

Item 8

Economy Update

Purpose of report

The report provides a brief update for the Board on economic news of interest to local government.

Summary

This note summarises the main macro-economic news and the opportunities available to local enterprise partnerships

Recommendation

Members are asked to note the report.

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The economic situation

1. The economic recovery remains fragile:
 - GDP rose by 0.5% in the first quarter of 2011;
 - Inflation, as measured by Consumer Price Inflation, is at 4%, double the target rate and the Bank expect it to rise further;
 - Interest rates remain at 0.5% which while good news for borrowers (not for pensioners, others on fixed incomes and savers) reflects concerns in the Monetary Policy Committee at tightening both fiscal and monetary policy simultaneously at this stage in the recovery.
2. The GDP data for the first quarter of 2011 published on Wednesday 27 April was not the watershed moment some were expecting – although the figures show a bounce back from the fall in GDP in the previous quarter, it was not dramatic.
3. Inflation fell to 4% in March, down from 4.4% in February as measured by the CPI. The corresponding figures for the RPI (which includes mortgage interest payments) are 5.3%, down from 5.5% In February. This fall is attributed mainly to falling prices for food and non-alcoholic drinks.
4. Inflation is double the target rate. At the April meeting, three out of the nine members of the Monetary Policy Committee voted for a rise in interest rates 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. The latest figures on new car sales show that they are down 7.4% on the previous year, although the SMMT is predicting that nearly two million new cars will be registered in the UK this year.
6. Unemployment and job creation remains a concern. The number of people unemployed fell by 17,000 in the three months to March to 2.48 million. The unemployment rate for young people between 16 and 24 years old continues to rise, up 12,000 on the last quarter and reflected in the government's announcement of extra funding for apprenticeships. A separate paper for the Board explores the worrying youth unemployment situation in more detail.

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The issues for local government

7. The government has made (or is about to make) a number of announcements which are relevant to local enterprise partnerships' capacity to promote local economic development:
 - A LEP start-up fund of £5 million will be allocated through a bidding round. Bids can be made until the end of June – this is a government u-turn;
 - Work Programme Prime Contractors have now been appointed on the geography of 19 Department of Work and Pension's Contract Package Areas – they will be key partners for councils and LEPs alike;
 - Lord Heseltine has held the first road show in Margate on the second round of the Regional Growth fund. £950 million will be allocated through a bidding round – bids to be submitted by 1 July;
 - Some LEPs will be developing their proposals for Enterprise Zones for submission by the end of June;
 - The next phase of pilot activity on superfast broadband¹, in areas where it will not be provided without public subsidy, is likely to be announced later this month. Broadband UK has received 18 bids (some are sub-regional).
8. In addition, on 6 April, CLG announced that British Chambers of Commerce will bring together a new government-funded national network of local enterprise partnerships, which David Frost, the BCC's Director General, will chair.
9. Finally, a pan-Lancashire LEP is the most recent LEP to be agreed by government bringing the total number to 33 covering 93% of England's population, 93% of its employees and 92% of businesses.

¹ The first phase includes North Yorkshire, Herefordshire and Cumbria.