Surviving Recession

The *Surviving Recession* series of papers looks at the impact of the recession on cities in the UK, focusing on a range of themes and identifying what measures might cushion the damage. The first paper looks at the issue of Youth Unemployment and how cities should respond to the Future Jobs Fund recently announced in the 2009 Budget.

Financial crisis and global recession

Losses in the US sub-prime debt markets have led to an ongoing global financial crisis which started in summer 2007 and has got progressively deeper and more widespread. In autumn 2008 the world's credit markets almost collapsed as wholesale banking markets froze with banks no longer lending to each other at any price. This collapse in credit markets has rippled out into the broader economy as lending (particularly trade finance as well as many other types of loans which support the real economy) has dried up. This has led to a deep synchronised global recession which began in the autumn of 2008.

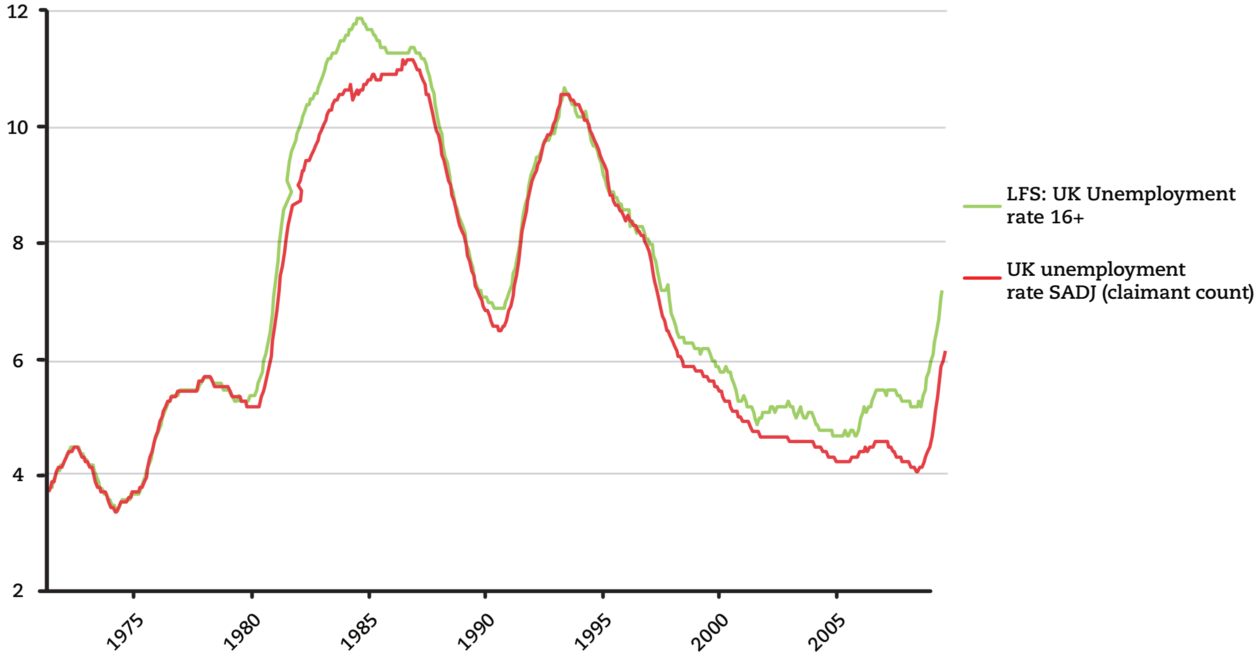
Globally this recession has been characterised by a sharp decline in trade (global trade volumes are down by close to 30%) and a sharp fall in manufacturing output. This has meant that the industrial sector has fallen much more rapidly than the economy overall, industrial production has been declining at double digit rates.

GDP and Industrial Production (year on year)

Source: Thomson Reuters Datastream

In the UK, GDP has fallen by close to 5 percent and unemployment has begun to rise rapidly. The ILO unemployment rate has risen from 5.2 percent in Q1 2007 to 7.2 percent by Q1 2008. Many commentators expect it to rise above 10 percent during 2010-11.

