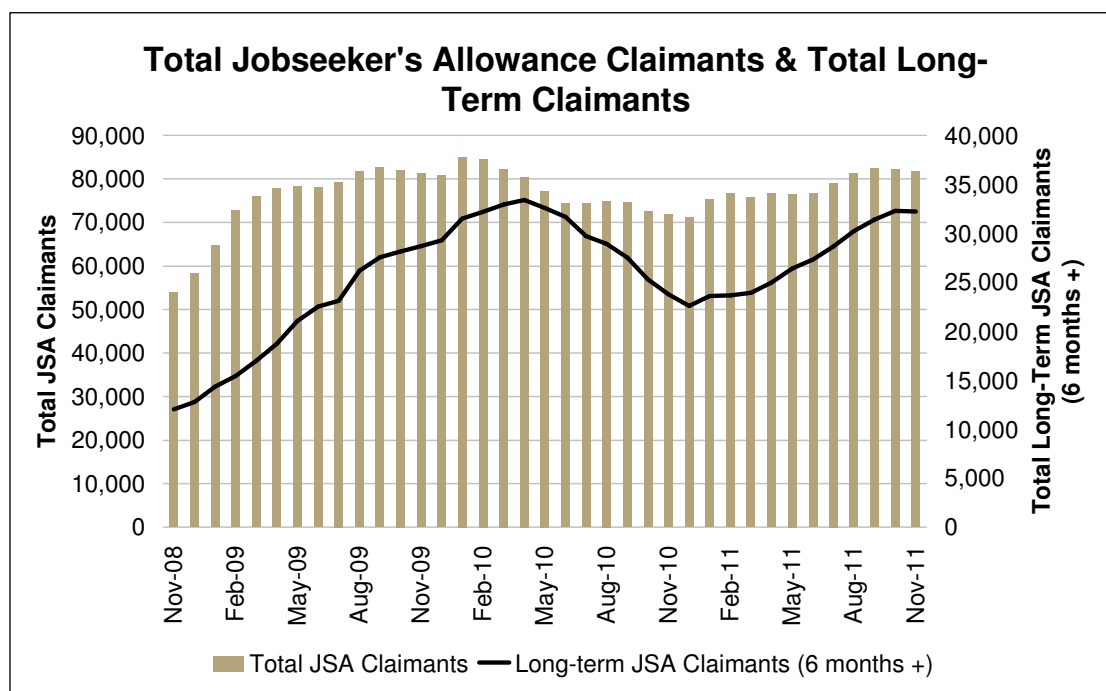
The number of youth JSA claimants in GM stood at 26,400 in November 2011, equating to a monthly decline of 2.4% (645). This is a positive trend, however there is some way to go in terms of lowering the level of youth unemployment

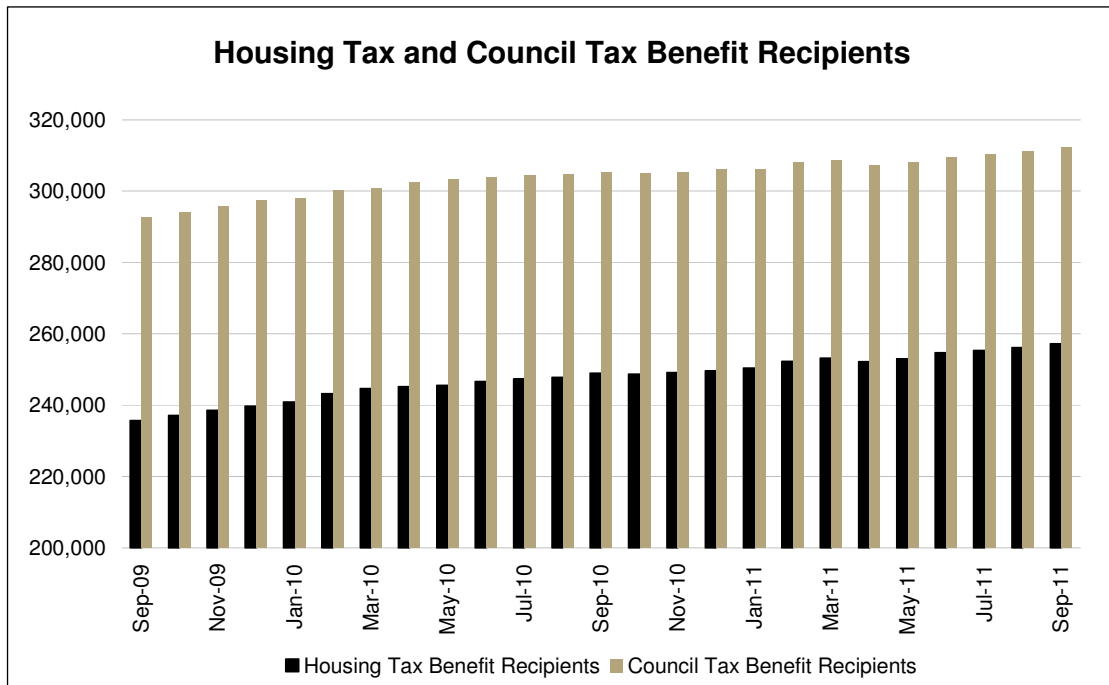
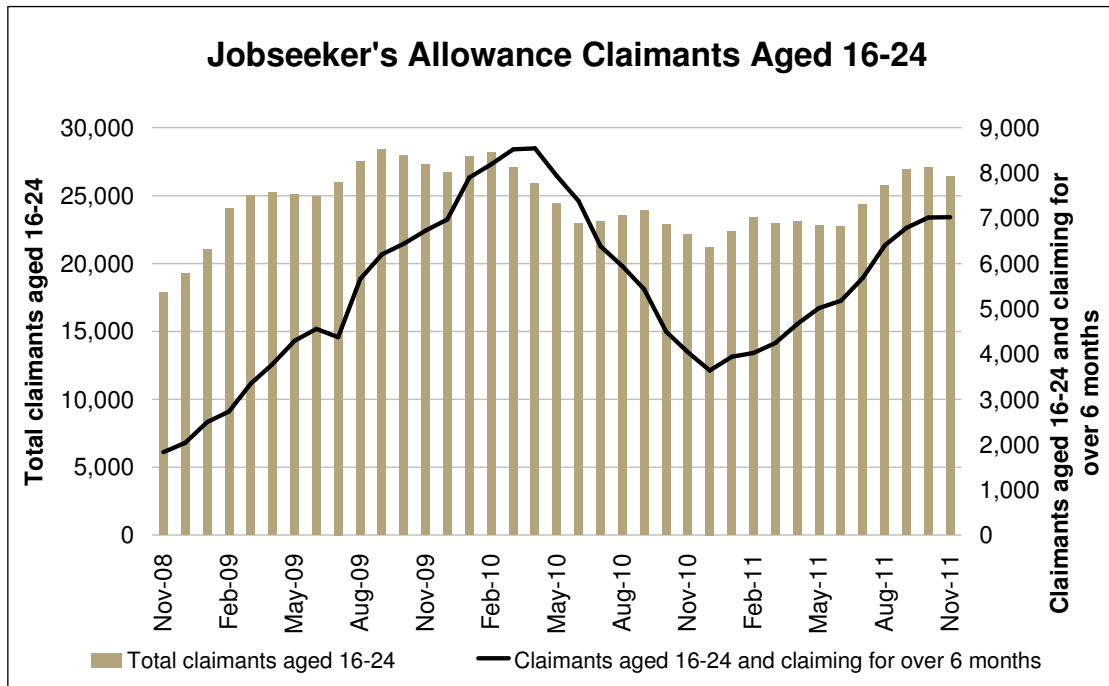
– for example, in November 2010 there were 22,100 youth JSA claimants in GM, 4,300 less than in November 2011.

