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**ECONOMIC REVIEW**

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Note: J=The Journal, FT=Financial Times, BSNE=Business Survey North East, DBS=Durham Business School, EC=Evening Chronicle, EcN=The Economist Newspaper, ES=Eurostat, ET=Economic Trends, FED= New York Federal Reserve, HBOS=Halifax Bank of Scotland, HMLR= HM Land Registry, LMT= Labour Market Trends, NECC=North East Chamber of Commerce NSO=National Statistics Online, ONS=Office for National Statistics, OEF= Oxford Economic Forecasting, R&R=Regeneration & Renewal, TO= Times Online; WHES=White House Economic Statistics (US), UKBP= [www.ukbusinesspark.co.uk](http://www.ukbusinesspark.co.uk)



**KEY POINTS:**

UK economic events in the third quarter were dominated by the **Banking Crisis** (summarised in §1.2). This followed **Lehman's bankruptcy** on September 15<sup>th</sup>;

- The govt. nationalised Bradford & Bingley in September. (§1.2)
- The crisis culminated in the government **re-capitalisation** of the banking system as part of a three-part **£400bn** UK-bank **rescue plan** (§1.2). The plan allows the government to **invest** around **£50bn** in the banking industry, offer **guarantees** over around **£250bn** of new bank debt and add **£100bn** to the existing Bank of England **short-term loan scheme**.
- Under this scheme **three banks** (HBOS, Lloyds TSB and the RBS) have **applied** for **£37bn** in **new shares**. (§1.2)

This was part of a global financial crisis, which has triggered large-scale “de-leveraging” (reductions in lending and borrowing). The Banking Crisis arguably marks the end of the first phase (year) of the credit crunch, and a new second phase. UK GDP (output) fell 0.5% in Q3 2008 (§1.2).

Forecasts since mid-Oct. (from the ITEM Club and the European Commission both forecast **UK recession** with output **falling about 1% in 2009** (§1.6). This could be a sufficient downturn to raise unemployment by over half a million in the UK.

**Inflation** is therefore **expected** to **slow substantially** from its September annual rate of around 5%. Commodity prices have fallen very sharply. In particular, the oil price has fallen by over half since its peak of \$146 in July. **Six central banks cut interest rates 0.5pp** in a co-ordinated move designed to steady the global economy. In early November, the Bank of England cut its rate by a large 1½ percentage points to record low of 3% (§1.1).

**House prices** have **continued to fall** by around 12% p.a. –according to lenders Halifax and Nationwide. Halifax reported house prices fell 1.3% in September compared to a month earlier. Nationwide reported house prices fell 1.7% in September compared to August. There is also some, limited, evidence of greater weakness in the North East as house sellers in the North East are accepting an average of 12.5% below their asking price, less than the national average of 9% below the market price. Net mortgage lending has fallen to only £2bn or £3bn a month in Q3 2008, less than a third of levels in 2007. (§1.3)

The effects on most of **Tyne & Wear's economy** have, so far, been fairly **mild**. The three key contextual variables to watch now are Libor, Net UK bank lending to individuals and UK Consumer Spending. (§4.2)

**Key Points from News Digest (January – end March 2008)**

In Q3 2008, reported **job gains** (+ 1,497) **were exceeded by losses** (- 2,490) by **993** (all gains and losses from press reports). (§3)

The main gain was at **Protectors (+750)** in Gateshead over five years, as part of expansion plans. In Newcastle, **115** jobs were created by **Rolls Royce** as it plans to create new apprenticeships. (§3.1)

The major loss was at **Northern Rock (-1,300)** in Newcastle and Sunderland over three years. 800 of the job cuts will be compulsory, with a further 500 voluntary [TWRI very roughly assumes half the job losses are in Newcastle and the remaining half in Sunderland]. Also, at Southwick, Sunderland, **MFI** cut **170** jobs with the closure of its call centre. **159** jobs were also cut by **Watson Norie** at its site in Walker, Newcastle, as part of 400 jobs cuts nationally after it went into administration.

**Developments**

In **Shieldfield, Newcastle**, work is **almost complete** on the **Maling Court** office development by the Adderstone Group. Brims Construction is currently finishing some minor landscaping on the site surrounding the six 2,990sq ft offices. (§5.2)

In **Newcastle, Time Central** [on Gallowgate] has been **sold** for **£23m** to an undisclosed buyer. The **84,000sq ft** office block had previously been sold for £32.5m in 2007. (§5.2)

In **Birtley, Gateshead, BAE Systems' munitions factory** is to be **demolished** in 2011 and replaced by a new facility as part of a deal with the MoD. The 15-year partnership, worth up to £3bn, will see a **£28m investment** in the site. (§5.2)

In **Sunderland**, work has started on the new **£70m Turbine Business Park**. The **55-acre** mixed development will comprise; **250,000sq ft** of large **industrial property**, **120,000sq ft** of **hotel/leisure** use, **100,000sq ft** of **small office/light industrial** (B1) units and **85,000sq ft** of **large office units**. (§5.2)

In **Ouseburn Valley, Newcastle**, an **eight-storey, 396-bed, student accommodation** building for **Northumbria University** is to be built on Stoddart Street. The 133,000sq ft block is due for completion in September 2010. (§5.2)

### **Industries & Firms**

**Nissan's Sunderland plant** has **started making** the **new** version of the *Qashqai* SUV model. The seven-seater model was due to go on sale in September. (§6.6) *Late news:* Workers on the *Micra* and the *Note* (small cars) have been placed on short-time working for November.

North Tyneside **Shepherd Engineering Services** has been **appointed** as M&E **contractor** on the **£10m Boho One** building in Middlesbrough, Tees Valley. The 30,000sq ft building will include air conditioned units, open wi-fi in public areas, high-speed communications, private multimedia meeting rooms and parking. (§6.7)

**Newcastle Council** is the **first authority** in the country to **buy [new] houses from developers**. Funding is being finalised with £200m made available nationally from the Government to buy unsold new homes. (§6.11)

**Pendragon** has warned it **will not be able to forecast profits** for the year due to an unpredictable market and falling new car registrations. (§6.12)

**EasyJet forecasts a 40% fall** in pre-tax **profits** to **£110m-£120m** in the year to September [due to high fuel prices]. It carried 4.59m passengers in August, 900,000 (24%) more than a year earlier, with an average load factor of 91.3%. (§6.15)

**Flybe** plans to **launch seven new flight routes from Newcastle**. The budget airline currently operates 22 daily flights out of Newcastle to ten destinations throughout the UK and Europe. (§6.15)

**Northern Rock** reported **half-year losses** of **£585.4m** but it reduced its borrowing from the Bank of England by £9.4bn to £17.5bn. The government agreed to turn £3bn of the repayments into new equity [shares]. (§6.16)

**QGS Synergy** has been **placed in administration**. However, the Gateshead training company is continuing to trade and no job losses have been announced as yet. (§6.17)

**Newcastle University** has **opened** its **first overseas campus** in **Singapore**, the new Marine International Campus. 60 Singaporean students start at the new campus this September. (§6.19)

Date: 12<sup>th</sup> November 2008

## 1.0 ECONOMIC OVERVIEW

### 1.1 Global Economy:

The global economy is entering a **major downturn**, led by the industrialised nations –International Monetary Fund. **Overall growth** in the US, Europe, Japan and Canada [over 60% of the global economy] is **forecast to fall to 1.5%** in 2008 and just **0.5%** in 2009. (BBC News 8/10)

In an unprecedented move, **six central banks cut interest rates 0.5pp** on October 7<sup>th</sup> in a co-ordinated move designed to steady the global economy. The banks included the US Federal Reserve (to 1.5%), the European Central Bank (to 3.75%) and the Bank of England (to 4.5%). The central banks of Canada, Sweden and Switzerland all took similar steps. (BBC News 08/10) [The UK government announced its three-part plan to stabilise the banking system on the same day. For the first time, China also cut its rates in this co-ordinated global action –Ed]

Late news: The Bank of England cuts its rate by an additional 1½pp (one-third) to 3% on November 6<sup>th</sup>.

#### US Economy

The **House of Representatives approved the \$700bn Paulson plan** designed to support the US financial system. The government will use the funds to buy-up [some] mortgage-backed securities (MBS) of banks operating in the US in return for a non-voting stake in the institution. (BBC News 3/10, FT 4/10)

The US rescue plan was drafted after a series of **unprecedented events**;

- The US **government seized control** of the **Fannie Mae** and **Freddie Mac** mortgage groups. The two giant mortgage financiers have **\$5,400bn** in **outstanding liabilities** and guarantee well over half of all US mortgages. The US Treasury's 'conservatorship' [i.e. nationalisation] will provide capital injections of up to £100bn for each company to ensure they meet their debts. (FT 08/09)
- **Lehman Brothers**, the fourth-largest US investment bank, was allowed to file for **bankruptcy**, the largest-ever US bankruptcy, with **total debts of \$613bn**. (FT 22/9)

The bankruptcy of Lehman Brothers triggered a series of major changes in the structure of the financial system. In week one:

- **AIG**, the world's biggest insurance company, was given an **\$85bn US govt. loan** in exchange for an **80% share-holding**. AIG has \$441bn of CDSs<sup>1</sup>. (EcN 20/9, FT 18/9) [AIG has assets of over \$1,000bn particularly in derivatives supporting the banks –Ed.]
- **Merrill Lynch**, the third-largest US investment bank, agreed to be **bought** by the **Bank of America** for **\$50bn**. (FT 15/9).

#### European Union

By the end of week four (following the bankruptcy of the Lehman Brothers) major European economies also revealed a series of banking system **rescue schemes**:

<sup>1</sup> CDS are Credit Default Swaps. These are effectively insurance contracts against a particular institution (such as a bank) defaulting or becoming bankrupt.

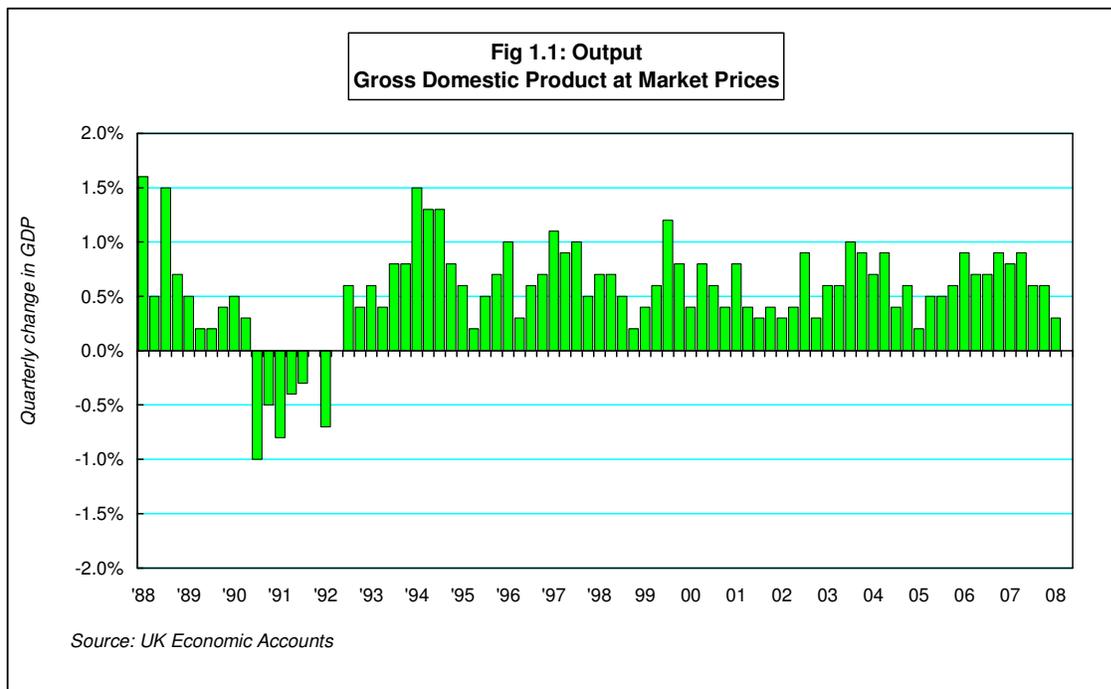
- **France** is to guarantee up to **€320bn** in **inter-bank loans** and provide **€40bn** in **new capital** for banks.
- **Germany** approved a package worth up to €500bn. It will issue up to **€400bn** in **credit guarantees** to promote lending between banks and set aside a **€100bn** fund to inject **new capital** into financial institutions and acquire illiquid assets.

Austria, Italy, the Netherlands, Norway, Portugal and Spain also committed a total of **€481bn** in guarantees and new capital. (BBC News & FT 13/10)

## 1.2 Recent Economic Trends

### Economic Growth

**UK GDP growth** was **zero** in Q2 2008, unrevised from the previous estimate. (NSO 30/9)



The deceleration in GDP was driven by weaker construction and production output (All NSO 30/9); Total **construction output** fell 0.5% in Q2 2008, compared with a 1.1% rise in Q1 2008. Total **production output** fell 0.7% in Q2 2008, faster than the 0.4% fall in Q1 2008. This was predominantly driven by falls in manufacturing output (down 0.9%).

