

Item 7

Economy Update

Purpose of report

The report provides a brief update for the Board on the economy.

Summary

GDP fell by 0.6 % in the last quarter of 2010. Although there are encouraging signs of growth in the economy – manufacturing output was up 6.8% on the previous January. But there are global risks – resulting from rising oil prices and the impact of the disaster in Japan. The number of unemployed young people is a continuing source of concern.

Recommendation

The Board is asked to provide any steer for future meetings that may be required.

Action

Subject to comment from the Board, officers to take forward any suggested actions.

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Economy Update

The economic situation

1. The future path of growth remains uncertain:
 - 1.1 GDP fell by 0.6% in the last quarter of 2010;
 - 1.2 The Office for National Statistics is reporting strong growth in manufacturing output – up 6.8% on January last year;
 - 1.3 The British Chamber of Commerce has recently revised down its forecast for growth in 2011 from 1.9% to 1.4%.
2. The GDP data for the first quarter of 2011 will be published on Wednesday 27 April – and is being seen by commentators as a watershed moment - revealing whether the economy is bouncing back or double-dipping. The Institute for Fiscal Studies puts the chances of a double-dip in their Green Budget at 20%.
3. Inflation rose to 4% in January, up from 3.7% in December as measured by the CPI. The corresponding figures for the RPI are 5.1%, up from 4.8%. As the VAT, commodity and oil price rises feed through into general prices, the Bank of England is expecting inflation to be between 4 and 5% over the next few months.
4. This has prompted further speculation – and split opinion within the Monetary Policy Committee - about the need for an interest rate rise to bring inflation into line with the inflation target. The Bank Rate has now been at 0.5% since 5 March 2009.
5. Within the business community, there are concerns about the impact of an interest rate rise on business and consumer confidence, although the volume of lending rather than the price, is the principal concern for many small businesses. For the general public pay is not keeping pace with the cost of living – pay deals across the economy are averaging about 2%, with a two-year freeze in the public sector. Savers and those on fixed incomes are caught between high inflation and low interest payments.
6. The recent rise in oil prices and the disaster in Japan have heightened concerns about the global economy. There is domestic concern at petrol pump price rises and it is unlikely that, at Budget time, the government will maintain the fuel duty rise scheduled for April.

Item 7

7. The number of people unemployed increased by 44,000 in the three months to December to reach 2.5 million. The unemployment rate for young people between 16 and 24 years old is 20.5%. The CBI expects unemployment to peak at 2.71 million people by the end of the year. A separate paper for the Board explores the worrying youth unemployment situation in more detail.

The Budget

8. The Board takes place the day after the Budget. At the time of writing there is only speculation about the content of the Budget. The Institute for Fiscal Studies believe that the Budget will be broadly fiscally neutral – without any net give or takeaways.
9. There are a number of measures that commentators are anticipating, for example:
 - 9.1 Action on fuel costs (which will be welcome by councils) though the costs mean that government can only impact on pump prices at the margins;
 - 9.2 De-regulatory measures for business removing the barriers to growth, enterprise, and job creation;
 - 9.3 An announcement on Project Merlin – on bankers' pay – putting senior executive pay in the spotlight;
 - 9.4 Higher rises in excise duties especially given the recent withdrawal of charity support for the "Responsibility Deal" on alcohol.
10. We will circulate summary material on the Budget when the Board meets.