In addition, between January and November 2011 the total number of JSA claimants in GM increased by nearly 6,500 – around 4,100 (63.1%) of these claimants were aged 16–24.

2011 was an extremely challenging year and with lower than expected economic growth now forecast for the UK by the Office for Budget Responsibility and further unemployment rises predicted, 2012 is likely to be another difficult one in the labour market – not just in GM, but across the UK as a whole.

Data published by the Department for Work & Pensions show that across GM the number of Housing Benefit and Council Tax Benefit recipients increased between September 2010 and September 2011, by 3.3% to 257,300 (+8,300) and by 2.3% to 312,200 (+7,100) respectively.





## EMPLOYMENT FORECASTS SUGGEST JOB GROWTH TO RETURN TO GM IN 2013

Produced by Oxford Economics for New Economy on behalf of the 10 GM local authorities shortly before the Chancellor’s Autumn Statement, the latest figures from the GM Forecasting Model (GMFM) indicate that job growth is expected to return in 2013, although it should be noted that the GMFM is published annually and came out just before OBR released its downward revisions to UK growth in Autumn Statement.

The employment outlook suggests that GM will return to ‘trend’ growth over the latter part of the coming decade. Just over 100,000 additional jobs are forecast within GM for the period 2012–22. This is slightly slower than the decade prior to the recession (where 110,000 jobs were created between 1998 and 2008).

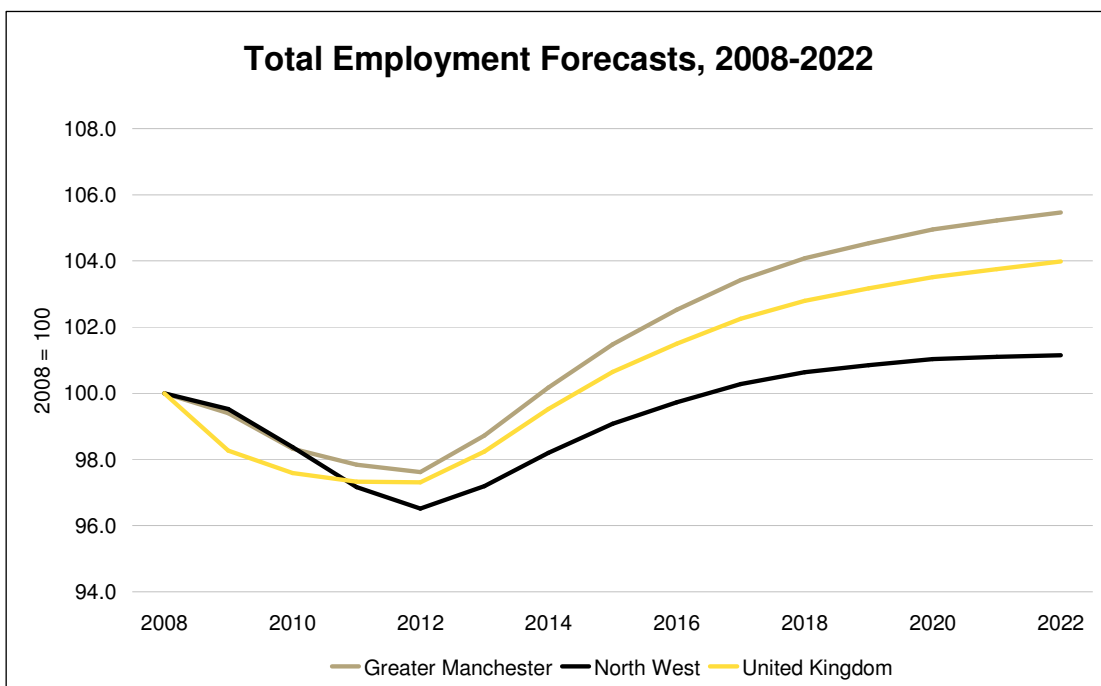
Public sector employment is likely to continue falling as cuts are implemented, meaning employment growth in the private sector will be key to the recovery.