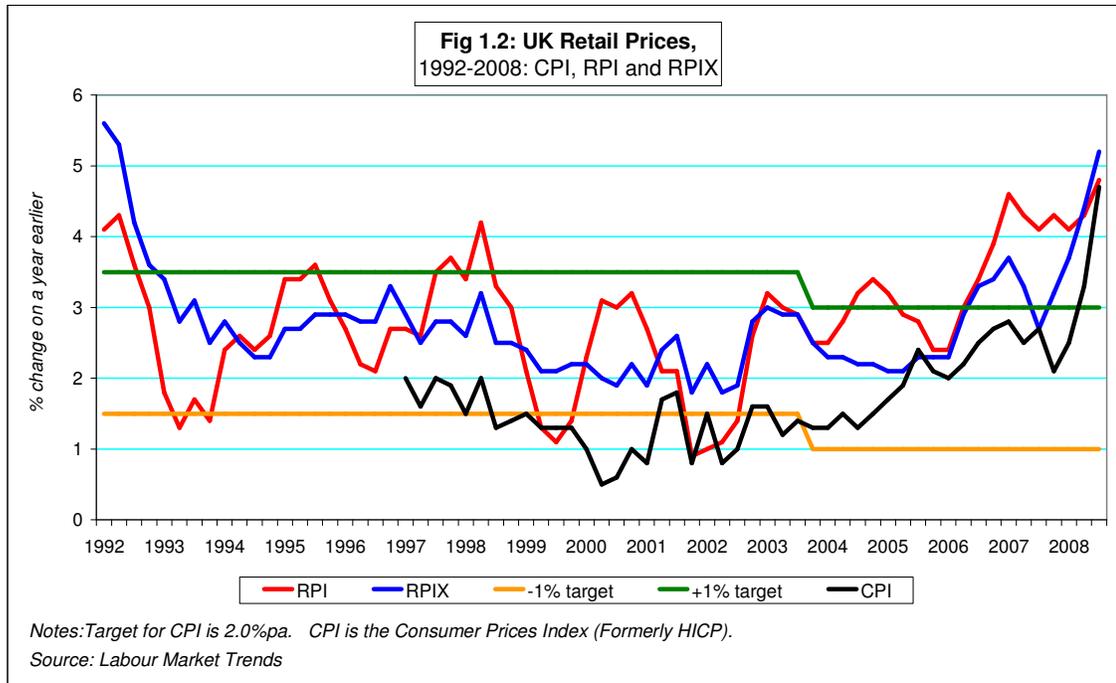
Total **services output** grew 0.2% in Q2 2008, unchanged from Q1 2008. There was weaker growth in all the main service categories except transport, storage and communication.

*Late News:* UK GDP fell 0.5% in Q3 2008.

## UK Inflation

**Consumer Price Index (CPI)** inflation **exceeded 5%** (at 5.2% in September, up from 4.7% in August). The largest upward pressure came from housing and household services due to rises in average gas and electricity bills. There were also large upward pressures from recreation & culture, clothing & footwear and air & sea fares. (NSO 14/10)

**Retail Price Index (RPI)** inflation was 5.0% in September, up from 4.8% in August. The main factors affecting the CPI also affected the RPI, although there was also a large downward contribution from housing (i.e. falling house prices). [RPIX, which excludes mortgage payments, was 5.5% in September, up from 5.2% in the previous month] (NSO 14/10)



The **Bank of England cut interest rates 0.5pp to 4.5%** on October 8th. It has lowered interest rates four times in the last year, down 0.25pp in April and February 2008 and December 2007. (BBC News 08/10) [The bank had previously indicated that it would not cut interest rates before 2010, when inflation was projected to fall to 2% -Ed]

In sharp contrast to the previous quarter, inflation **fell** for producers [due to falling commodity prices]:

**Output price annual inflation** ('factory gate prices') **fell** to 8.5% in September, reflecting falls in petroleum and other manufactured products. (NSO 13/10)

**Producers' input costs annual inflation fell** to 24.5% in September, down from 28.8% in August. This mainly reflected a fall in the price of crude oil. (NSO 13/10) [The oil price has fallen from a peak of \$146 per barrel in July to under \$70 by mid-October -Ed]

## The Credit Crunch and UK Banking Crisis

In August (prior to Lehman's bankruptcy and subsequent structural changes in the financial system, see §1.1) the **economy** had become the **largest single concern for the UK public**, eclipsing crime, immigration and the NHS –Ipsos Mori. 24% of those questioned thought that the economy was the most important topic facing the UK, compared to 9% in January and just 2% last summer. (FT 05/8)

The **government** announced a **£400bn rescue plan** to **restore confidence** among financial institutions. The three-part plan allows the government to:

- **Invest** around **£50bn** in the banking industry (in shares)
- Offer **guarantees** over around **£250bn** of new bank debt
- Add **£100bn** to the existing Bank of England **short-term loan scheme** (i.e. doubling it)

Banks which take-up the offer of capital will face constraints on their ability to raise dividends or offer large bonuses, and are expected to commit to lending to small businesses and homebuyers. (FT 08/10)

As part of the above, the government has offered to **inject £37bn** of equity (shares) into three of the UK's largest lenders; **Royal Bank of Scotland**, **Lloyds TSB** and **HBOS**. The banks will be **prevented** from **paying dividends** on ordinary shares until they have **repaid** a total of **£9bn** in **preferences shares** issued to the government. If existing shareholders do not buy back shares, the government is likely to own a controlling stake of around 60% in RBS and a 43.5% stake in the combined Lloyds TSB and HBOS. (FT 13/10) [See below for more information]

| Major Developments within UK Banks |   |                        |
|------------------------------------|---|------------------------|
| <b>Royal Bank of Scotland</b>      | It plans to raise <b>£15bn</b> by 'placing' <b>ordinary shares</b> [which the government intends to buy] at less than a third of the price at which it issued shares in its rights issue in April. It will also raise <b>£5bn</b> from the government by issuing <b>preferences shares</b> with a fixed interest payment of 12%.  | (FT 13/10)             |
| <b>HBOS</b>                        | It agreed to raise a total of <b>£11.5bn</b> after the FSA scrutinised its capital reserves. It plans to raise <b>£8.5bn</b> by placing <b>ordinary shares</b> and a further <b>£3bn</b> by issuing <b>preference shares</b> to the government. In July, HBOS revealed that just 8.3% of investors took-up their allocations in its £4bn rights issue.  | (FT 13/10, 22/7)       |
| <b>Lloyds TSB</b>                  | It plans to raise <b>£5.5bn</b> via a combination of <b>ordinary shares</b> (£4.5bn) and <b>preference shares</b> (£1bn). The bank <b>restructured</b> its <b>merger</b> with <b>HBOS</b> in order to provide a better deal to Lloyds shareholders. The new giant bank will have a <b>28% share</b> of the <b>mortgage market</b> [over £250bn].  | (FT 19/9)              |
| <b>Barclays</b>                    | It plans to avoid government support by raising around <b>£6.6bn</b> from <b>private investors</b> , including £3bn from ordinary shares and £3.6bn in preference shares. The bank <b>cancelled</b> its <b>final dividend</b> for 2008 to save <b>£2bn</b> . It announced pre-tax <b>profits</b> of <b>£2.75bn</b> in the six months to end-June, <b>down 33%</b> . The fall in profits was largely due to <b>losses</b> of around <b>£2.8bn</b> on <b>complex debt instruments</b> hit by the credit crunch. It revealed in July that only 19% of shareholders participated in its £4.5bn rights issue, meaning the Qatar Investment Authority became its largest shareholder with a stake of around 6%. | (FT 13/10, 08/8, 19/7) |
| <b>Alliance &amp; Leicester</b>    | It was <b>taken over</b> by Spanish bank <b>Santander</b> for just £1.25bn.   | (FT 19/7)              |
| <b>Bradford &amp; Bingley</b>      | It was <b>nationalised</b> in September. The government has sold around £20bn deposits and around 200 branches to Santander for £400m.  | (FT 29/9)              |

Unprecedentedly, in June, **building society mortgage net lending** has **turned negative**. **Repayments outstripped new loans** by almost **£700m** in June –Building Societies Association. The June figures follow a more modest net outflow of £110m in May on a seasonally adjusted basis. (FT 11/8)

## Consumer Spending

**Retail sales volume rose 1.2%** in the month to August –National Statistics Online. The moderate growth was mainly driven by clothing and footwear stores. In the quarter to August, total sales volume was down 0.9% on the previous quarter but up 2.5% on a year earlier. (NSO 18/9)

**Consumer confidence** in July reached the **lowest level since records began** (in 2004) for the **seventh consecutive month**. Nationwide's Consumer Confidence Index was just 51 in July, down 18% on the previous month and down 46% on a year earlier. (J 06/8)

**Consumer spending is forecast to contract in 2009** for the first time since 1991 –National Institute of Economic and Social Research (NIESR). It expects economic growth to slow to 1.5% in 2008 and 1.4% in 2009. [NIESR has cut its economic growth forecast for 2009 to –0.9%, following the banking crisis –Ed] (FT 25/7, 22/10)

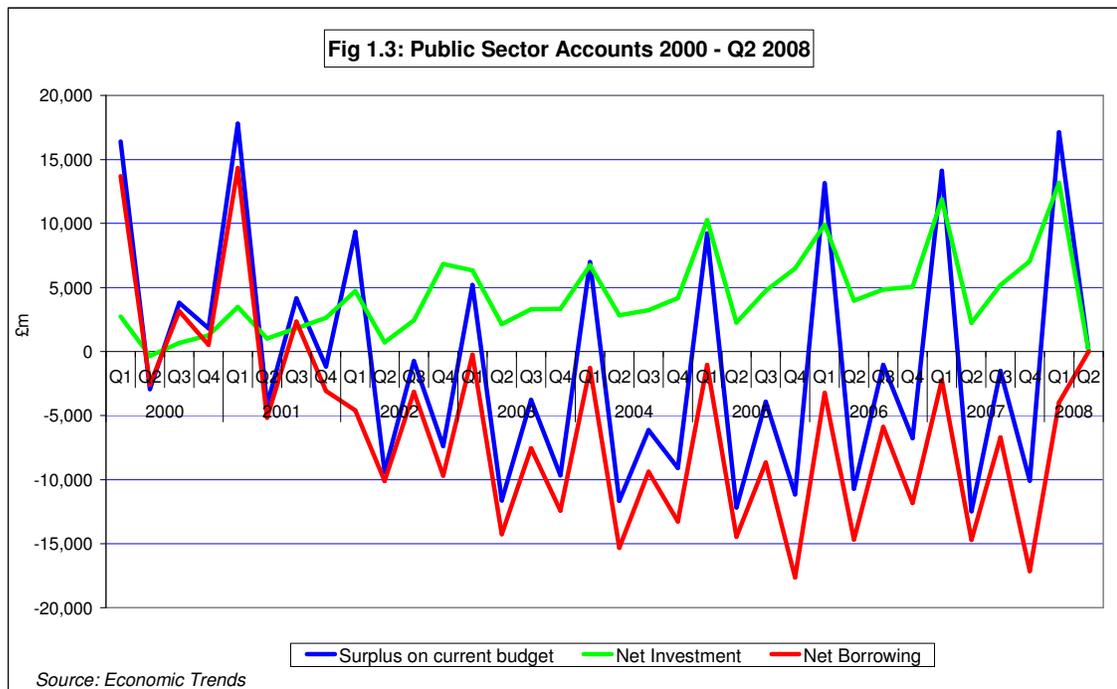
## Earnings

Earnings have not kept pace with inflation –so average living standards have fallen by around 1½% (over the year to end-September). **Growth in Average earnings** (including bonuses) **slowed** to 3.4% in the year to August, down from 3.5% in the previous month. Average earnings excluding bonuses rose 3.6% over the same period, down from 3.7% in July. (NSO 15/10)

**Pay growth** (including bonuses) was 3.4% in the private sector and 3.5% in the public sector. Excluding bonuses, growth in the year to August was 3.6% in both sectors. (NSO 15/10)

## Public Accounts

Public borrowing doubled, *before* the banking crisis led to the October 8<sup>th</sup> rescue plan. The **public sector current deficit** was **£25.5bn** in the six months to end-September, **double** the deficit at the same stage in the previous financial year (£13.1bn). Deficits have now been recorded since 2002/03 after being in surplus since 1998/99. (NSO 20/10)



**Public sector net borrowing** [which takes account of capital investment] for 2008/09 was forecast [in the budget] to rise to **£43.0bn**, from £35.6bn in 2007/08. Net borrowing was **£8.1bn** in September, compared with £4.8bn a year earlier. (NSO 20/10) [This is set to rise above £60bn for the year to March, excluding costs of the Bank Rescue Plan –Ed]

### **Business Conditions from Surveys in Q3 2008<sup>2</sup>**

**North East conditions weakened sharply** (by at least 14pp) on **all demand indicators**:

The balance<sup>3</sup> of **UK sales fell sharply**, down a large 17pp from -2% to -19%. The balance on **export sales also weakened**, down 14pp from +2% to -12%.

Similarly, there were **large falls in both UK orders and export orders**. UK orders fell 14pp from -4% to -19%, while export orders fell a dramatic 18pp from +1% to -17%.

The **employment balance also fell sharply** (down 5pp) from +2% reporting a rise (in the past three months) in Q2 2008 to -3% in Q3 2008. The employment balance **forward-looking**, however, fell marginally (less than 1pp), remaining at +3% planning an increase (in the next three months).

Business indicators for just Tyne & Wear **weakened** more sharply than in the North East in Q3 2008 on **all indicators**:

**UK sales balance fell very sharply** (down 45pp)<sup>4</sup> **down to -28%**, from +16% in Q2 2008. Similarly, **UK orders fell sharply** (down 17pp) **down to -22%**, from -5% in Q2 2008. Export sales fell to -15%, from -4%. Likewise, export orders fell to -18%, from -4%.

In contrast to the previous quarter, the **employment balance** in Tyne & Wear in Q3 2008 remained steady for the **previous three months** but **weakened forward-looking**. The employment balance remained at -4% **reporting a rise** (in the previous three months). The proportion planning an increase (in the next three months) fell to 0%, down from +5% in the previous quarter.

*Caution:* It is possible that different timing of responses to the two surveys used to assess business conditions may have skewed some results downward for Tyne & Wear.

