

**Item 10**

**Economic Outlook**

**Purpose of report**

The report updates the board on the economy, the implications for local government and the LG Group's response.

**Summary**

The economy is growing but the economic outlook remains uncertain. Manufacturing and construction are driving growth, with manufacturing export orders showing positive growth in every region of the UK. But the risks in the Eurozone and the number of young people not in education, employment or training are sources of concern.

**Recommendation(s)**

Members to comment on the update.

**Action**

Officers to take forward members' suggestions.

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## **Economic Outlook**

### **The economic situation**

1. The first serious economic news of the year is the British Chambers of Commerce Quarterly Economic Survey of its members. It is showing growth in manufacturing and construction, but flagging relative weakness and risk in the service sector.
2. The growth is coming from manufacturing exports and sales – at their highest levels for 16 years, according to the BCC survey.
3. Official growth figures have been revised down by the Office for National Statistics, at 0.7% in the quarter to September 2010<sup>1</sup>, and downward revisions for the April to June quarter from 1.2% to 1.1% and the first quarter from 0.4% to 0.3%.
4. Other indicators for the economy show that:
  - 4.1 The number of people unemployed increased by 35,000 in the three months to October to reach 2.5 million. The number of people over 16 years old who are employed fell by 33,000 to reach 29.13 million;
  - 4.2 Inflation as measured by the Consumer Price Index (CPI) is at 3.3%, up from 3.1% since July, but down from 3.7% in April, well above the Bank of England's 2% target. The Retail Price Index is at 4.7%, up from 4.5% in October (but down from a 5.3% peak in April). The rise in VAT to 20% will of course add to inflationary pressures in the short term, we can expect CPI to rise to about 4%;
  - 4.3 Given the importance of private sector growth and business confidence, the Monetary Policy Committee (MPC) – as a whole, albeit with dissenting voices - has shown itself reluctant to depart from an extremely loose monetary policy. Some members of the MPC are calling for interest rates to rise to address inflation. But as a whole the MPC has voted to hold the Bank Rate at 0.5% since 5 March 2009<sup>2</sup>. The Bank has also put £200 billion into the UK's financial system to boost bank lending – quantitative easing - although it stopped the programme in February 2010;

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<sup>1</sup> Figures from HM Treasury

<sup>2</sup> <http://www.bankofengland.co.uk/publications/news/2010/084.htm>

- 4.4 The public finances have been the government's principal source of concern with the deficit at 11% of GDP and debt at 85%, with the UK's Triple A credit rating now classified as stable.
- 4.5 But uncertainty remains in the Eurozone related to the scale of public sector debt. Whilst deficit reduction across the Eurozone is intended to restore confidence in the Euro, it is likely to reduce demand for UK goods and services in the short term.

### **Issues for councils**

5. There are a number of issues for councils – unchanged in broad terms since the November update:
  - 5.1 The government's deficit reduction plan and Spending Review will of course impact on councils themselves as an important part of their local economies and wider public sector employment;
  - 5.2 The pattern of private sector growth will vary from place to place – the Centre for Cities "Cities Outlook" – out on 24 January – which we are sponsoring again this year, will look at these effects and explore the differential prospects for cities across the UK;
  - 5.3 The economic prospects for young people remain a source of concern. There are currently over 1 million young people not in education, employment or training.

### **LG Group response**

6. At this Board meeting, there are separate papers covering the Group's work on growth and investment, education and training and skills and apprenticeships and welfare reforms.