Overall, total employment in GM from 2008 to 2022 is forecast to grow by 5.5% (+70,000), outperforming growth in the North West (+1.1%) and the UK (+4.0%) over the same period.

The increase in GM is forecast to be led by the business services sector, with an additional 156,000 jobs in GM from 2008–22. This rise will be offset by declines in other sectors, in particular manufacturing (-113,000 jobs) – although the level of decline is expected to be far slower during 2012–22 than in the previous decade.

Clearly however, the fortunes of this sector and in particular financial & professional services, are closely related to wider economic recovery. Recent work by New Economy with pro.manchester shows that employment growth in the F&PS sector could be 5-7% lower than originally envisaged by 2020 if UK growth proves to be lower over the coming decade, which now looks more likely than at the time of release of the GMFM.

GMFM also provides forecasts on gross value added (GVA), and suggest that GM will lead recovery of the North West’s economic output. GVA growth is forecast to be 1.7% in 2011, above growth in the UK as a whole. Similar growth is expected in 2012, before GVA is then forecast to rise by 2.5% per year in GM over the next decade (up to 2022).



## UNEMPLOYMENT TRENDS: IS THIS RECESSION DIFFERENT?

The recent recession, resulting from the financial crisis in 2007, and continuing to be felt in late 2011, has undoubtedly been painful in terms of both low growth and higher unemployment. However, the damage to the level of unemployment is actually less severe than previous recessions and the forecasts that were being made at the start of the recession.

There are a number of reasons for this, including decreases in hours worked, increases in part-time work, real wage stagnation, and “hidden unemployment”, which are explored further below.

There have been four recessions since the early 1970s, each different in terms of unemployment impacts:

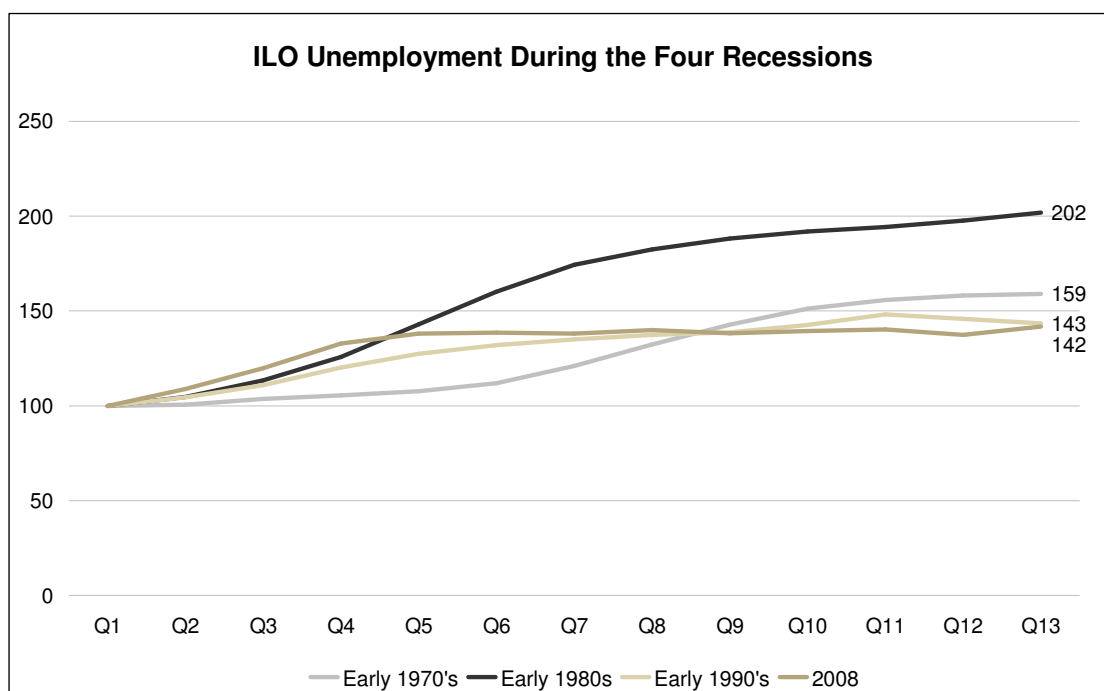
- Early 1970s;
- Early 1980s;
- Early 1990s; and
- 2008 onwards

The chart below benchmarks unemployment from the quarter when each recession started. So far in this recession, ILO unemployment has risen by

43% – a significant rise, but nothing like the rise seen in the early 1980s recession when unemployment more than doubled, and lower also than at comparable times during both the early 1970s and early 1990s recessions.

Furthermore, if unemployment forecasts are analysed, they also highlight differences in the most recent recession. In 2009, the average independent forecast predicted claimant unemployment in the UK would reach 1.9 million by 2010, and remain at around that level in 2011. In 2010, claimant unemployment was actually measured at 1.6 million, and for 2011 is at 1.5 million – around 20% (365,000) lower than the independent average forecast of 2009.

The GM experience is in line with this. Applying the forecasts to the GM claimant count shows that, as in the UK, the actual claimant count has effectively plateaued since 2009 fluctuating between monthly levels of a maximum 85,020 (January 2010) and a minimum 71,119 (December 2010), compared to the average independent forecast of 97,303 in 2010, coming down to 83,136 only in 2013.



It is clear that the economy, and more specifically the labour market, of 2008–11 may be functioning differently than in previous recessions. The fall in growth appears to have been absorbed to an extent by a combination of increased part-time working, fewer hours worked, lower wages, and higher self employment and inactivity.