### **UK Manufacturing**

**Manufacturing activity fell 1.1%** in the three months to August 2008 compared with the previous three months –National Statistics Online. Output fell in ten of the thirteen sub-sectors but rose in the remaining three. The most significant falls were in the electrical & optical equipment industries (down 3.1%) and the food, drink & tobacco industries (down 1.6%). (NSO 7/10)

Manufacturers reported **falling volumes of new orders and output levels** for the fifth consecutive month –Chartered Institute of Purchasing and Supply. The **Purchasing Managers' Index** was **41** in September, down from 45.3 in August and the lowest since 1991. The sector recorded the lowest levels of new orders, output and employment since 1990. A **reading below 50 signals industry contraction**. (FT 2/10)

Business **confidence** in the **manufacturing sector fell in every UK region** in **Q2 2008** –CBI and Experian. Seven of the UK's eleven regions reported a fall in total manufacturing orders over the past

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<sup>2</sup> Results from BSNE for both NE and Tyne & Wear. [Tyne & Wear data kindly supplied by Economic Research Services Ltd]

<sup>3</sup> Taken from response to questions 'Excluding seasonal variations, how have your domestic sales changed during the past three months?'

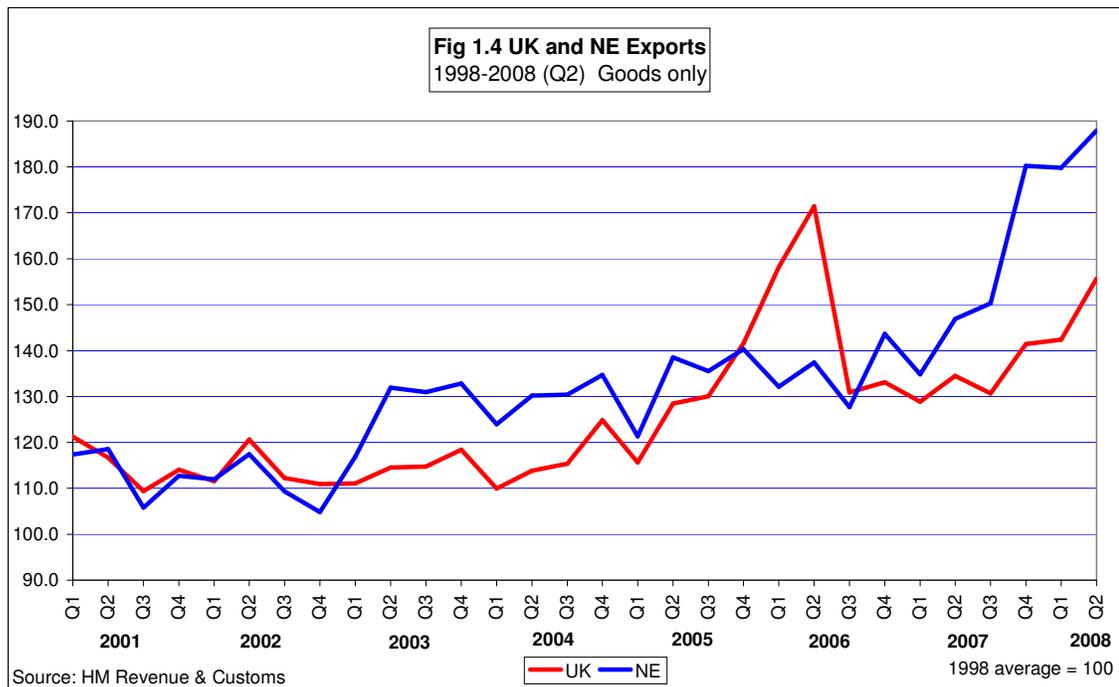
<sup>4</sup> Caution: There were only 78 respondents to this question.

three months, although only two regions reported a decline in export orders. Expectations for total orders for the coming quarter were negative across all regions. (FT 04/8)

**Employment in North East manufacturing**, however, **had risen** 4.4% in 2005-07, against the national fall –ONS Annual Population Survey. Nationally, manufacturing employment fell 5.5% to 3.17m over the same period. (J 19/8)

## Exports

**NE exports rose over 26% to £10.9bn** in the year to June 2008 – HM Revenue & Customs. The growth was mainly led by the automotive, pharmaceutical and chemical sectors. Nationally, [June's] exports of cars and other vehicles rose 50% to £3bn in a year, with the success of Nissan's *Qashqai* accounting for a significant proportion. (J 17/9)



The **North East continues to perform much better than nationally** on exports –at least up to Q2 2008. North East exports grew a massive 28% (£643m) to £2.9bn in Q2 2008 compared to Q2 2008. In contrast, UK exports rose 16% (£8.7bn) to £63.9bn in Q2 2008 compared to a year earlier. (Table 1.1)

**Table 1.1: Exports, UK and NE, 2002- 2008 (Q2). Goods only**

| <b>Exports*</b> | <b>UK (£m)</b> | <b>Q1 1998=100</b> | <b>NE (£m)</b> | <b>Q1 1998=100</b> |
|-----------------|----------------|--------------------|----------------|--------------------|
| <b>2002</b>     | <b>186,978</b> |                    | <b>6,938</b>   |                    |
| <b>2003</b>     | <b>188,382</b> |                    | <b>8,018</b>   |                    |
| <b>2004</b>     | <b>190,548</b> |                    | <b>8,122</b>   |                    |
| Q1 2005         | 47,480         | 115.6              | 1,897          | 121.3              |
| Q2 2005         | 52,740         | 128.4              | 2,167          | 138.5              |
| Q3 2005         | 53,403         | 130.0              | 2,120          | 135.5              |
| Q4 2005         | 58,133         | 141.5              | 2,195          | 140.3              |
| <b>2005</b>     | <b>211,756</b> |                    | <b>8,379</b>   |                    |
| Q1 2006         | 64,984         | 158.2              | 2,067          | 132.1              |
| Q2 2006         | 70,412         | 171.4              | 2,150          | 137.4              |
| Q3 2006         | 53,764         | 130.9              | 1,998          | 127.7              |
| Q4 2006         | 54,661         | 133.1              | 2,246          | 143.6              |
| <b>2006</b>     | <b>243,821</b> |                    | <b>8,460</b>   |                    |
| Q1 2007         | 52,925         | 128.9              | 2,109          | 134.8              |
| Q2 2007         | 55,231         | 134.5              | 2,297          | 146.8              |
| Q3 2007         | 53,669         | 130.7              | 2,351          | 150.3              |
| Q4 2007         | 58,088         | 141.4              | 2,819          | 180.2              |
| <b>2007</b>     | <b>219,919</b> |                    | <b>9,576</b>   |                    |
| Q1 2008         | 58,471         | 142.4              | 2,812          | 179.8              |
| Q2 2008         | 63,949         | 155.7              | 2,940          | 187.9              |

\* Annual figures may not equal sum of quarterly data due to rounding

Source: HM Revenue & Customs Regional Trade Figures (Crown Copyright)

[Note: All these export data are for goods only, not services and **by value**, not volume. Caution: the export data series have been seriously affected in the past by fraudulent over-reporting of exports in the so-called ‘carousel’ VAT frauds –Ed.]

### 1.3 Housing Market Latest;

#### Government £1.2bn Help for Home Buyers and £400m for Social Housing

In September, the government announced a **stamp duty exemption** for house sales under **£175,000** (previously £120,000) for one year (expected to cost around £600m). It is accompanied by a **£1bn package** mainly to help home-buyers, including:

- **£200m** to help up to 6,000 households at risk of losing their housing, offering struggling home-owners **shared ownership**, shared equity or sale and rent back options.
- A **shared equity scheme** (Homebuy Direct) to enable up to 10,000 first-time buyers access **five-year interest free loans** (up to 30%) for new houses that developers have failed to sell.
- **Reduction** of the **waiting period** before **income support for mortgage interest** is paid to **13 weeks** for new claims from April 2009 (down from 39 weeks).
- **£400m** to be spent on **5,500 social homes** over the next 18 months.

Funding comes via around £700m from the Government's affordable housing budget, plus £300m [taken] from Regional Development Agencies' budgets. (FT 03/9 R&R 05/9)

#### House Prices and Housing Activity Continue to Fall

Both Halifax and Nationwide reported **falling house prices [down around 12% p.a.]** in [the year to] September. Halifax reported house prices fell 12.4% year-on-year in the three months to September and fell 1.3% in September compared to a month earlier. Similarly, Nationwide reported house prices fell 4.6% on the previous quarter and fell 1.7% in September compared to August. (FT 3/10, 9/10)

**Net lending for house purchase almost stopped** in August, at just **£143m, down a huge 98%** on a year earlier –Bank of England. The number of mortgage approvals for house purchase in August fell 70% year-on-year to 32,000. (FT 30/9)

**House sellers** in the **North East** are **accepting** an average of **12.5% below** their asking price, **less** than the **national average** of **9% below** the market price. (FT 29/9)

**House prices are forecast to fall** in **2008-2010**, but start to **rise** in late-**2010-2011** –Oxford Economics' forecasts for the National Housing Federation. The average home in the NE is expected to cost £132,000 by 2010, but prices will rise modestly in late 2010-2011 and more rapidly in 2013. (J 30/7) [This forecast price for 2010 is little lower than the mid-2008 level and look far too high given the pace and downward momentum of prices –Ed]

There were **33,400** housing starts in England in the quarter to June, **down 19%** on a year earlier – DCLG. The number of **new starts** in the **private** house building sector **fell 27%** year-on-year. (FT 22/8)

**House building is forecast to fall** to almost **half the government's target** as activity continues to slow –Savills. The [annual] number of new homes built (including 30,000 refurbished homes) is forecast to drop to **130,000** by end-**2010**. 240,000 new homes are required every year (on average) to meet the government target of building 3m new homes by 2020. (FT 01/9)

The table (below) shows how net secured lending (i.e. essentially net mortgage lending) has fallen from around £9bn a month in 2007 to under £4bn a month after April 2008.

| <b>Net Secured Lending to Individuals (£millions)</b> |   |  |
|---|---|--|
| <b>Date</b>   | <b>Total Net Secured Lending<br/>(Monthly Change)</b> | <b>Amount of Total Net Secured<br/>Lending Outstanding (Monthly)</b> |
| Jul-07  | 9,274   | 1,140,183  |
| Aug-07  | 8,616   | 1,148,483  |
| Sep-07  | 10,317  | 1,163,697  |
| Oct-07  | 7,705   | 1,170,861  |
| Nov-07  | 7,968   | 1,178,892  |
| Dec-07  | 7,875   | 1,185,549  |
| Jan-08  | 7,120   | 1,186,780  |
| Feb-08  | 7,028   | 1,193,753  |
| Mar-08  | 6,259   | 1,199,644  |
| Apr-08  | 5,912   | 1,205,759  |
| May-08  | 3,678   | 1,208,923  |
| Jun-08  | 2,786   | 1,212,203  |
| Jul-08  | 3,111   | 1,217,154  |
| Aug-08  | -691  | 1,215,922  |
| Sep-08  | 2,167   | 1,219,445  |

*Bank of England Data (Seasonally Adjusted)*

### Repossessions and Negative Equity on the Rise

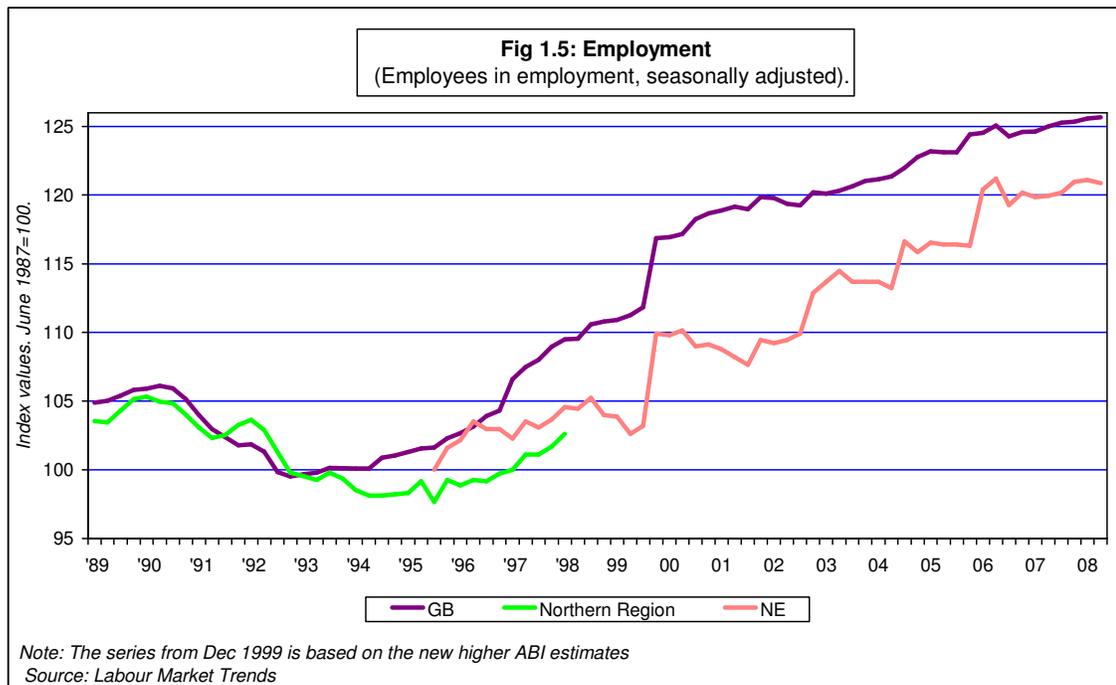
**Arrears rose by half and repossessions doubled in Q2 2008** –Moody's. The number of borrowers over 90 days in arrears rose to 0.90% [or nearly 100,000] of all mortgage loans, up from 0.60% in Q2 2007. Repossessions more than doubled to 0.082% of homes loans [or around 10,000 per quarter] in Q2 2008, up from 0.037% a year earlier. (FT 05/9)

**1,796 repossession orders** were issued in the **North East in Q1 2008** –Ministry of Justice. Gateshead saw the largest increase, up 41% (to 224) compared to a year earlier. The number of orders also increased by 26% (to 130) in South Shields and by 17% (to 181) in North Shields. (J 16/8) [Caution: The number of repossession orders will be significantly -perhaps five to ten times -higher than repossessions actually carried out –Ed]

