

POLICY & COORDINATION REVIEW 19 March 2009 COMMITTEE

SUNDERLAND ECONOMIC OVERVIEW

REPORT OF THE CHIEF EXECUTIVE

Strategic Links: Prosperous City; CIO3

1. Why has this report come to the Committee?

1.1 At its meeting in October 2008, the Policy and Coordination Review Committee requested an update on the economic challenges facing the city in the context of the current economic conditions at a future meeting.

2. Introduction

2.1 In October 2008, it was concluded that the likelihood of an economic downturn was “looking more and more certain”. In March 2009, the recession is clearly well underway.

2.2 It has been confirmed, given a shrinking economy in the second half of 2008 the UK is officially in recession. The Governor of the Bank of England has indicated that the recession is likely to be even longer and deeper than previously expected.

Summary of Recent Developments

- The credit crunch has deepened. The UK Government has had to recapitalise three banks in recent months. Banks have dramatically revised their mortgage lending. They are also restricting credit as they pay back loans to the wholesale markets and because both commercial and personal borrowing now carries a higher risk.
- The downturn in economic output has steepened. The UK is officially in recession (defined as two consecutive quarters of “negative growth”), and is contracting at an annualised rate of around 6%.
- In response to car sales falling by about 40% in the autumn, car makers around the world have cut production sharply and workforces to a lesser extent. Nissan has cut its workforce by about a fifth (1200 jobs) with an equivalent number being lost from its supply chain.
- Unemployment in Sunderland is already around 3,000 higher than Summer 2008 and is rising. UK employment is likely to rise by about 1 million by autumn 2009 according to several forecasts. This would translate into about 15,000 extra claimants in Tyne and Wear. A further

increase of 3-4,000 claimants in Sunderland can therefore be anticipated during the course of 2009.

- Since September 2008, we have identified over 3,000 jobs lost in Sunderland and some 400 job gains. The figures relate to significant gains or losses reported in the local media.
- The North East is displaying a certain amount of resilience to recession in that unemployment is not rising as rapidly relative to elsewhere in the UK as it has done in previous recessions. The proportion of public sector jobs in the region is probably having a cushioning effect.

3. International Context

3.1 Several factors have combined to bring about a set of conditions that now appear likely to bring about a slowdown in the world economy:

1. **The 'Credit Crunch'**, the restricted availability of credit to consumers and businesses brought about by a financial crisis that originated in the mortgage lending of private banks, initially focused in the US. Falling house prices have rendered first time buyers and others unwelcome customers. Businesses which rely upon credit to operate are facing difficulties and many have closed as demand for their products has fallen bringing cash-flow pressures. Most seriously of all, private financial institutions across the world began to fail and 18 major institutions have been taken into public ownership or given substantial public support. Governments have had to provide guarantees for these institutions and for private savings. Substantial funds have been injected into financial markets in an attempt to provide necessary liquidity.
2. **Rising energy prices**, driven by particularly strong growth in China and India in recent years contributed to the onset of the slowdown, through the effects of these have tempered in recent months by falling demand.
3. **Rising prices for other commodities, especially food.** Again, driven by greater demand from an increasingly prosperous China and India, world food prices rose sharply, reducing the demand for other goods and services and contributing to the onset of recession. However, there is now a strong prospect of deflation as prices begin to fall year-on-year.
4. **Overall inflation remained high** well into 2008, prompting some commentators to conclude that UK monetary policy conducted by the Bank of England was focused too much upon restraint of demand and was slow to react to the downturn and its consequences. However, there is typically a delay of up to 18

months between interest rate changes and their impact on the real economy, rendering monetary policy a “blunt instrument”.

4. UK Economy

- 4.1 UK conditions have deteriorated rapidly as world trade has contracted. Given its relatively “open” economy and large financial sector, the UK is particularly exposed. The Government has responded with a significant fiscal stimulus. However, this has not yet reassured investors or restored bank lending to the desired level. Sterling has dropped sharply against the major currencies and the stock market remains volatile following a series of falls. Retail price inflation fell from 5% in the autumn to 0.1% in January 2009 and the prospect of falling average prices – or deflation – looms.
- 4.2 The Bank of England forecasts that the UK economy will shrink by 3% in 2009, but that there will be positive growth in 2010. This is a sharp revision of its forecast of just three months previously. Some commentators have cast doubt upon the likelihood of recovery in 2010.
- 4.3 The impact has now spread across UK industry affecting all sectors including manufacturing, retail and business services as well as finance and construction.