### **Fewer Hours Being Worked**

Nationally between 2008 and 2011 the average number of hours worked fell from 33.9 to 33.2 hours per week, reflecting a drop in both basic hours worked (by 0.4) and in overtime (by 0.3). This appears to reflect the flexibility of the labour force and employers in response to cost pressures.

The same is true – albeit to a lesser extent – in GM, where the average hours worked in total have remained the same throughout the recession, as have average basic hours. However there has been a 11.1% decrease in overtime hours since 2008.

### **Increasing Part-Time Employment**

Nationally, part-time employment has also notably increased since the recession, having previously changed little since 2004. By 2011 however, part-time employment had increased by 6.5% compared to 2004. Full-time employment fell by 3.0% during this period, while on average the number of people in work fell by only 0.8% between 2004 and 2011.

This has been an even more pronounced trend in GM, where the number of people in part-time work has increased by 8.8% since 2004, of which 6.8% has been since the recession started in 2008. The number of individuals in full-time work fell by 4.0% since 2004, most of which is accounted for by a 3.6% fall since 2008. Perhaps as a consequence, the sum of individuals in both part-time and full-time work has fallen by only 1.2% since 2008.

### **Stagnation in Real Wages**

Since 2008, real wages have also stagnated, as inflation has overtaken earnings. Both median and mean pay rose by only 4.3% over the 3 years from 2008, whereas CPI increased by 10.3% and RPI by 13.2%.

In GM, not only have residents had to cope with a national increase in Retail

Price Inflation (RPI) of 13.2% accumulated over the 3 years since 2008, but mean pay has risen by only 0.9% and median pay by 1.1% over the period.

### **Hidden Unemployment, Inactivity and Self-Employment**

There has also been a change in the composition of the working-age population since 2008: the number unemployed has risen in absolute terms (by 776,700) and proportionally (by 1.9 percentage points); the number of employees has fallen by 481,400 (2.2pp); the number of self employed has risen by 9,500, although falling from 9.2% to 9.0% of the total; and the number of economically inactive people has risen by 336,300 (3.6%) and by 5pp as a proportion of the total population.

In GM the primary difference is that it began the recession with a far higher proportion of its working-age population unemployed (5.7%), and felt the recession far more acutely by this measure – rising to 7.7% in the year to March 2010, before falling back to 6.5% in 2011.

The same is true of economic inactivity, which again started higher than nationally at 25.6% in 2008, rising to 27.0% in 2011. There was also a more acute decrease in the proportion employed in GM, where the proportion has fallen by 4 percentage points since 2007, compared to only 2.2 percentage points nationally. GM however saw a rise in the proportion of its population which are self-employed, from 7.2% in 2008 to 7.7% in 2011 – in contrast to nationally where the proportion decreased, despite an increase in absolute numbers.

### **Summary**

All of this implies that if a return to growth takes place shortly, it would be more muted in employment terms, as instead of hiring more employees, employers would increasingly utilise the staff they have kept on, increasing the likelihood of a so-called “jobless recovery”.

It also implies that if we have indeed reached a “tipping point” where retention to await the recovery turns into reduction anticipating recession, unemployment in the short term may become more pronounced.

## GCSE ATTAINMENT RISES ACROSS GM AND UNIVERSITY OF MANCHESTER BECOMES A WORLD TOP 50 INSTITUTION

Statistics on GCSE attainment published by the Department for Education (DfE) show that levels of achievement for the 2010/11 increased across the whole of GM, with more than half of all students in each local authority achieving 5 or more GCSEs at grades A\*–C, including English & Maths.

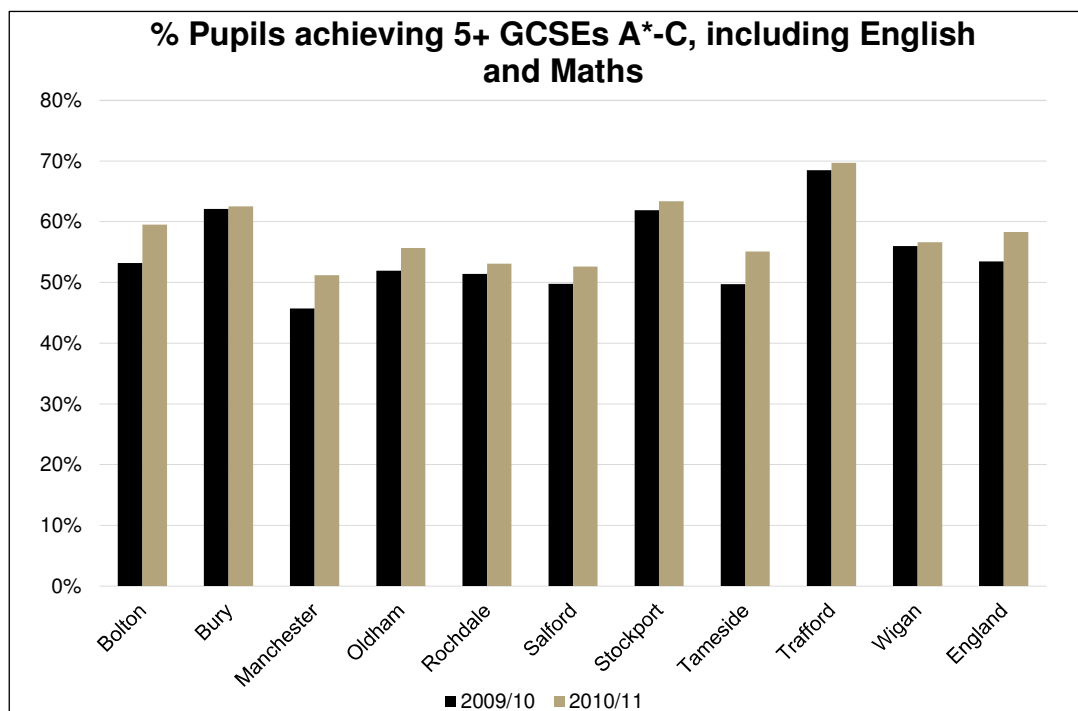
All GM local authorities saw improvements in GCSE results between 2009/10 and 2010/11 in terms of the percentage of pupils achieving 5+ at grades A\*–C, including English & Maths. In particular, Bolton (+6.3 percentage points to 59.5%), Manchester (+5.5% points to 51.2%) and Tameside (+5.4% points to 55.1%) saw significant increases. This compares to a 4.8% point rise to 58.3% in England as a whole.