UK unemployment rates



Source: Thomson Reuters Datastream

Current consensus estimates suggest a very weak recovery with GDP expected to rise by an annual average rate of 0.7 percent during calendar year 2010. Other forecasters such as the IMF note the synchronised nature of the current downturn and given previous recoveries from financial crises have been weak expect output to continue to fall in 2010 and no recovery until the middle of 2010.

Recent data suggest the fall in output may have stabilised in Q2 2009, however whilst we may see a technical end to recession in coming quarters there is little prospect of a return to above trend growth in the coming quarters.

Economy needs to rebalance away from sources of growth which drove the credit bubble

Looking at the pattern and drivers of growth over the past decade it is possible to make some broad statements about what is likely to drive the economy going forward. Firstly the growth in total credit across the global economy will be much slower as banks move to rebuild their balance sheets and work off write-downs and losses.

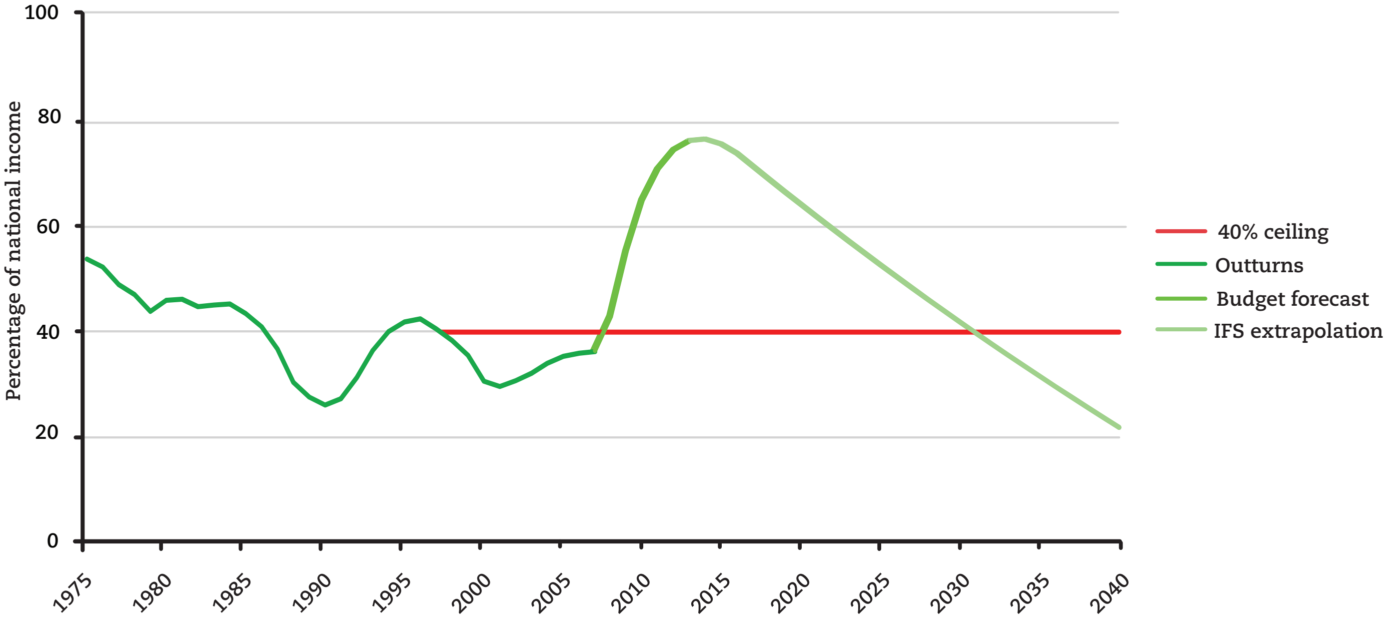
Secondly the economy has been driven to a large extent by the growth of private and more recently public consumption. This process will reverse as consumers work to reduce debt levels and rebuild their balance sheets in the medium term and as the public sector is forced to retrench longer term (once the planned spending rises of the recent budget wears off) and thus we can expect to see the economy driven much more by exports (helped by the devaluation of sterling) and private investment.