More than **1.3m households** could be in **negative equity** [say, by 2010] –study by City Analysts at Bernstein. **0.4m** households could be in negative equity if prices fall **25%**, rising to over **1.3m** if prices fall **35%**. (Negative equity peaked at close to 1m in 1992). (FT 06/9) [The Financial Times previously reported that 0.35m households could be in negative equity if house prices fell 10%, 1.2m households if house prices fell 20% and 1.8m households if prices fell 25% -FT estimates. (FT 26/4)]

Up to **140,000 Northern Rock** homes could be in **negative equity** by **end-2009** –The Daily Telegraph. Around 5% [or around 50,000] of those with mortgages from the nationalised bank owe more than their home is worth. A further 15% [or around 150,000] of customers could fall into negative equity as house prices are forecast to fall by 'up to 20%' by end-2009. (J 05/8)

## 1.4 Labour Market Latest



In the three months ending August 2008 the **employment rate** for PWA<sup>5</sup> in the UK was 74.4%, **down** 0.4pp from the previous quarter and **down** 0.1pp over the year. The **number** of people in employment was down 122,000 over the quarter but up 199,000 over the year (to 29.42m). (NSO 15/10)

In the **North East**, the **employment rate** [in the three months to end-August 2008) was 70.1%, unchanged from the previous quarter but **down** 1.6pp from a year earlier.  
[both are from LFS, and seasonally adjusted]

The (ILO) **unemployment rate** in the **UK** for the three months to end-August was 5.7% , **up** 0.5pp over the previous quarter and **up** 0.4pp over the year. The **number** of unemployed people rose 164,000 over the quarter and rose 146,000 over the year (to 1.79m). (NS) 15/10)

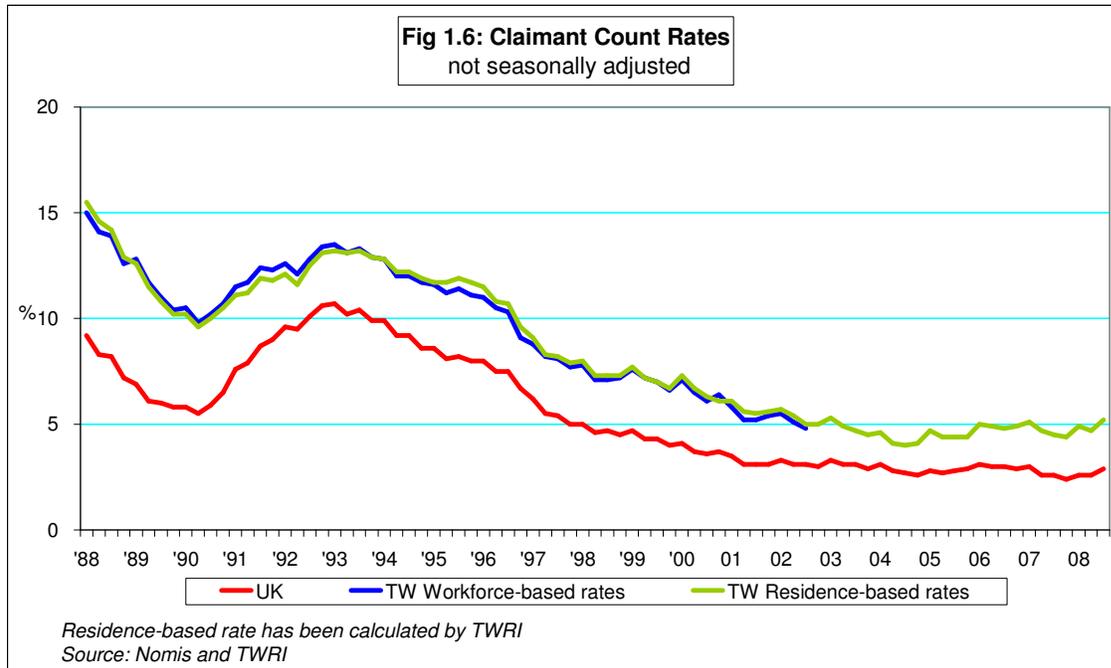
Note: the last time that there were larger quarterly falls in the employment rate and level (and quarterly rises in the unemployment rate and level) was in the early 1990s.

In the **North East**, the (ILO) unemployment rate (in the three months to end-August 2008) was 7.7%, up 0.4pp over the quarter and up 1.8pp from a year earlier.

**Tyne & Wear's** (ILO) **unemployment rate** in the year to December **2007** was **6.4%** (32,800). This was higher than the North East but by a minimal 0.1pp. Both Tyne & Wear and the North East were [over 1pp] higher than Great Britain (5.3%). [The claimant count rise in 2008, below, suggests that Tyne & Wear's ILO unemployment rate will have risen faster than in Great Britain –Ed]

**Tyne & Wear's claimant count** [unadjusted] in **September 2008** was **5.2%** (24,942), up a large 15.5% (3,351) on a year earlier. The claimant count rate in Tyne & Wear (5.2%) was 0.7pp higher than the North East (4.5%) and a relatively large 2.3pp higher than Great Britain (2.9%). [The claimant count was also 2.9% in the *UK* in September 2008]

<sup>5</sup> People of Working Age (i.e. Male 16-64, Female 16-59)



[Note: LFS unemployment data is now published in TWRI's monthly report on unemployment. In 2005 ONS changed the way it reports employment data to four-quarter averages. Unemployment rates previously reported by TWRI were obtained from LFS. The LFS has now been incorporated into the APS. APS data was made available on NOMIS from August 2005.]

## 1.5 Labour Market Trends

**10,000 manufacturing jobs** were lost in **Q2 2008**, with 26,000 forecast to go in Q3 2008 –CBI Industrial Trends. It reported that a balance of 27% of firms expect to cut jobs over the next three months, the worst reading since January 2007. (FT & J 24/7)

**Demand for staff** in August **fell** at the **fastest rate** for almost **seven years** –Recruitment and Employment Confederation and KPMG. Appointments of permanent staff fell at the fastest rate since November 2001, while temporary staff fell for the first time since May 2003. The REC and KPMG Job Vacancy Index fell to its lowest level since December 2001. (FT 03/9)

**Enquiries** from businesses on **how to sack staff** are **rising sharply** according to employment lawyers and legal help-lines, suggesting a further surge in redundancies. Lawphone (Allianz’ legal helpline) reported the over a third of calls received in July were about employment issues, compared with only 2.4% a year earlier. About 126,000 redundancies were recorded in Q2 2008, up 12% on the previous quarter. (FT 25/8)

The **number** of [new] **eastern and central Europeans** [from the A8] **registering to work** in the UK **fell 27%** to under **38,000** in Q2 2008 –Home Office. It is the lowest figure since 2004. (FT 22/8) [This ‘flexibility’ could moderate the rise in unemployment, somewhat, over the coming period –Ed]

**Population estimates** for **mid-2007** show population **growth** in most **Tyne & Wear** overall, led by Newcastle and North Tyneside. This is the third successive year of total population growth in Tyne & Wear [Tyne & Wear’s total population grew 0.3% in 2005 and 0.2% pa in 2006 and 2007].

### Mid-Year Population Estimates, 2007

|                     | 2007    |         |           | Annual Population Growth |        |       |
|---------------------|---------|---------|-----------|--------------------------|--------|-------|
|                     | Male    | Female  | Total     | Male                     | Female | Total |
| Gateshead           | 92,900  | 97,600  | 190,500   | 0.1%                     | -0.1%  | 0.0%  |
| Newcastle-upon-Tyne | 133,900 | 137,700 | 271,600   | 0.8%                     | 0.1%   | 0.4%  |
| North Tyneside      | 94,800  | 101,200 | 196,000   | 0.6%                     | 0.3%   | 0.5%  |
| South Tyneside      | 73,600  | 77,400  | 151,000   | 0.1%                     | -0.1%  | 0.0%  |
| Sunderland          | 136,600 | 143,700 | 280,300   | -0.1%                    | -0.1%  | -0.1% |
| Tyne and Wear       | 531,800 | 557,500 | 1,089,300 | 0.3%                     | 0.0%   | 0.2%  |

*Source: Office of National Statistics Crown Copyright Reserved*

[TWRI is due to comment on the ‘Components of Change’ in population later –Ed]

## 1.6 Future Economic Prospects

According to the average latest revised UK forecasts from HM Treasury’s survey of independent forecasts (October):

### For 2008:

- **Economic growth** is forecast to slow to just 1.1%.
- **Claimant unemployment** is forecast to rise to 0.97m by Q4 2008.
- **CPI inflation** is forecast to be 4.5% and **RPI** inflation to be 4.6%, both for Q4 2008.

### For 2009:

- **Economic growth** is forecast to slow further to just 0.1%.
- **Claimant unemployment** is forecast to rise [by a further 270,000] to 1.24m by Q4 2009.
- **CPI inflation** is forecast to fall to 2.1% and **RPI** inflation to 2.0%, both for Q4 2008.

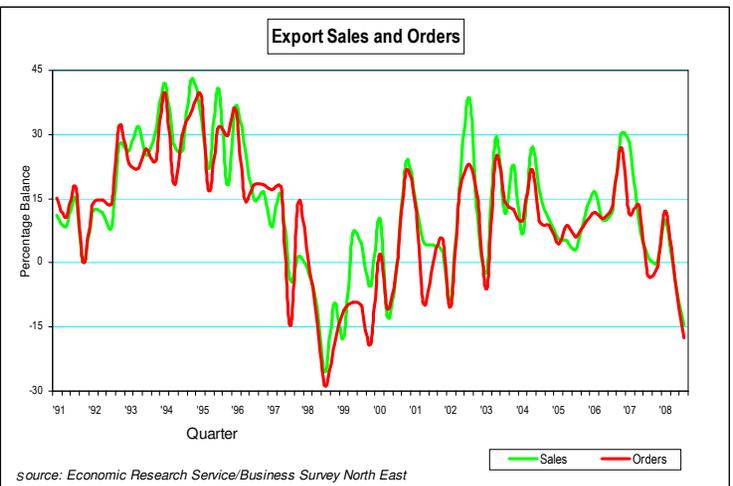
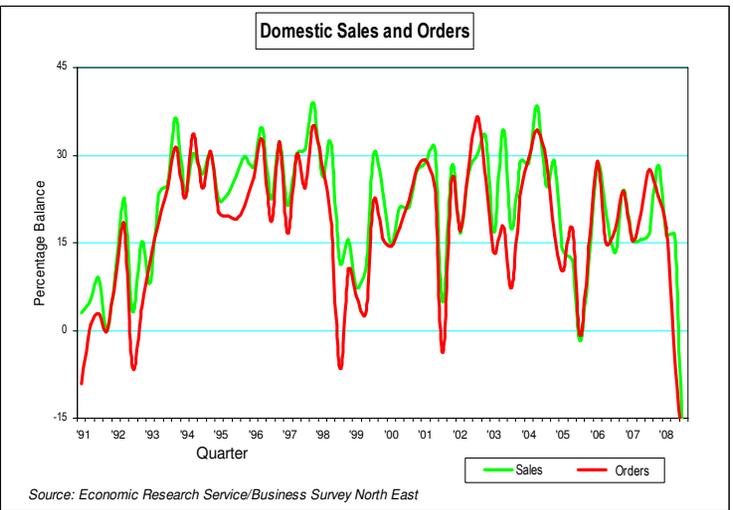
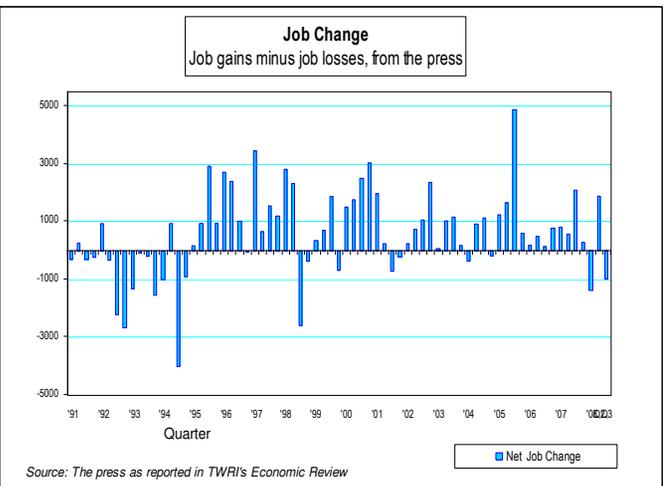
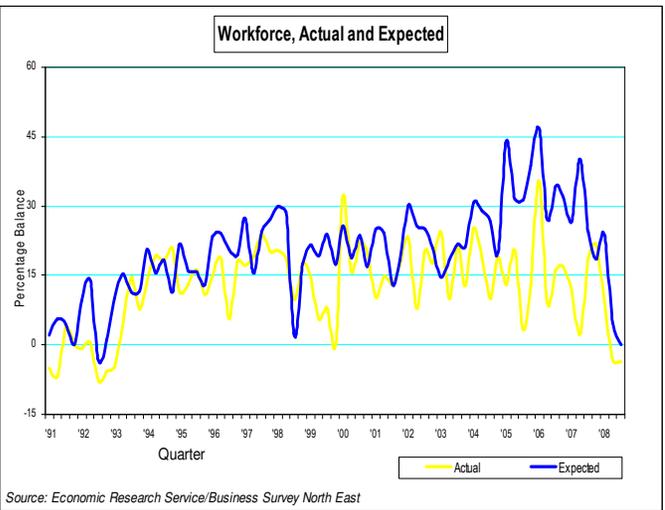
[Source: HM Treasury, October 2008]

| <b>A recession is forecast for the UK over the next 6 to 18 months</b> |   |
|--|---|
| <b>Capital Economics</b>   | Forecast growth of 1.2% in 2008 and ‘ <b>negative growth</b> ’ of <b>0.25%</b> in <b>2009</b> .   |
| <b>Citi</b>  | Forecast <b>GDP growth</b> will <b>contract</b> in <b>Q3 2008 – Q1 2009</b> , continuing flat though 2009.  |
| <b>Ernst &amp; Young Item Club</b>                                     | Forecast that the UK economy will shrink 1% by 2009, before recovering in 2010 and growing 1%.  |
| <b>Organisation for Economic Co-operation &amp; Development</b>        | Forecast a <b>recession</b> in the <b>second half of 2008</b> , revising its growth forecast to just 1.2% year-on-year, down from 1.8% forecast three months earlier. |
| (BBC News 20/10, FT 02/9, 03/9)  |   |

**Caution:** Owing to the rapid developments in the economic situation since mid-September, some of these forecasts do not capture significant changes. See §1.2 Recent Economic Changes.