Bury, Stockport and Trafford have historically had the strongest GCSE performance, and this trend has continued with the latest data. However, the results for 2010/11 for a GM as a whole are particularly encouraging, and show that all of GM has made important strides towards improving attainment.

A Level results for 2010/11 have also been released by the DfE, but these show a slight downward trend in achievement across England. In 2010/11, 92.7% of candidates achieved passes equivalent in size to at least 2 GCE/Applied GCE A-levels, lower than the figure of 94.8% in 2009/11.

Each district in GM saw a decline in the percentage of candidates achieving passes equivalent to at least 2 GCE/Applied GCE A-levels when compared to 2009/10. Stockport had the highest proportion in 2010/11 at 95.7%.

Looking at Higher Education, the latest annual list of the top 400 universities across the world for 2011–12 was published by The Times towards the end of 2011. The University of Manchester has realised its ambition to be a world top 50 institution, moving up strongly from 87<sup>th</sup> place in the 2010–11 rankings to 48<sup>th</sup> place this year.



# BUSINESS ACTIVITY

## BUSINESS START-UPS AND SURVIVAL HIT BY THE DOWNTURN

The latest business demography data for 2010 published by the Office for National Statistics (ONS) reveal how challenging the economic climate has been since the recession, with business failures surpassing start-up numbers in both 2009 and 2010.

In 2010 there were 3,300 more business failures than start-ups, a worsening of the trend seen in 2009 when deaths outnumbered births by 2,500.

As a result, the total number of active businesses in GM fell from over 88,000 in 2009 to just under 86,000 in 2010. The business environment remains tough and conditions are unlikely to get any better in the foreseeable future.

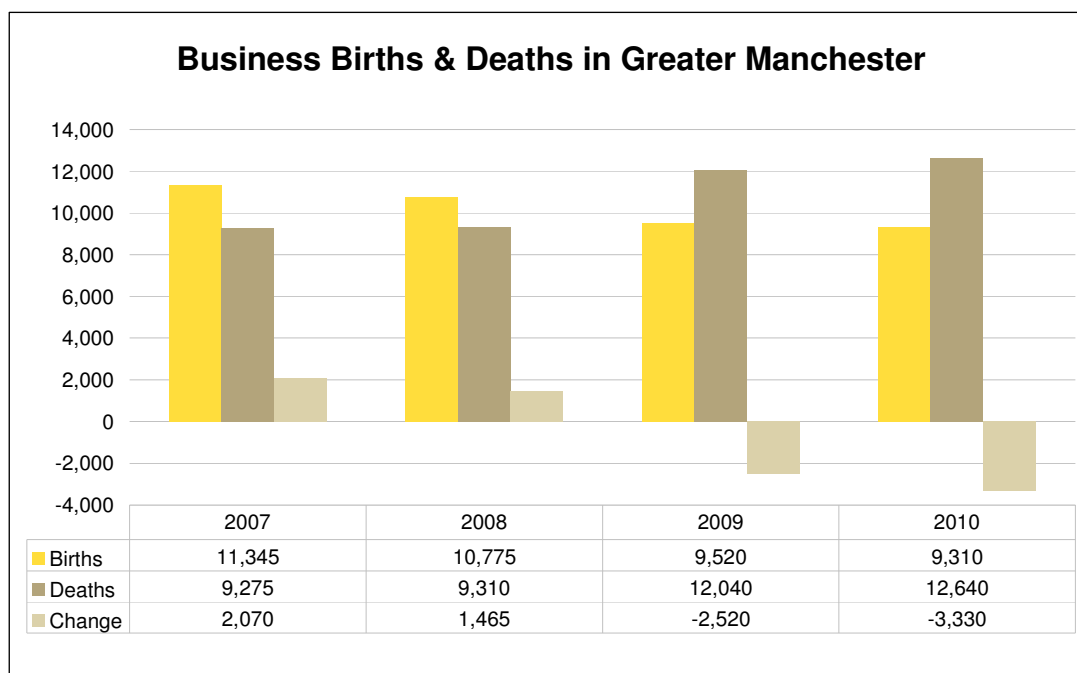
There are particular fears about a number of major retailers, with heavy discounting in stores before Christmas placing further pressure on already constrained margins. For example, Blacks Leisure went into administration at the beginning of January, threatening 3,600 jobs at its Blacks and Millets outlets.

Looking at the commercial property market, according to Cushman & Wakefield's in Q2 2011 the average prime rent for office space in Manchester was £30 per sq. ft. However, the Q3 figure has fallen back slightly to £28.50. Prime retail rents in Manchester are £250.00, and have remained the same for five consecutive quarters.