Thirdly the buoyant property market and associated highly leveraged regeneration model of the last few decades is unlikely to return in the near term. Banks and thus property companies will have much smaller balance sheets and thus flows of new lending and the degree of asset appreciation supported by this will be much smaller going forward.

Public finances have deteriorated at an alarming rate

A related impact from the sharp decline in the level of economic activity has been a significant deterioration in the public finances. Government borrowing is expected to reach £175bn (12 percent of GDP) during 2009-10 on official estimates. Many independent forecasters are more pessimistic and borrowing is expected to remain at elevated levels for the foreseeable future. This means the government debt burden will rise dramatically from around 40 percent of GDP to close to 80 percent on official estimates. Many commentators take the view that the current fiscal tightening announced remains insufficient to stabilise the long term profile of public debt and that a further fiscal tightening of £40bn is required under the next government.

Debt to remain high for a generation



Source: Institute for Fiscal Studies

Spatially recession has been widespread

Whilst six months ago many commentators expected the recession to be focussed on the south east and in white collar professional jobs, this has not proved to be the case, the recession has hit everywhere. The traded goods and manufacturing sectors have borne the brunt of this downturn and the spatial impact of the recession has hit harder in the West Midland and the North.

Looking at the cities with the largest rises in unemployment many are in traditionally weak manufacturing areas and in particular in areas specialising in the auto sector (such as Swindon). Cities have also born the brunt of the recession and the impact has been felt hardest amongst the young and the less skilled.

Backdrop for cities is challenging

This means the economic backdrop for cities for the foreseeable future will include
- high and rising unemployment (and likely higher structural unemployment across the next decade).
- a very tight fiscal position from 2011 which will require significant real terms spending cuts (the environment of fiscal austerity is likely to be with us for at least the next two parliaments).
- and disruption in the credit markets changing the reality of the investment climate cities face (reduced credit availability as leverage is reduced and banks repair their balance sheets).

City**	Change in JSA claimant count rate* Feb 08-May 09***	Change in number of JSA claimants Feb 08-May 09***	Claimant count rate May 2009	Total JSA claimants May 2009	Claimants per live unfilled JCP vacancy May 2009
Cities with the highest % point increase in JSA claimants					
Swindon	3.8%	4,609	5.4%	6,535	12.2
Hull	3.4%	5,678	8.2%	13,740	24.2
Sunderland	2.9%	5,158	6.4%	11,203	7.4
Northampton	2.9%	3,789	5.2%	6,868	6.7
Barnsley	2.8%	3,932	5.4%	7,509	13.9
Doncaster	2.8%	5,037	5.8%	10,274	16.1
Milton Keynes	2.7%	4,101	4.9%	7,286	6.4
Birmingham	2.7%	37,731	7.1%	99,501	12.8
Telford	2.6%	2,653	4.8%	4,848	6.2
Gloucester	2.6%	1,827	4.6%	3,273	4.4

**Percentage Point change*
***We have used data for Primary Urban Areas (PUA) – a measure of the 'built-up' area of a city, rather than individual local authority districts.*
****February 2008 - the lowest point on the UK claimant count series - is used here as the initial measurement point to take into account the extended duration of the recession.*

Source: ONS Crown Copyright Reserved (from Nomis on 17 June 2009)

Surviving recession and the agenda for growth

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Subsequent papers will examine how the fiscal squeeze is likely to impact public sector jobs, firstly by looking at the likely spatial impact of public sector jobs cuts and what this will mean for the economic development model of some weaker cities.

We will also examine how cities should respond in an environment of falling spending, study some issues for the future of the model of regeneration and look at what can be done to promote entry level jobs.

Later this year we will be looking at what might drive growth at city level and how cities should be responding to the future growth environment. This work will look at what has been driving employment growth in the past decade and how the pattern of growth is likely to change going forward.

centreforcities

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t **020 7803 4300**
www.centreforcities.org

Enterprise House
59 - 65 Upper Ground
London SE1 9PQ