## 2. ECONOMIC INDICATORS

### 2.1 Business Conditions Indicators for Tyne & Wear



NB. Pre 1995 business conditions data includes Northumberland and some Durham Firms (TW Chamber members). Business indicators measure change on previous 3 months.

**NATIONAL ECONOMIC INDICATORS**

(at 2003 prices, or 2003=100).

(s.a. = seasonally adjusted)

| ACTIVITY:  |        | 2007      |           |           | 2008      |           | Change    |        |
|--|--------|-----------|-----------|-----------|-----------|-----------|-----------|--------|
|  |        | Q2        | Q3        | Q4        | Q1        | Q2        | Quarterly | Annual |
| Gross Domestic Product:<br>(chained volume indices at market prices) | (s.a.) | 110.8     | 111.6     | 112.2     | 112.5     | 112.5     | 0.0%      | 1.5%   |
| Household Final Consumption  | (s.a.) | £196,339m | £198,538m | £199,754m | £201,446m | £201,195m | -0.1%     | 2.5%   |
| Retail Sales volume (2000=100)                                       | (s.a.) | 134.6     | 136.7     | 137.4     | 139.7     | 140.5     | 0.6%      | 4.4%   |
| Output: production industries  | (s.a.) | 101.2     | 101.1     | 101.3     | 100.8     | 100.1     | -0.7%     | -1.1%  |
| services   | (s.a.) | 113.8     | 115       | 115.5     | 116       | 116.2     | 0.2%      | 2.1%   |
| New Orders:  |        |           |           |           |           |           |           |        |
| Engineering  | (s.a.) | NA        | NA        | NA        | NA        | NA        | NA        | NA     |
| Construction (2000=100)  | (s.a.) | 131.7     | 115.4     | 119.2     | 112.4     | 104.0     | -7.5%     | -21.0% |
| Fixed Capital Investment   |        |           |           |           |           |           |           |        |
| Manufacturing (at 1990 prices)                                       | (s.a.) | NA        | NA        | NA        | NA        | NA        | NA        | NA     |
| Business Investment:   | (s.a.) | £34,945m  | £35,452m  | £36,404m  | £35,713m  | £35,367m  | -1.0%     | 1.2%   |
| Balance of Payments  |        |           |           |           |           |           |           |        |
| current account  | (s.a.) | -£12,412m | -£15,877m | -£8,947m  | -£5,492m  | -£10,987m | 100.1%    | -11.5% |
| INFLATION INDICATORS:  |        | Aug       | Nov       | Feb       | May       | Aug       | Change    |        |
| Retail Prices Index (All Items)<br>(Jan 1987 = 100)                  |        | 207.3     | 209.7     | 211.4     | 215.1     | 217.2     | Quarterly | Annual |
| Average Earnings Index:  | (s.a.) | Jul       | Oct       | Jan       | Apr       | Jul       | Change    |        |
| (2000=100)   |        | 131.5     | 132.7     | 134.4     | 134.6     | 136.3     | Quarterly | Annual |
|  |        |           |           |           |           |           | 1.3%      | 3.7%   |

Sources: Office for National Statistics' Economic &amp; Labour Market Review (September 2008)

## 2.3 Labour Market Indicators

### LABOUR MARKET INDICATORS

| <b>EMPLOYEES IN EMPLOYMENT#</b>           |            |         |         |         |         |         |                  |         |
|---|------------|---------|---------|---------|---------|---------|------------------|---------|
| Not seasonally adjusted.                  |            | 2007    |         |         | 2008    | 2008    | Change           |         |
|   |            | June    | Sep     | Dec     | Mar     | June    | Quarterly        | Annual  |
| Total employees:                          | UK         | 27.030m | 27.106m | 27.307m | 27.080m | 27.181m | 0.4%             | 0.6%    |
|   | North East | 1.050m  | 1.053m  | 1.068m  | 1.057m  | 1.059m  | 0.2%             | 0.9%    |
| Men employees:                            | UK         | 13.547m | 13.629m | 13.667m | 13.554m | 13.623m | 0.5%             | 0.6%    |
|   | North East | 521,000 | 525,000 | 532,000 | 526,000 | 529,000 | 0.6%             | 1.5%    |
| Women employees:                          | UK         | 13.483m | 13.476m | 13.639m | 13.526m | 13.559m | 0.2%             | 0.6%    |
|   | North East | 528,000 | 528,000 | 536,000 | 530,000 | 530,000 | 0.0%             | 0.4%    |
| Women full-time:                          | UK         | 7.018m  | 7.022m  | 7.058m  | 7.051m  | 7.067m  | 0.2%             | 0.7%    |
|   | North East | 260,000 | 262,000 | 264,000 | 261,000 | 262,000 | 0.4%             | 0.8%    |
| Women part-time:                          | UK         | 6.465m  | 6.454m  | 6.581m  | 6.475m  | 6.492m  | 0.3%             | 0.4%    |
|   | North East | 268,000 | 266,000 | 272,000 | 269,000 | 268,000 | -0.4%            | 0.0%    |
| Production employees (C-E):               | UK         | 3.084m  | 3.085m  | 3.076m  | 3.058m  | 3.047m  | -0.4%            | -1.2%   |
|   | North East | 139,000 | 139,000 | 140,000 | 140,000 | 140,000 | 0.0%             | 0.7%    |
| Construction employees:                   | UK         | 1.264m  | 1.308m  | 1.294m  | 1.284m  | 1.280m  | -0.3%            | 1.3%    |
|   | North East | 63,000  | 68,000  | 72,000  | 68,000  | 68,000  | 0.0%             | 7.9%    |
| Service employees: (G-Q)                  | UK         | 22.443m | 22.473m | 22.705m | 22.497m | 22.603m | 0.5%             | 0.7%    |
|   | North East | 836,000 | 836,000 | 845,000 | 838,000 | 840,000 | 0.2%             | 0.5%    |
|   |            | 2006    | 2007    | 2007    | 2007    | 2007    | Change           |         |
| Not seasonally adjusted                   |            | Winter  | Spring  | Summer  | Autumn  | Winter  | Quarterly        | Annual  |
| Self-employment:*                         | UK         | 3.827m  | 3.847m  | 3.797m  | 3.850m  | 3.873m  | 23,000           | 46,000  |
|   | North East | 113,000 | 115,000 | 122,000 | 117,000 | 117,000 | 0,000            | 4,000   |
| <b>CLAIMANT COUNT</b>                     |            |         |         |         |         |         |                  |         |
| (Not seasonally adjusted).                |            | 2007    | 2007    | 2008    | 2008    | 2008    | Change           |         |
|   |            | Sep     | Dec     | Mar     | June    | Sep     | Quarterly        | Annual  |
| United Kingdom                            |            | .828m   | .790m   | .843m   | .835m   | .945m   | 109,000          | 117,000 |
| Great Britain                             |            | .804m   | .768m   | .818m   | .810m   | .915m   | 105,000          | 111,000 |
| North East Region                         |            | 46,725  | 46,734  | 50,910  | 49,290  | 55,300  | 6,010            | 8,575   |
| Tyne & Wear                               |            | 21,591  | 21,219  | 23,306  | 22,602  | 24,942  | 2,340            | 3,351   |
| Claimant Count Rates (workforce rates) %: |            |         |         |         |         |         | Change in rates: |         |
|   |            |         |         |         |         |         | Quarterly        | Annual  |
| United Kingdom                            |            | 2.6     | 2.4     | 2.6     | 2.6     | 2.9     | 0.3              | 0.3     |
| Great Britain                             |            | 2.6     | 2.4     | 2.6     | 2.6     | 2.9     | 0.3              | 0.3     |
| North East Region                         |            | 3.8     | 3.8     | 4.1     | 4.0     | 4.5     | 0.5              | 0.7     |
| Tyne & Wear+                              |            | 4.5     | 4.4     | 4.9     | 4.7     | 5.2     | 0.5              | 0.7     |
| <b>REDUNDANCIES</b>                       |            |         |         |         |         |         |                  |         |
| (from the Labour Force Survey).           |            | 2007    | 2007    | 2007    | 2008    | 2008    | Change           |         |
|   |            | Q2      | Q3      | Q4      | Q1      | Q2      | Quarterly        | Annual  |
| Numbers (thousands):                      | GB         | x       | x       | x       | x       | x       | n.a              | n.a     |
|   | North East | x       | x       | x       | x       | x       | n.a              | n.a     |
| Rates (per 1,000 employees):              |            |         |         |         |         |         | Change in rates: |         |
|   |            |         |         |         |         |         | Quarterly        | Annual  |
|   | GB         | 4.7     | 5.2     | 4.3     | 4.7     | 4.8     | 0.1              | 0.1     |
|   | North East | *       | *       | *       | *       | *       | n.a              | n.a     |

Sources: ONS's Economy & Labour Market Review (October 2008) and LFS Quarterly Supplement, Tyne & Wear Research and Information.

\* Sample size too small for a reliable estimate

† LFS estimates published subsequent to 13 October 2004 have been revised to take into account the latest revisions to population estimates.

Note: Self-employment figures are not available from Spring 2008.

### 3.0 LOCAL JOBS AND ORDERS

TWRI has a database of job gains and losses announced in the press since the beginning of 1996. Listings are available on request by District, industry (2 Digit SIC 80) and cluster. This database and the lists given below, record gains and losses reported in the press.

**Cautions:** The press tends to under-record net job losses overall (by roughly 2,200pa on average, TWRI estimates by comparison with other sources). For example, particularly notable under-recordings have been numerous small losses from retailing and possibly from the offshore engineering industry. The **construction industry is especially hard to track and measure** (and grew very significantly from about 1999 until 2006). It is noticeable how few construction jobs were reported in Q3 2008 (only 50). Small firms are not included at all in the data below, since gains of fewer than 10 are not recorded by TWRI (and not generally reported by the press).

#### 3.1 Job Gains

(+ 1,497 announced in the press July 1<sup>st</sup> – September 30<sup>th</sup> 2008, of which around 114 might be linked to the Credit Crunch [‘possible CC’])

\* *means new opening*

|   |   |                             |
|---|---|-----------------------------|
| + 750<br>(by 2013)                      | <b>Protectors</b> , Gateshead.<br>(Security Firm. The Gateshead-based firm plans to create at least 750 jobs over five years as part of expansion plans, and more than double turnover from the £30m projected in 2008. [TWRI assumes 150 jobs per year –Ed])   | (J 04/08)                   |
| + 115                                   | <b>Rolls Royce</b> , Scotswood Road, Newcastle upon Tyne.<br>(Engineering Firm. It is to create 115 apprenticeships at its site on Scotswood Road. It plans to take on 160 apprenticeships in 2009 as it expands the former Mitchell [bearings] plant near BAE Land Systems.)   | (J 03/07)                   |
| + 90 *                                  | <b>HSBC</b> , Team Valley, Gateshead.<br>(Bank. It has opened a new £2.8m commercial baking headquarters in Team Valley, Gateshead. 90 staff at the current site on Grey Street, Newcastle, will relocate to Maingate.)   | (J 19/09)                   |
| + 64<br>(by 2010-2011)<br>[possible CC] | <b>JT Dove</b> , Gateshead.<br>(Builder’s Merchants. It plans to create 24 jobs by 2010 after launching Bradstone Premier Paving Centre at its two-acre site on Portobello Industrial Estate in Birtley, Gateshead. It is also building a heating and plumbing site beside the paving centre. The Newcastle firm hopes to benefit from the credit crunch as homeowners decide to improve their properties rather than move house. It is confident it can increase turnover from £34m to £70m by 2011 and create 40 jobs.) | (J 25/07)                   |
| + 60                                    | <b>Hadrian Healthcare</b> , Whickham, Gateshead.<br>(Care Home Operator. It is looking to create 60 jobs in Gateshead as part of 500 in the North East. It has acquired a one-acre site in Whickham, Gateshead, where it plans to build a care home to re-establish its presence in the region.)  | (J 30/08)                   |
| + 50 *<br>(by 2009)                     | <b>Domino’s Pizza</b> , Newcastle, South Tyneside & Sunderland.<br>(Pizza Chain. It plans to create 50 full and part-time jobs by 2009 when it opens new stores in Newcastle, South Shields (South Tyneside) and Sunderland.)   | (J 22/07)                   |
| + 50<br>[possible CC]                   | <b>Newcastle Building Society</b> , Cobalt Business Park, North Tyneside.<br>(Building Society. It is to create 50 support services jobs at its new offices at Cobalt Business Park, North Tyneside. It won a five-year multi-million pound contract from a leading financial services firm.)   | (NE<br>Contact,<br>Sept 08) |
| + 42                                    | <b>Bede Group Services</b> , Gateshead.   | (J 08/09)                   |