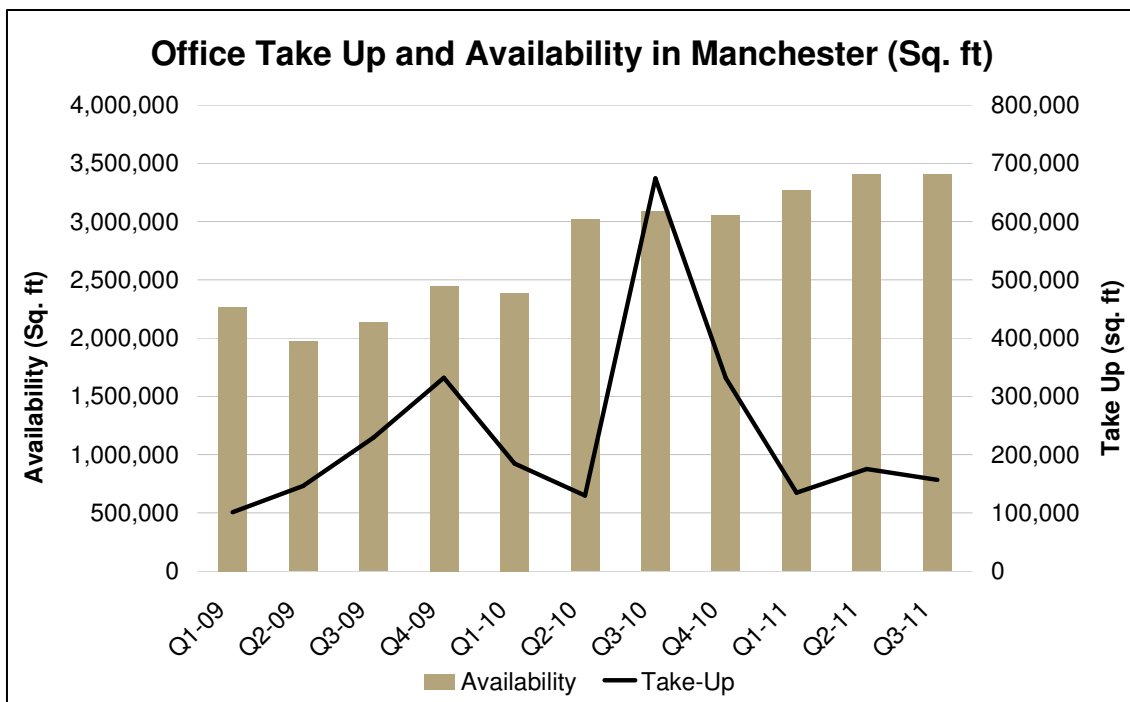
DTZ highlights that current requirements suggest annual take-up in Manchester city centre will pick up in 2012. Take-up in Manchester city centre was 157,000 sq. ft. in Q3, down slightly from the 175,000 sq. ft. recorded in Q2 2011. Available space in Q3 remained steady at 3.4 million sq. ft.

In an inward move to GM, Etihad Airways has taken 23,000 sq. ft. of space at Manchester Airport for its first European contact centre in Manchester in 2012, which is expected to create up to 160 jobs.

In addition, Aegis, a global outsourcing services provider, is taking space for a call centre operation at City Tower and this is expected to create up to 600 jobs.



| Area       | Prime Rents, Sept 2011<br>(£/sq. ft) |            |         | Annual Trend |            |        |
|------------|--------------------------------------|------------|---------|--------------|------------|--------|
|            | Office                               | Industrial | Retail  | Office       | Industrial | Retail |
| Manchester | £28.50                               | £5.50      | £250.00 | ↔            | ↔          | ↔      |
| Birmingham | £28.50                               | £5.25      | £250.00 | ↑            | ↓          | ↔      |
| Bristol    | £28.50                               | £7.75      | £150.00 | ↑            | ↑          | ↓      |
| Leeds      | £25.00                               | £5.00      | £250.00 | ↓            | ↔          | ↔      |
| Newcastle  | £22.00                               | £4.25      | £250.00 | ↔            | ↔          | ↔      |
| Cardiff    | £21.00                               | £5.50      | £225.00 | ↔            | ↔          | ↔      |
| Edinburgh  | £27.00                               | £7.50      | £200.00 | ↔            | ↔          | ↑      |
| Glasgow    | £29.00                               | £6.25      | £255.00 | ↔            | ↑          | ↑      |



# PLACE

## HOUSING MARKET REMAINS CHALLENGING AND SIMILAR TREND PREDICTED IN 2012

The housing market in GM is still struggling, though all UK regions outside London are facing similar challenges. The average property in GM cost £105,929 in November 2011, with prices having essentially been static for the last eight months. Sales have been hovering around 2,000–2,300 per month, well below the pre-recessions levels of 5,000+.

A new housing strategy was announced in November 2011, consisting of a pot to help stalled schemes over the line, mortgage help for first-time buyers and increased discounts on council house sales. This should have a positive impact on the housing market, however Bank of England MPC Member David Miles has stated that the housing and mortgage markets will not get back to where they were. Consequences of this are likely to be declining rates of home ownership, growth in shared equity schemes and the rapid growth of the private rented sector.

Despite the gloom surrounding the housing market, there are still reasons to be positive in GM. For example, the visitor economy is continuing to perform extremely well and this includes hotel