5. Regional Impact

- 5.1 Conditions have worsened in all regions of the UK, though London, the South East and the East of England are likely to bear the brunt of financial services job losses. Prospects are no brighter for the North East and other regions with a greater manufacturing base. Despite falling input prices and a much weaker £, weak export markets suggest that 2009 will be a difficult year for manufacturers. The region’s reliance on public sector jobs could cushion the blow in the short term, but is unlikely to produce the base from which any recovery could gain pace.

7. Business Developments

- 7.1 Sunderland's automotive sector is attempting to retain its relatively strong position in a reduced market, with high levels of productivity and a major new model due to come on stream in 2010 to replace the Nissan Micra. However, the sudden collapse in demand for its products - by around 40% - towards the end of 2008 led to an unavoidable cut in production and consequent reduction in the workforce. Nissan has announced a total of 1,200 job losses, with an equivalent number likely to occur among suppliers (not all of which have been reported in the press). This is equivalent to 25% of the sector workforce. Nissan and its suppliers appear to be taking the action that is necessary to maintain their competitiveness and therefore the future success of the sector.

7.2 The situation with regard to financial and customer services is also relatively positive. The anticipated job losses resulting from the turmoil in the financial services sector appear now have now fed through, with lower than expected numbers of redundancies at Northern Rock and the closure of Citibank's mortgage centre on Doxford International. The other contact centres continue to recruit, albeit mainly for replacement positions. The City Council's annual Contact Centre recruitment event held on 29 January 2009 was highly successful, with six employers (T-Mobile, Lloyds TSB, Barclays, 2Touch, EDF Energy) and two agencies (NRG and Pertemps) participating. In the run up to the event, 2Touch announced that 250 jobs were available at its Doxford International site, including some new posts.

7.3 In terms of retail and leisure, there has been a noticeable increase in voids in both the City Centre and in local centres. As unemployment increases and the spending power in the local economy falls, this situation can be expected to worsen. The retail and leisure sectors are themselves major employers, and since many job losses are not reported (the numbers in each individual case being small), it is more difficult to track the impact of the economic downturn in this area of the economy.

8. Labour Market

8.1 Major job gains and losses during the six month period September 2008 - February 2009 are presented below.

Job Gains (Sep 08 - Feb 09):

Oct 08	ASDA (Washington) -	60 jobs
Jan 09	Sekura (Washington)	40 jobs
Jan 09	Tombola (City Centre)	60 jobs
Jan09	2Touch (Doxford International)	250 jobs
Total		410 jobs

(NB: not all of the 250 jobs at 2Touch are new posts.)

Job Losses (Sep 08 - Feb 09):

Sep 08	Manitowoc (Doxford International)	20 jobs
Sep 08	Medifiq (Rainton Bridge)	90 jobs
Dec 08	Grundfos (North Hylton)	65 jobs
Jan 09	Unipres (Washington)	300 jobs
Jan 09	Nissan (Washington)	1,200 jobs
Jan 09	Johnson Controls (Washington)	100 jobs
Jan 09	Vantec (Washington)	100 jobs
Jan 09	Corus (Hetton Lyons)	10 jobs
Feb 09	Rolls Royce (Pallion)	35 jobs
Feb 09	TRW Systems (Washington)	25 jobs
Feb 09	Tanfield Group (Washington)	85 jobs
Total		2,030 jobs

(NB: these figures exclude 800 jobs lost in automotive suppliers which we are aware of but have not been reported in the press, as well as job losses in sectors such as retail and leisure that are not normally reported.)
Source: Sunderland Echo / Journal