|                                 |   |           |
|---------------------------------|---|-----------|
| (by 2011)                       | (Vending Machine Supplier. It plans to create 42 jobs and raise turnover to £5m over three years. The Jarrow-based firm has grown turnover to £600,000 in just eight months and plans to relocate its headquarters to Gateshead by 2009.)   |           |
| + 40<br>(by 2013)               | <b>Gilwood Mast</b> , North Tyneside.<br>(Electrical & Plumbing Contractor. It aims to double its workforce to 80 and its turnover to £8m by 2013. The North Tyneside firm (formerly known as Gilwood Engineering Services) was acquired by Mast Electrical in 2007.)   | (J 07/07) |
| + 40<br>(by 2013)               | <b>Glendale Transport</b> , South Shields, South Tyneside.<br>(Pallet Delivery Company. It plans to create 40 jobs by 2013 as it expands its services to cover mainland Europe.)  | (J 14/07) |
| + 40<br>(by 2013)               | <b>STP</b> , Gateshead.<br>(Building Company. It is looking to double its workforce to 80 by 2013 and expects turnover to double to £25m despite difficult trading conditions.)   | (J 11/07) |
| + 35 *<br>(in 2007)             | <b>Cottam Brush</b> , Hebburn, South Tyneside.<br>(Brush Manufacturer. It relocated to Monkton Business Park in Hebburn, South Tyneside, from Sunderland in October 2007. Its sales rose 9% to £2.9m in the year to July 2008.)   | (J 23/09) |
| + 25                            | <b>Express Engineering</b> , Team Valley, Gateshead.<br>(Contract Mechanical Engineering Manufacturer. The Team Valley firm has created 25 jobs in Gateshead after it won two contracts worth £4m to supply high integrity components and assemblies to the offshore industry over two years.)  | (J 19/09) |
| + 25                            | <b>Leeds Building Society</b> , South Tyneside.<br>(Building Society. It has created 25 jobs at its North East Headquarters in South Tyneside since its merger with the Mercantile in 2006.)  | (J 12/08) |
| + 25<br>(by 2011)<br>(estimate) | <b>TSF Retail Solutions</b> , Washington, Sunderland.<br>(Shop-Fitting Business. It aims to create 40 jobs in the North East over three years as part of expansion plans and aims to grow turnover from £30m to £40m over the same period. It currently employs 154 over four sites, three of which are based in Washington. [TWRI estimates 25 jobs could be created in Washington])   | (J 05/08) |
| + 20<br>(by 2013)               | <b>Bgroup</b> , Newcastle.<br>(Creative Agency. It aims to double its workforce by 2013 in a drive for growth. It has also set up offices in London and Amsterdam.)   | (J 04/07) |
| + 18<br>(by 2013)               | <b>Theme Bins</b> , Felling, Gateshead.<br>(Novelty Bin Manufacturer. It is to create 18 jobs as part of plans to more than double turnover from £2m to £4.3m and double its workforce over five years. It recently added 6,000sq ft to its 18,000sq ft factory in Felling.)  | (J 02/09) |
| + 14<br>(by 2010)               | <b>Aspire Technology Solutions</b> , Gateshead.<br>(IT Consultancy Firm. It is looking to double its workforce over two years. The Gateshead-based firm recently developed 'Any Audit' software for national utilities contractor McNicholas, which is expected to boost Aspire's £3m annual revenue to beyond £3.5m in 2009. It is planning to move into a purpose-built facility on Blue Sky Way Business Park, South Tyneside, later in 2008.) | (J 14/08) |
| + 12<br>(in 2008)               | <b>Origin</b> , Newcastle.<br>(Software Developer. It is to create 12 jobs over the next few months after developing software on the back of 'streaming technology' to allow companies to rent software at a fraction of its current cost.)   | (J 25/09) |
| + 12 *                          | <b>Premium People</b> , Sunderland.<br>(Recruitment Company. It plans to create 12 jobs when it opens a new   | (J 17/07) |

|                   |   |           |
|-------------------|---|-----------|
|                   | training and recruitment office.)   |           |
| + 10 *            | <b>Croft Vets</b> , Jesmond and South Gosforth, Newcastle.<br>(Vet Surgery. It is creating 10 jobs after opening a Newcastle Cat Clinic in Jesmond and acquiring a South Gosforth Branch. It aims to double turnover to £4m by 2013.)                                       | (J 20/09) |
| + 10<br>(by 2009) | <b>Royston</b> , Newcastle.<br>(Diesel Engineering Group. It aims to create 10 jobs by 2009 and increase turnover by £2m to £10m by 2010. It acquired an offshore specialist firm in Perth, Australia, in a bid to tap into the country's booming gas and minerals sector.) | (J 16/07) |
| + 10              | <b>Solex Manufacturing</b> , Washington, Sunderland.<br>(Industrial Door Manufacturer. It plans to create 10 jobs after expanding its door and windows factory in Washington, Sunderland.)  | (J 17/07) |

The **Tyne Carrier Association (TCA)** has **guaranteed employment** for more than **400 staff** after winning a contract with BAE Barrow worth around £200m. [BAE Barrow won a substantial part of the £3.9bn contract to build to new aircraft carriers for the Ministry of Defence] (J 04/07)

Previously announced job gains of **200 jobs** and **A&P Tyne** in Hebburn **may not materialise** after the company behind a £30m contract went into administration. A&P Tyne won a contract with C&M Group to convert an icebreaking vessel into an accommodation ship, but it was thrown into doubt after C&M Group ran into financial difficulties. (J 29/07)

**Correction:** The 220 job gains at **Volker Stevin** reported in the Summer edition of *Economic Review* was incorrect. The civil engineering and building contractor is planning to add to its workforce after it won a contract to build the new Tyne Tunnel, but the number of staff has not been confirmed. It *currently employs 220 staff* in the North East and 440 throughout the UK. (J 03/06)

| <b>Potential Job Gains</b> |  |           |
|----------------------------|--|-----------|
| + 1,000                    | <b>Newcastle Airport</b> , Newcastle.<br>(International Airport. It recently acquired Samson Aviation, a small-aircraft business south of the existing runway, in a £450,000 deal. It plans to transform the site into a leading base for private aircraft owners, forming part of its plan to convert 50 acres of surrounding land into an airport business park as part of a £20m expansion plan. It hopes the move will create an additional 1,000 jobs.) | (J 15/7)  |
| + 250                      | <b>BT</b> , South Tyneside.<br>(Business Services provided by Telecommunications Company. It is set to create 250 jobs in South Tyneside as part of a £50m bid to expand its back-office support service for local authorities. It also aims to recruit a further 1,000 staff over the next ten years if its Local Government Services scheme is successful.)  | (J 11/07) |
| + 200                      | <b>Spark Response</b> , Tyne Dock, near South Shields, South Tyneside.<br>(Contact Centre Services. It is preparing to recruit 200 seasonal staff. The Gateshead firm has taken over 40,000sq ft of new warehousing at Tyne Dock after winning a series of new clients.)   | (J 25/09) |

| <b>Outside Tyne &amp; Wear</b> |  |           |
|--------------------------------|--|-----------|
| + 440                          | <b>Hadrian Healthcare</b> , across the North East.<br>(Care Home Operator. It is looking to create 500 jobs in the North East, including 60 in Gateshead. It has acquired a one-acre site in Whickham, Gateshead, where it plans to build a care home to re- | (J 30/08) |

|  |   |                  |
|--|---|------------------|
|  | establish its presence in the region.)  |                  |
| <b>+ 400<br/>(by 2010)</b>               | <b>Respondez</b> , Hartlepool.<br>(Call Centre. It plans to create 400 jobs at its call centre in Hartlepool over two years after securing several new contracts with retail and wholesale clients. [Respondez is part of the Indian-owned group Spanco Telesystems and Solutions])   | <b>(J 15/08)</b> |
| <b>+ 270</b>                             | <b>Eaga</b> , across the North East.<br>(Public Services by Private-Sector: Green Support Services Group. It plans to create 270 jobs after securing a £1.15m grant from One NorthEast's Selective Finance for Investment and a £200m energy efficiency contract with Scottish Power. The majority of the jobs are expected in the North East, but their location is currently unknown. The Newcastle firm currently employs around 1,200 in the region.) | <b>(J 07/08)</b> |
| <b>+ 170</b>                             | <b>TRW Automotive</b> , Peterlee, County Durham.<br>(Electronics Manufacturer. It plans to create 170 jobs after securing a £1.15m SFI grant from One NorthEast. It currently employs 654 permanent and 135 temporary staff. [It produces high-tech components for the motor vehicles industry])  | <b>(J 11/08)</b> |
| <b>+ 70<br/>(by 2012)</b>                | <b>CTC Marine Projects</b> , Darlington, County Durham.<br>(Marine Trenching Contractor. It is to create 70 jobs by 2012 after being taken over by American oil multinational Trico Marine Services. The majority of the jobs are expected in Darlington, County Durham. It currently employs around 230 staff.)  | <b>(J 02/07)</b> |
| <b>+ 20 *</b>                            | <b>Bamburgh Castle Inn</b> , Seahouses, Northumberland.<br>(Hotel & Restaurant. It has re-opened for business following the completion of the first phase of a £1.65m revamp, adding a new bar, dining area and pavilion. The second phase is due for completion in the autumn and is expected to create a further 20 jobs.)  | <b>(J 03/07)</b> |
| <b>+ 15<br/>(by 2011)<br/>(estimate)</b> | <b>TSF Retail Solutions</b> , North East.<br>(Shop-Fitting Business. It aims to create 40 jobs in the North East over three years as part of expansion plans and aims to grow turnover from £30m to £40m over the same period. [TWRI estimates 15 jobs could be created outside Tyne & Wear])   | <b>(J 05/08)</b> |

**Dranfield Properties and Ethel Austin Properties**, plan to create 250 jobs in **Morpeth**, Northumberland, after starting work on a flagship **£32m retail development**. The centrepiece of the development, a 27-unit Edwardian-style shopping mall and piazza, is expected to open in summer 2009. (J 25/07)

| <b>Potential Job Gains Outside Tyne &amp; Wear</b> |  |  |
|--|--|--|
| <b>+ 750 *</b>                                     | <b>MGT Power</b> , Teesport, Middlesbrough.<br>(Renewables/Electricity Generating Group. The jobs are part of plans to build one of the world's largest renewable energy generators in Teesport, Middlesbrough. The £400m proposed Tees Renewable Energy Plant would burn wood to produce 300MW electricity. It would create 600 jobs during construction and 150 when operational.) | <b>(J 29/07)</b>                           |
| <b>+ 200</b>                                       | <b>Amec</b> , Wynyard Park, Stockton.<br>(Engineering Project Management and Services Company. It could create up to 200 design and engineering jobs at Wynyard Park in Stockton.)   | <b>(J 07/07)</b>                           |
| <b>+ 200 *</b>                                     | <b>Tesco</b> , Morpeth, Northumberland.<br>(Supermarket Chain. To build a new supermarket near the train station in Morpeth. The new 20,000sq ft 'green' store will be built on the disused PD Ports haulage depot in Coopies Lane Industrial Estate.)   | <b>(NE<br/>Contact,<br/>Sept<br/>2008)</b> |

### 3.2 Job Losses

(- 2,490 announced in the press July 1<sup>st</sup> – September 30<sup>th</sup> 2008, of which, around 1,814 appear strongly linked to the Credit Crunch [CC])

\* means closure

|                                       |   |                    |
|---------------------------------------|---|--------------------|
| - 1,300<br>(over three years)<br>[CC] | <b>Northern Rock</b> , Newcastle and Sunderland.<br>(Nationalised Bank. It is to cut 1,300 jobs, 800 compulsory redundancies and 500 voluntary. The locations of the jobs cuts have not been specified. [Without further evidence, TWRI assumes half of the job losses are in Newcastle and half in Sunderland. Other reports said around 1,400 jobs were cut by end-July])                       | (J 31/07)          |
| -170 *                                | <b>MFI</b> , Southwick, Sunderland.<br>(Call Centre. It is cutting 170 jobs with the closure of its call centre in Southwick, Sunderland. The furniture retailer was saved in a management buy-out. It has 192 stores nationally, employing around 2,500 people.)   | (S. Echo 30/09)    |
| - 159 *<br>[CC]                       | <b>Watson Norie</b> , Newcastle.<br>(Electrical & Instrument Engineering Contractor. It cut more than 159 jobs at its site in Walker, Newcastle as part of 400 job cuts nationally. It has gone into administration and faced delay in payments by a major customer for two contracts worth £9m. [It had previously employed 500 staff over three site in Newcastle, Scunthorpe and Grangemouth]) | (J 30/9)           |
| - 50<br>[CC]                          | <b>Watson Norie</b> , Walker, Newcastle.<br>(Electrical & Instrument Engineering Contractor. It has cut 50 jobs at its headquarters in Walker, Newcastle. It went into administration after the firm announced it was unable to continue with current contracts without significant additional funding. Over 700 jobs are said to be affected nationally.)  | (Ev. Chron. 27/09) |
| - 148 *                               | <b>Reed Print &amp; Design</b> , Washington, Sunderland.<br>(Printing Firm. It is to cut 148 jobs after going into liquidation. The Washington-based firm made pre-tax losses of £1.56m in 2006, following a loss of £1.4m in 2005.)  | (J 28/08)          |
| - 100 *                               | <b>Ilva Furniture Ltd</b> , Gateshead.<br>(Furniture Retailer. It has cut 100 jobs after going into administration in June. The Danish company has been forced to wind-down trading after failing to find a suitable buyer.)  | (J 25/07)          |
| - 100<br>[CC]                         | <b>Tanfield</b> , Washington, Sunderland.<br>(Electric Vehicle and Powered Access Platform Manufacturer. It has issued redundancy notices to the 400 staff at its Washington factory and is believed to be seeking more than 100 job losses. It saw its market value fall to £18m from a high of £700m in 2007.)  | (J 11/07)          |
| - 85<br>[CC]                          | <b>Tanfield Group</b> , Washington, Sunderland.<br>(Electric Vehicle and Powered Access Platform Manufacturer. It has confirmed 85 jobs losses at its Washington plant, Sunderland. It originally feared the loss of 142 jobs from a total workforce of 440.)   | (J 14/08)          |
| - 90 *                                | <b>HSBC</b> , Newcastle.<br>(Bank. It is relocating 90 staff from its current site on Grey Street, Newcastle, to a new £2.8m commercial banking headquarters in Team Valley, Gateshead.)  | (J 19/09)          |
| - 90 *                                | <b>Medifiq</b> , Rainton Bridge, Sunderland.<br>(Medical Plastics Manufacturer (formerly Perlos). It is to cut 90 jobs with the closure of operations at Rainton Bridge, Sunderland. It blamed the downturn in the market for its medicine-delivery products. [It produces products such as asthma inhaler devices and syringes])   | (S. Echo 24/09)    |

|                     |  |                 |
|---------------------|--|-----------------|
| - 70<br>[CC]        | <b>Dickinson Dees</b> , Newcastle.<br>(Law Firm. It is cutting 70 jobs from its legal division in Newcastle after it saw a fall in re-mortgaging and conveyancing turnover.)   | (J 16/07)       |
| - 50<br>[CC]        | <b>Barratt</b> , Tyne & Wear.<br>(Home-builder. It is to cut 50 jobs as part of 1,000 job cuts nationally. It currently employs around 6,700 in the UK but is reportedly £1.7bn in debt from the acquisition of Wilson Bowden early in 2007 and the continuing credit crunch.) | (J 04/07)       |
| - 35 *<br>(in 2007) | <b>Cottam Brush</b> , Sunderland.<br>(Brush Manufacturer. It relocated from Sunderland to South Tyneside in October 2007.)   | (J 23/09)       |
| -24                 | <b>Rohm &amp; Haas</b> , Hebburn, South Tyneside.<br>(Fine Chemical Manufacturer. It is cutting 24 jobs (a quarter of its workforce) at its plant in Hebburn, South Tyneside.)   | (J 24/09)       |
| - 19 *              | <b>Manitowoc</b> , Doxford International Business Park, Sunderland.<br>(Parent company of Groves Cranes. It has closed its office on Doxford International Business Park in Sunderland and is transferring operations to a new base in Bedfordshire.)                          | (S Echo, 22/09) |