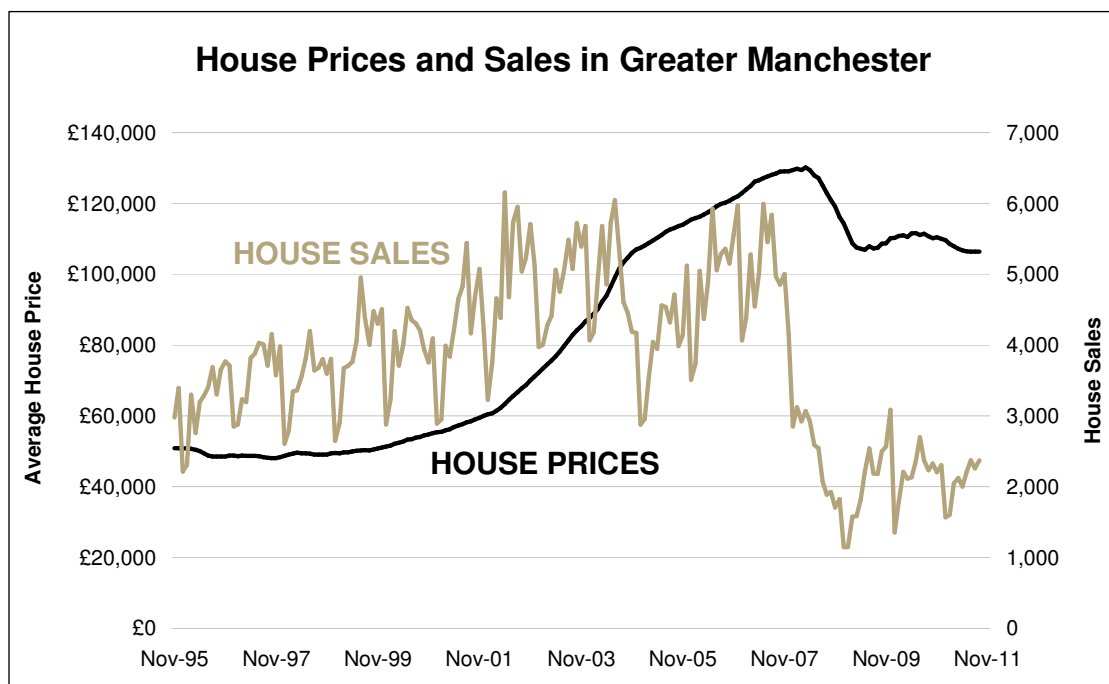
occupancy, which reached 84% in Manchester city centre – its highest level since recording of the figures began in 2000.

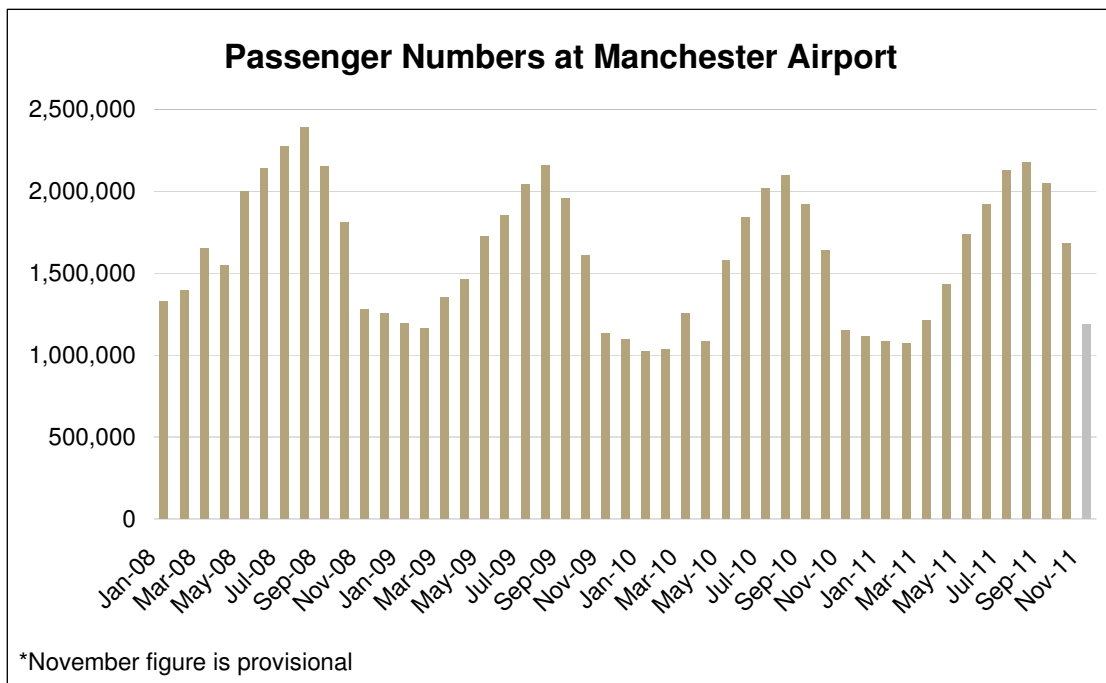
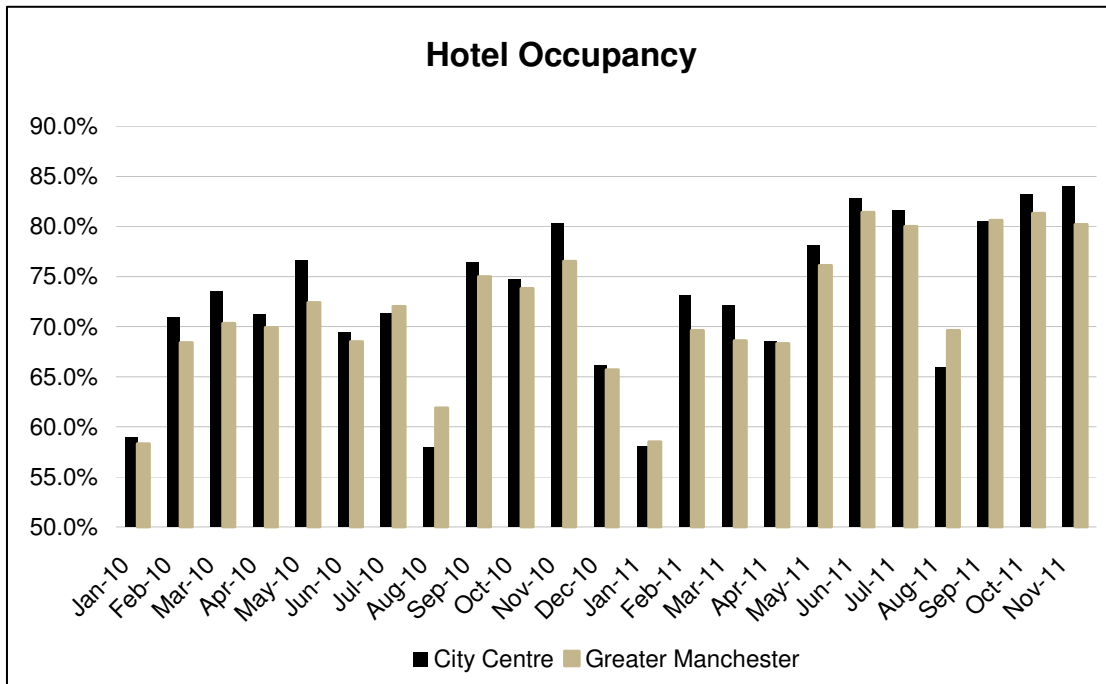
The average occupancy for January–November 2011 for the city centre was 75%, compared to 71% over the same period in 2010; and the average for GM was 74%, compared to 70% in 2010.

