

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 domestic concerns about rising inflation, the latest news on jobs growth and the key economic developments for councils and local enterprise partnerships

Recommendation

Members are asked to note the report.

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Economy Update

The economic situation

1. Although the UK has limited exposure to Greek debt, at the time of writing the main economic story is instability in the Euro Zone, in particular the prospects of European Union and the IMF releasing £10 billion of loans to Greece, the resistance there to austerity measures and the possibility of a Greek departure from the Euro zone
2. Domestically the economic data does not tell a consistent story – there is both good and bad news.
3. Bad news first. There are concerns about inflation and its impact on savings and real incomes. Different groups are more vulnerable to inflation. Analysis by the Institute for Fiscal Studies has shown that the poorest 20% of the population experienced an inflation rate of 4.7% between 2008 and 2010, compared to a rate of 2.7% experienced by the richest 20%.
4. As measured by Consumer Price Inflation, inflation was at 4.5% in May, double the Bank's target rate. The Retail Prices Index is at 5.2%. Energy prices rises are likely to drive CPI above 5% in coming months – Scottish Power, which has 2.4 million domestic customers, has said its gas prices will rise by 19% from 1 August and its electricity prices by 10%. Despite the inflationary pressures interest rates remain at 0.5%. The Bank's explanation is that the inflationary pressures are not domestic but down to rising costs of oil, gas and food.
5. On job creation, there is good news. In the twelve months running up to March 2011, the private sector created 520,000 more jobs, whilst the public sector shed 143,000 jobs, resulting in 377,000 net jobs created.
6. The number of people unemployed fell by 88,000 in the three months to April to 2.43 million. But the number of people on Job Seeker's Allowance (JSA) rose by 19,000 in May to 1.49 million.
7. Analysts put the discrepancy down to changes in benefit rules that are requiring people's ability to work to be re-assessed which are having the effect of moving people off of Incapacity Benefit/Employment Support Allowance onto JSA. To receive JSA claimants, conditionality applies, and they must actively seek and be available for work.

The issues for local government

6 July 2011

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8. A key issue for local government in recent weeks will have been putting in bids to government:
- The closing date for bids to the LEP start-up fund of £5 million is the end of June.
 - Bids to the second round of the Regional Growth fund of £950 million are to be submitted by 1 July.
 - Proposals for Enterprise Zones are due for submission by the end of June.
 - BDUK have announced the next phase of pilot areas for superfast broadband in rural areas with a second wave of projects in Devon, Norfolk, Somerset and Wiltshire¹.
 - Government launched its payment by results Work Programme to a mixed response about how it will impact on unemployment in different parts of the country.
9. In addition:
- the Prime Minister announced that Mary Portas will lead a review into the future of the High Street reporting in the Autumn.
 - Government has agreed to the Humber local enterprise partnership (8 June) bringing the total number of local enterprise partnerships to 35 and bringing coverage to 96% of all employees in England.

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