Note: The **Department of Work and Pensions** (DWP) is to cut around **375** jobs in the North East by March 2009 as part of plans to cut costs. It will reduce staff in the region to around 9,390 from 9,770 in June. The DWP needs to cut spending by 5% in each of the next three years and deliver more than £1.2bn savings by 2011. (J 05/8) *[TWRI believes these job losses are part of 1,200 job losses announced in the Spring 2008 edition of Economic Review]*

| Potential Job Losses |  |           |
|----------------------|--|-----------|
| - 50 *<br>[CC]       | <b>Grange Kitchens</b> , North Tyneside.<br>(Kitchen Manufacturer. It has been placed into administration. It is currently believed to employ around 50 staff but it is not yet clear how the administration has affected the security of their employment.) | (J 11/09) |

| Outside Tyne & Wear |   |           |
|---------------------|---|-----------|
| - 180 *             | <b>SABIC</b> (Saudi Arabian Basic Industries Corporation), Teesside.<br>(Chemical Company. It plans to cut 180 jobs as it closes two sites in Teesside. It announced a restructure of its aromatics operations following a review of the long-term viability of the business.)                | (J 17/07) |
| - 162<br>[CC]       | <b>Bellway</b> , across the North East<br>(House-builder. It has cut 162 jobs from its North East workforce of 450 in an attempt to save £100m following the decline in the market for new housing.)  | (J 15/08) |
| - 100               | <b>Cummins</b> , Darlington, County Durham.<br>(Engine Manufacturer. It is to cut 100 jobs at its [diesel engine] factory in Darlington, County Durham, due to reduced demand. It plans to make 20 permanent and 80 temporary employees redundant. It currently employs 1,000 in Darlington.) | (J 03/07) |
| - 90<br>[CC]        | <b>Kenmore Refrigeration Equipment (UK)</b> , Crook, County Durham.<br>(Refrigeration Component Manufacturer. It is cutting 90 jobs at its factory in Crook. It reported a downturn in work after a fall in demand for fridges.)  | (J 24/07) |
| - 50                | <b>Aesica</b> , Cramlington, Northumberland.<br>(Pharmaceutical Firm. It is cutting 50 jobs after losing a contract with  | (J 18/07) |

|                                 |  |           |
|---------------------------------|--|-----------|
|                                 | US company Myriad. However, it is still on target to treble sales to £150m by 2010.)   |           |
| - 33<br>(by 2010)<br>[estimate] | <b>HBOS</b> , across the North East.<br>(Banking, Insurance & Investment Group. It is to cut 650 jobs across the UK by 2010 when it merges its Business Banking and Commercial Business divisions into a single unit. TWRI estimates 33 of these losses will be in the NE. [Lloyds TSB has agreed to take-over HBOS – Ed]) | (J 17/07) |

### 3.3 New Orders and Contracts to Local Firms

(At least £672m to local firms)

|                        |   |                    |
|------------------------|---|--------------------|
| <b>£600m</b>           | <b>Wellstream</b> , Walker, Newcastle [and across Brazil].<br>(Oil & Gas Plastic Pipeline Manufacturer. The Newcastle-based firm has won a £600m deal to supply 700km of pipelines to Brazilian oil company Petrobras over four years, its biggest-ever deal. The venture will underpin 35% of the plant's production capacity from 2009 onwards and will secure 600 existing jobs. It is also awaiting confirmation of a £40m contract with Australian oil & gas company Nexus Energy Ltd. A decision is expected by the end of 2008.) | (J & EcN<br>20/08) |
| <b>£53m</b>            | <b>A&amp;P Group</b> , Hebburn, South Tyneside.<br>(Ship Repair & Conversion Company. It has been awarded a Ministry of Defence contract worth £53m, securing jobs for 250 staff. It will maintain five vessels over five years, with the potential to extend the contract.)  | (J 01/07)          |
| <b>£10m</b>            | <b>Martin Tait Readheads (MTR)</b> , Newcastle.<br>(Marketing Agency. It won a long-term £10m contract from SCS Upholstery to run its advertising campaign after the sofa retailer was bought out of administration.)   | (J 22/9)           |
| <b>£3m</b>             | <b>Surgo</b> , South Tyneside [and Durham City].<br>(Construction Firm. It has secured two refurbishment contracts worth £3m at Holy Trinity Primary school in South Shields, South Tyneside, and Durham University. The Newcastle-based firm plans to increase its £52m turnover to £60m in 2008, despite the recent downturn in the construction industry.)   | (J 18/07)          |
| <b>£3m<br/>(up to)</b> | <b>Newgroup</b> , for Port of Blyth, Northumberland.<br>(Recruitment & Contract Labour Firm. It signed a deal with Port of Blyth which could be worth £3m. The Newcastle-based firm will supply up to 30 workers per week to the expanding port through its S2S division.)  | (J 08/08)          |
| <b>£1m</b>             | <b>Pulsic</b> , Newcastle.<br>(Software Firm. It has completed a £1m deal to launch a research and development centre in Newcastle. It received £700,000 of funding from Newcastle-based Northstar Equity Investors.)   | (J 17/7)           |
| <b>£1m +</b>           | <b>Robson Brown</b> , Newcastle.<br>(Marketing Firm. It has won a £1m+ three-year deal to create a marketing campaign designed to re-launch the recently refurbished Manchester Arndale shopping centre. The Newcastle agency will be promoting the centre on TV, radio and billboards.)  | (J 28/08)          |
| <b>£1m</b>             | <b>PNE Group</b> , Newcastle and Gateshead.<br>(Training & Enterprise Agency. It has won a £1m contract to deliver the Shell LiveWIRE International Project after having its work renewed for a further three years. It will continue to develop a global programme for young entrepreneurs.)   | (J 07/08)          |

## 4.0 Features

### 4.1 The Banking Crisis Starts Phase Two of the Credit Crunch

In the three months to October 2008, the **global economy** has **switched from rising inflation** (“over-heating” in economic language) **to enter a major downturn** across all the industrialised countries. The immediate cause of the downturn has been the global banking crisis, triggered on September 15<sup>th</sup> by the bankruptcy of Lehman Bros investment bank (\$1.1 US Economy). More fundamentally, there has been a large build-up of debt (“leverage”) relative to incomes – especially in the last five years. This was complemented by a widespread over-pricing of assets, particularly houses.

**Banking collapse in the UK** has been **averted** by the dramatic govt. actions taken on Oct 8<sup>th</sup> (§1.2 The Credit Crunch and the UK Banking Crisis). This included **re-capitalisation** (i.e. issues of new shares) underwritten and funded by the tax-payer, for those parts of the UK banking system which seek it. This is currently RBS, HBOS and Lloyds TSB.

**Inflation** therefore **no longer** looks a **problem**. Oil prices have fallen by over half, in dollar terms, since their July peak (of over \$145/barrel) to around \$60. Food and other commodity prices have also had large falls. UK inflation by autumn 2009 was already forecast to be down to 2% (Oct. HM Treasury Summary of Independent Forecasts); it could now be very low, say 1% or less.

**Interest rates** have been cut from 5% to 3% by the Bank of England. They can be expected to **fall more steeply in the UK than in euro-zone** (because of the UK’s high household debt, around 160% of disposable income in 2007). The sterling exchange rate has fallen 15% on the trade-weighted index over the year to Oct. (EcN 30/10). This is partly due to a global flight of capital back to (or to) the USA, pushing up the dollar since July.

In the **third quarter** (July-Sept.), **UK GDP fell by -0.5%**. This was largely *before the banking crisis*, and therefore had earlier causes; notably the squeeze on real incomes (from inflation) and the first phase (year) of the “credit crunch” (lack of lending). This hit house-building (especially), housing-related parts of retailing and was widening out into broader parts of consumer spending.

The (Sept./Oct.) **banking crisis** has **intensified the “credit crunch”** – a **second phase**, which looks deeper. Banks have been seeking to *reduce their loan books* – which is abnormal and constrains the economy’s growth. The Bank of England rate is now only 3%. But rates for borrowers remain high; “Libor”<sup>6</sup> is around 4½% (ten times the normal premium on the BoE rate). This is a fluid situation, but banks need to make higher gross margins so as to be able to make write-downs against earlier big losses.

In terms of any **precedents**, the UK economy began 2008 **rather like 1974** with “over-heating”, slowing growth and an oil (and commodity) price shock. In 2008 inflation has, however, not fed higher earnings growth. The upward inflation spiral has gone no further than food and energy – reducing the real incomes of households and businesses; the big problem in 2008 is continuing asset-price falls. These under-mine the balance-sheets of banks (and households).

<sup>6</sup> Libor is the inter-bank lending rate. This is crucial to those banks which require substantial external funding. It is set daily by the major banks. It is the London Inter-Bank Offered Rate.

## 4.2 Economic Effects of the Credit Crunch

**So far** (from **phase 1 of the Credit Crunch**), **impacts** on most of the **Tyne & Wear** economy (except finance and house-building) have been fairly **modest**:

- a) Claimant unemployment has risen, but by about 3,500 (in the year to Sept.) –the rate is up little more than ½ of one percentage point
- and b) Roughly 1,900 job losses in Q3 were due to the Credit Crunch (§3.0 Local Jobs & Orders)

Indeed, this can be expected to be more of a **southern recession** than a northern (Lord Desai, Experian et al). This was the case in the early 1990s. This suggests that unemployment in TW (and the North) will tend to rise somewhat less quickly than in the south (and in the UK) (measured as a share of people in the labour market). Thus if the unemployment rate were to rise by, say, two percentage points in the UK, we can expect it to rise by more than 2pp in the south and say about 1½pp in the north.

**Remedies require large, and probably novel, solutions (nationally and globally)**. Pending the implementation of solutions and their effect, credit looks set to be both difficult to obtain (especially for mortgages) and (very broadly) no cheaper. ‘Novel’ include measures a) use of fiscal policy (tax cuts and/or public spending increases and b) reforms to the global financial system. These might include allowing the banks [globally] to write down losses over an extended period (such as 5 or more years) (as in the 1980s). These are issues for the Global Financial Conference (in Washington). EU leaders have set a deadline of early February to agree on reforms to the global financial system.

Note: Critically, banks need **ratings agencies** which can assess the risk of bonds etc. accurately. They are needed to **provide day-to-day ‘regulation’** to the banking system. On 16<sup>th</sup> August 2007, Moody’s (one of the three ratings agencies) ‘in one fell swoop downgraded 691 mortgage bonds’. It ‘hadn’t updated its basic statistical assumptions about the US mortgage market since 2002’ (FT Weekend Magazine 18/10). [This seems the best published account so far of how the banks went out of control – Ed]

If UK banks have lost, say, £30bn on their credit products and mortgage books, they can either;

- Raise revenue – say nearly £3,000pa more, on average, from the 10m+ mortgage borrowers (who have an average mortgage of over £100,000). Alternatively, say **£2,000 more from each mortgage borrower and £2,500 more from each of the 4m small businesses**. Or,
- Raise new capital from shareholders – but UK bank shares have lost most of their value in the last year. ‘Rights issues’ have already been made on a record scale (RBS raised £12bn in the spring). The govt. is now the share-holder of last resort for the UK banks.

Perhaps the 3 most important contextual variables for TW to watch in “phase 2” are;

**Libor** – which sets the cost of funds for UK banks. On top of this rate, banks need a margin for their internal costs (administrative and for loan losses). It has been suggested that banks need to re-price mortgages at around 2 percentage points above their cost of funds (instead of around 0.5pp during the mortgage boom).

**Net UK bank lending** to individuals –monthly data from the BoE. *Net* mortgage lending has dried up from an av. of £9bn a month in 2007 to under £4bn each month from May-Sept. 2008. Note: small businesses, particularly, do not have access to bond markets available to large companies.

**UK Consumer Spending** – quarterly estimates from ONS. This is the largest of the four components of demand, accounting for about two-thirds of GDP. It had been growing strongly at around 3-4% pa. In the most recent calendar year of recession, 1991, it fell by about 1%. Such a fall below trend could eliminate about 0.5-0.75m jobs in a year.

The first is purely national and there are no local data on the other two variables. Nevertheless, as the largest component of demand in TW, as elsewhere, consumer spending’s trajectory will also set that of the whole economy.