Annual passenger numbers at Manchester Airport are continuing to defy the economic gloom, and were recorded at 1.683 million in October 2011, representing a rise of 2.8% compared to October 2010.

Between January and October 2011 a total of 16.5 million passengers passed through Manchester Airport, almost one million more (+6.4%) than the over the same period in 2010.

The addition of new services to cities such as Washington, Dhaka, Oslo and Istanbul bodes well for the future. This should mean that Manchester Airport is well placed heading into the New Year and the signs for further growth are encouraging.





# UK OUTLOOK

## CHANCELLOR ANNOUNCES FURTHER CUTS TO PUBLIC SECTOR SPENDING

2011 was a very challenging year for the UK economy and those hoping for better times ahead in 2012 will have been disappointed by the new Office for Budget Responsibility (OBR) forecasts released with the Chancellor's Autumn Statement.

The statement included the announcement that the Government will have to borrow £111 billion more than expected by 2016 due to the lack of economic growth. Public Sector Net Borrowing (PSNB) as a proportion of GDP is now forecast to fall to 2.5% in 2014/15 and then go down to 1.2% in 2016/17. This means that cuts to public spending will continue until 2017 and will be £15 billion more than originally envisaged.

More positively, the UK economy grew slightly faster than expected in the third quarter of 2011, with growth in Gross Domestic Product (GDP) for July to September being revised up to 0.6% from a previous estimate of 0.5%. However, the estimate for GDP growth in Q2 2011 was revised down from 0.1% to show no expansion at all.

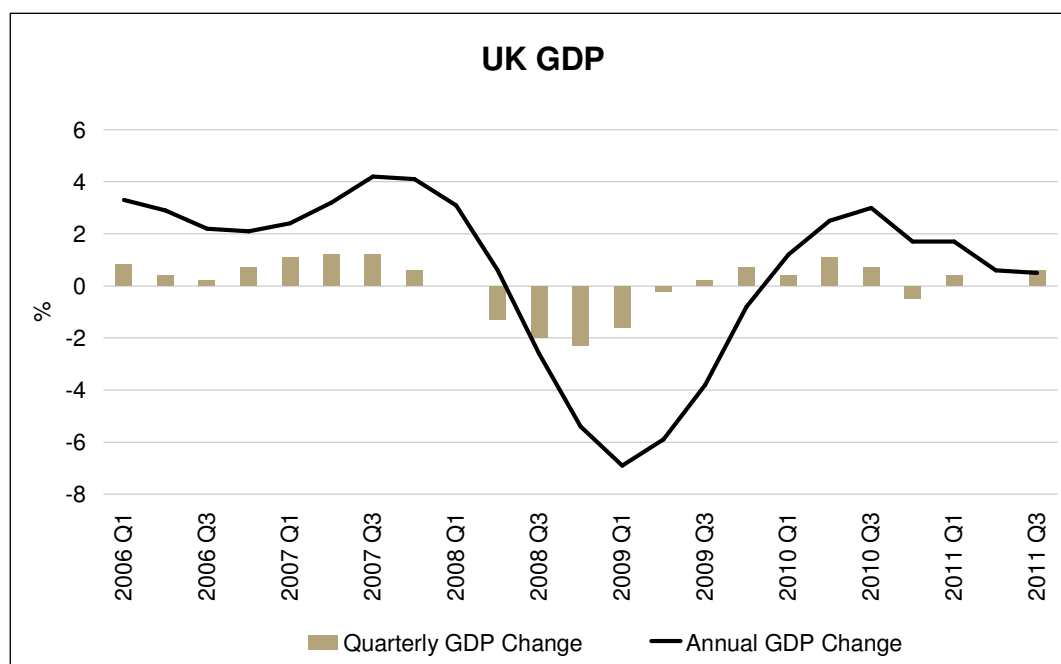
In summary, the output of the economy is now thought to have been 0.1% lower in

the Japanese tsunami and the additional bank holiday for the royal wedding, and 0.1% higher in Q3 2011 when these one-off effects unwound. Over the year to Q3 2011, the UK growth rate was a modest 0.5%.

Interest rates remain unchanged at 0.5%. The last time rates were above this figure was in February 2009 when they stood at 1.0%.

RPI annual inflation was 5.2% in August, higher than the figure of 5.0% in July. CPI annual inflation fell to 4.8% in November 2011, down from 5.0% the previous month. The fall was due in part to a slowdown in the rise in food and non-alcoholic drink prices, in addition to slower rises in transport, clothing and furniture costs.

Despite the fall however, CPI remains well above the Bank of England's target of 2.0%, as it has been for 63 of the last 74 months. Despite the BoE expecting inflation to return to target in the next two years, its current high level accentuates the pressure of households experiencing wage restraints.



Q2 2011 when there was disruption from

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