- 8.2 While these figures do not present the entire picture, it is clear that job losses announced in the local media in the last 6 month period outnumbered new jobs by about 5 to 1. Taking into account jobs in the automotive industry, retail and leisure that did not make the local newspapers and the fact that some of the “new” jobs are in fact replacement, the imbalance is likely to be much higher.
- 8.3 Unemployment - as measured by Job Seekers Allowance (JSA) claimants - reached its lowest level in the City at the end of 2004 (at 4,840 people or 3.7%). The number of claimants stood at 9,146 in January 2009 (5.2%). JSA figures are subject to seasonal variations. For example, there is typically a noticeable fall during the summer months, when construction industries are recruiting, and a big spike in January, when the retail sector sheds temporary staff taken on during the run up to Christmas. Consequently, when looking for trends it is necessary to compare like-with-like. On this basis it appears that unemployment levels in Sunderland continued to be little affected by the credit crunch until midsummer 2008. After that point, year-on-year increases mounted steadily - 56 in July, 511 in August, 848 in September, 1,123 in October, 1,819 in November, 2,498 in December and 3,163 in January.
- 8.4 The number of vacancies notified to Job Centres had been holding up fairly well until the late summer of 2008 but has declined since then.
- 8.5 Comparing vacancies and claimant unemployment, it is clear that demand for employees has been outstripping available supply for several years, but recently conditions have worsened sharply. As at January 2009, the number of Job Seekers outnumbered unfilled vacancies registered at JobCentres by more than seven-to-one. However, as JobCentre Plus vacancies only account for around one-third of those in the market, the ratio of Job Seekers to all vacancies (including those being sought by people already in work) is closer to two-to-one.

9. Commercial Property

- 9.1 Sunderland's economic progress has been underpinned by private investment and the ability of the Council and partners to secure the development of high quality business premises and attract suitable occupiers - as exemplified by the success of Doxford International. Inward investment - including that originating in the USA and Japan - has been key to this success, whether in the form of new projects or reinvestments by companies previously attracted to the City. Numbers of enquiries from businesses and the uptake of premises are therefore

good indicators of the health of the economy, and both are now at a very low level.

- 9.2 As far as inward investment is concerned, there has been a significant reduction in the quantity of enquiries, although the quality remains high, and a number of substantial investments are in the pipeline which, if they come to fruition, would provide a major boost to the local economy.
- 9.3 The reduction in the number of mobile investments is creating a significant reduction in the uptake of business premises - most noticeably offices, where most of the growth had been expected (due to the need to accommodate the planned expansion of the financial services sector) and where there has been a concerted effort to increase supply. There is currently around $\frac{3}{4}$ million square feet of vacant office space in the City - almost three times that on the market just twelve months ago. This picture is very different to that seen in recent years, where there was strong demand and an under provision of good quality premises.
- 9.4 In contrast, there has as yet been no noticeable upsurge in vacant industrial property, with just a couple of large warehouses in Washington coming onto the market (one of which already has a strong interest, pointing to the area's continuing locational advantages).
- 9.5 A shortage of institutional funding has hit new developments, with developers displaying an unprecedented degree of caution, frequently compounded by a lack of liquidity among their financial backers.

10. Housing Market

- 10.1 Smooth and effective operation of the housing market is not only essential in providing houses for local residents, it also has a significant influence upon spending patterns. As mortgage costs rose spending power was taken out of the City's economy. Home purchases are also associated with spending on carpets, furniture fittings and decorations. Many suppliers of these items have experienced falling sales nationally. Although mortgage costs have eased with falling interest rates, a recovery in the housing market is some way off and further falls of 15-20% in prices are anticipated nationally.

11. The Council's Response

- 11.1 The response of the Council to these circumstances is summarised in the Sunderland City Council Cabinet paper of 11 February 2009, presented at Appendix A.

12. Conclusion

12.1 Sunderland's economy has performed strongly in recent years and it has entered the recession with a relatively tight labour market. However, the impact of recession has spread throughout the economy with few sectors experiencing no adverse effects. The combination of factors that brought about the current economic conditions is such that the recession is likely to be more prolonged than previous downturns and 2009 will be particularly problematic with respect to job losses and business failures.

13. Recommendation

13.1 The Committee is requested to consider this evidence in relation to its policy review of the economic challenges in Sunderland.

14. Background Papers

Review Committee report for Policy Review October 2008.

Contact Officer: Vince Taylor, Head of Strategic Economic Development
0191 561 1113
vince.taylor@sunderland.gov.uk