## 5.0 INVESTMENTS & DEVELOPMENTS

### 5.1 Investment & Development Trends

Prime UK **commercial property values fell** by an average of **10%** over the year to mid-2008 – Investec Private Bank. The majority of property investors interviewed expected values to stabilise over the next year. (J 02/7)

**Commercial property market indicators** held up more **strongly** in the **North East** than nationally:

- **Take up of office space in Newcastle** in the first half of 2008 **nearly matched the level of 2007** –Atisreal. 415,700sq ft of office space was let in Newcastle, with almost 65% of floor space let in the city centre. The office market in Newcastle is still expected to grow in 2008 despite the state of the UK market –Lambert Smith Hampton’s National Office Report 2008. Top city centre rents are expected to rise from £22 per sq ft to £23 by the end of 2008. (J 13/8, 24/9)
- The **North East** was the **only region** in the UK where **take-up in business parks rose** in the first half of 2008 –Business Park Review 2008, GVA Grimley. Demand nationally is the lowest since 2004, with two million sq ft let compared to three million sq ft in the first half of 2007. (J 03/9)
- **Construction workloads** have **declined** at their **fastest pace** since **1995** but **NE falls were the slowest in the UK** –RICS UK Construction Market Survey. 19% more chartered surveyors reported a fall than a rise in workloads, breaking more than 11 years of consecutive growth. (J 04/7)

Also, **rents from student accommodation** in the UK are **forecast to grow** more than **4.5%** per year despite the continuing credit crunch –Knight Frank. **Weekly rents** rose an average of **5.2%** per year, from £67 in 2003/04 to £82 in 2006/07. (J 30/7)

**Residential development land** has **fallen a third in value** over the last year and by 15% in the last quarter –Knight Frank. The property consultancy expects a further 10% fall over the next year. Land values in the North East fell 20-25% over the year. (FT 29/9)

*Late News:* Falling investment in the commercial property market is exacerbating already accelerating losses in real estate values –CB Richard Ellis. The capital decline in Q3 more than doubled to 6.7%, from 3% in the previous quarter. September saw the largest [monthly] fall in 2008 at 2.9%, taking the total ‘pricing correction’ to 24% in the past year –Investment Property Databank. (FT 16/10)

### 5.2 Investment & Development News

#### Office Developments

In **North Tyneside**, **Aesica** is **opening** its **new global corporate headquarters** at **Balliol Business Park**. The pharmaceutical company was previously based at its manufacturing site in Cramlington, Northumberland. It manufactures and supplies Active Pharmaceutical Ingredients (APIs) to the pharmaceutical and biotechnology industries. (J 27/8)

In **Shieldfield**, near **Ouseburn, Newcastle**, **work is almost complete** on the **Maling Court** office development by the Adderstone Group. Brims Construction is currently finishing some minor landscaping on the site surrounding the six 2,990sq ft offices. (J 03/9)

In **Newcastle**, on **Westgate Road**, work has started on the **regeneration** of the **Cooper's Auction Mart** building. Developer Hanro Group plans to create more than **16,000 sq ft** environmentally-efficient office accommodation over three floors. Building work is set to be complete by Christmas. (J 02/7)

In **Newcastle**, **Time Central**, one of the city's most high-profile office buildings, has been **sold** for **£23m** to an undisclosed buyer. The **84,000sq ft** building on Gallowgate was originally bought by F&C Asset Management for £32.5m in 2007. (J 16/07) [The building is occupied by law firm Robert Muckle –Ed]

In **Newcastle** and **Sunderland**, **Northern Rock** is to **sell or lease** its **two new £100m office developments** at **Gosforth**, Newcastle, and **Rainton Bridge**, Sunderland. The two buildings have **125,000sq ft** and **230,000sq ft** of floor space respectively. (J 30/8)

At **Doxford Park, Sunderland**, **Houghton House** (the former headquarters of Reg Vardy plc) has been **put on the market** by the company's new owner **Pendragon**. The firm is looking for buyers or tenants for the **47,706sq ft** building. Pendragon took over Reg Vardy when a £506m bid was accepted by shareholders. (J 06/8) Pendragon also warned it will not be able to forecast profits (see §6.12 Motor Retail).

### **Industrial Developments**

In **South Shields, South Tyneside**, **Harlow Printing** opened a new **£2m 35,000sq ft plant** on Simonside East Industrial Estate, doubling the size of its operations. Its turnover rose 20% in 2007. (J 10/7)

In **Birtley, Gateshead**, **BAE Systems' munitions factory** is to be **demolished** and replaced by a new facility as part of a deal with the MoD. The 15-year partnership, worth up to £3bn, will see a **£28m investment** in the site. The demolition is set for when the replacement factory is open in 2011. (J 21/8)

### **Mixed Developments**

In **Sunderland**, work has started on the new **£70m Turbine Business Park**. The **55-acre** mixed development by Barmston Developments will comprise;

- **250,000sq ft** of large **industrial property**
- **120,000sq ft** of **hotel/leisure** use
- **100,000sq ft** of **small office/light industrial** (B1) units
- **85,000sq ft** of **large office units**

Plans also include 75,000sq ft of small industrial, 75,000sq ft of hybrid/workshop accommodation, and 10,000sq ft of retail units. (J 17/9). [The business park is located between Sunderland and Washington, close to the junction between the A1231 and the A19 –Ed]

In **Byker, Newcastle**, work has begun on a **£2.8m** mixed-use development by **Rokeby**. The two-storey building will include six retail units and two office suites. (J 09/7)

In **Heaton, Newcastle**, North Tyneside developer **Nova** has **submitted a planning application** to transform the old **library building** on **Heaton Park View** into **offices** and a **restaurant**, with a new-build block of apartments at the western end of the site. The building closed eight years ago. (J 24/9)

## Housing Developments

In **South Shields, South Tyneside**, work has started on building **40 homes** as part of the **redevelopment** of **Cleadon Park**. Newcastle-based NomadE5 is now working with Bellway to provide rental accommodation as part of phase three of the project. (J 01/8)

In **Ouseburn Valley, Newcastle**, an **eight-storey, 396-bed, student accommodation** building for **Northumbria University** is to be built on Stoddart Street. Developer Metnor Property Group will build the 133,000sq ft block, due for completion in September 2010. (J 24/9)

In **Byker, Newcastle**, the **former Reavan's department store** on Shields Road is to be **converted** into **30 new affordable flats** for single people. The £3.2m scheme is funded by Byker Bridge Housing Association and the Housing Corporation. (J 29/8)

## Retail Developments

In **Newcastle**, **Waitrose** opened a new store in **Eldon Square Shopping Centre**. The 15,000sq ft store is located on the £170m St George's Way. (J 03/9)

In **South Shields, South Tyneside**, the **former House of Fraser store** on King Street has been **sold** to the **Retail Plus Property Fund** for **£10m**. [The London-based property investment fund has also invested in Grainger Street, Newcastle] (J 02/7)

## Leisure Developments

In **Heaton, Newcastle**, the **£1m High Heaton Library** has **opened**. The library was built on the site of the old Heaton main Colliery. (J 24/9)

In **Wallsend, North Tyneside**, **STR Enterprises** has **acquired Wallsend Golf Club** from North Tyneside Council for an undisclosed sum. The Newcastle leisure business has renamed the 170-acre site Centurion Park. The firm aims to double its (STR Enterprises') £6m turnover by 2013 and increase its workforce of 250. (J 31/7)

In **Newcastle**, on **City Road**, the **Hotel du Vin** was due to **open** in **mid-October**. The **£2m** hotel will be the **largest outlet** in the chain, with over 40 bedrooms. (J 29/8)

In **Byker, Newcastle**, the **former Byker swimming pool** is to be **transformed** into an **indoor bouldering centre**. The **10,000 sq ft** facility, **Climb Newcastle**, will include bouldering walls designed for all abilities and will be able to accommodate more than 100 climbers at once. It is due to open in late 2008. (J 07/8)

In **Gateshead**, developer **Jaswant Singh Gill** has been **granted outline planning permission** from Gateshead Council to build on the site of the **former Odeon cinema**. The plans include a six-storey, **104-bed hotel, a casino and restaurant**, bar and conference facilities. (J 30/7 & Gateshead Council website)

In **Sunderland** city centre, a new **120-bed hotel** is being **planned** above the **Joplings department store**. Owner property firm Sunderland Turton plans to transform the empty upper floors, as well as upgrading the store with a major make-over. (J 20/8)

## Education Developments

*[No Education Development were announced]*

## Other Developments

*[No Other Developments were announced]*

## Infrastructure Developments

**Tyne & Wear Metro** has been awarded **£300m government funding** for phase two of its Reinvigoration project. It includes improvements to infrastructure and station facilities and refurbishing trains. Funding will be paid year-on-year from 2010. (J 01/8) Private operators are being invited to bid to run trains and manage station staff as a condition of the government funding. (J 23/9)

In **Sunderland**, **£98m government funding** has been secured to a new **four-lane bridge** over the river Wear. [The new bridge will be about 1km upstream from the existing bridges, and is also known as the ‘Sunderland Strategic Transport Corridor’ –Ed] (J 01/8)

### 5.3 Economic Development Aid & Finance

**One NorthEast** has launched a **£10m fund** to help firms hit by the economic slowdown. It includes;

- £6.25m for the North East Investment and Co-Investment Funds to aid new and growing firms
- £2.5m for the Selective Finance for Investment (SFI) grant to enable small and medium firms to expand
- £1m for the Energy Resource Efficiency scheme to help with rising fuel bills
- £250,000 for the Company Rescue Pathfinder programme to help struggling firms. (J 04/9)

### 5.4 Regional Development Grants (Selective Finance for Investment, SFI)

**Table 5.1 SFI in England: Offers of £75,000 or more (1 July-30th September 2008 <sup>1</sup>)**

| Company                                | District         | £           |
|--|------------------|-------------|
| Tech Mahindra Ltd                      | South Tyneside   | £2,990,000  |
| Eaga Plc                               | Newcastle        | £1,150,000  |
| Express Engineering (Thompson) Limited | Gateshead        | £550,000    |
| ITV Signpost                           | Gateshead        | £245,000    |
| Bibby Offshore Limited                 | Newcastle        | £200,000    |
| Total Maintenance Solutions Limited    | Sunderland       | £195,000    |
| Washington Metalworks Ltd              | Gateshead        | £187,500    |
| A-Line Dental Services Ltd             | Sunderland       | £110,000    |
| Faraday Printed Circuits Limited       | Sunderland       | £75,000     |
| Posi-Thread UK Ltd                     | Sunderland       | £75,000     |
|  | North East Total | £11,366,000 |

*Data Received from One North East*

<sup>1</sup>Date offer was accepted. Payment of SFIE is made in instalments, typically over several years as jobs and capital expenditure targets laid down by the offer are met. The amounts quoted above, therefore, represent the maximum grant potentially payable if the project is satisfactorily completed.

## 6.0 INDUSTRIES AND FIRMS

### 6.1 Business Overview

The number of **new business start-ups** in Newcastle has **remained strong**, with 800 businesses established **in the first half of the year** – on a par with the same period in 2007. The annual figure is expected to reach 1,600 by the end of 2008. According to a recent Barclay's survey, national figures show that the total number of start-up businesses is **expected to fall** [12%] from 430,000 in 2007 to 380,000 in 2008. (J 10/09)

Company failures [nationally] are up at least 60%:

- The **number of companies** placed in **administration** in Q2 2008 was 938, up 9% from the previous quarter and **up a massive 60% from 585 a year earlier**. Corporate insolvencies also rose to 3,560 in Q2 2008, up almost 12% over the previous quarter and 15% from a year earlier. (FT 02/8)
- The **number of companies facing wind-up rose eightfold** in the year to Q2 2008 –Begbies Traynor. Its 'Red Flag Alert' survey suggested 4,258 companies were facing winding-up petitions from creditors or county-court judgements in excess of £5,000, compared to just 542 a year earlier. The number of companies facing 'critical problems' was up 29% compared to the previous quarter. (FT 22/7)

Takeovers activity has virtually dried-up:

- The North East's **value of business deals** [mergers and acquisitions] completed in the NE **fell 86%** from £4.9bn to £690m in the first six months of 2008 –Corpfin [corporate finance specialists]. (J 10/9)

In July, more than **six out of ten small businesses expect flat or negative growth** during the second half of 2008 as the credit crunch continues –Bank of Scotland's Small Business Confidence Index. Confidence dropped for the fifth consecutive quarter and was down by more than a third since May 2007. (J 28/7)

The number of **technology business failures** is **forecast to remain steady** –BDO Stoy Hayward. The number of business failures for the technology, media and telecoms sector is forecast to fall to 1,410 in 2008 (from 1,428 in 2007), rising slight to 1,428 in 2009 before falling to 1,356 in 2010, the lowest level since 1997. [BDO's Industry Watch report is available from [www.nebusiness.co.uk](http://www.nebusiness.co.uk)] (J 03/7)

[Note: Profits below are pre-tax unless stated otherwise – Ed.]

### 6.2 Energy & Water

**Eaga's profits rose 22%** to **£38.4m** in the year to May. Revenue at the Newcastle environmental services and energy efficiency provider rose 32% to £638.9m. (J 03/9) [It employs around 1,200 in the North East. (J 07/8)]

The **Centre for Process Innovation (CPI)** has been **awarded £432,000** by **One North East** to lead **North East Energy (NEE) 2015**. The new project to reduce the NE's carbon footprint is aimed at generating over £80m of investment over seven years. (J 08/7)

### 6.3 Biotechnology & Chemicals

**Cambridge Laboratories** secured a **seven-year exclusive deal** with a US partner to sell its *Xenazine* drug in the US. A similar deal was also secured in Canada. The Newcastle firm hopes to double sales to £50m in 2009. (J 19/9) [Xenazine is used in the treatment of chorea associated with Huntington's Disease -Ed]

**IDS** reported its **turnover rose 81%** in the year to end-March to **£18.66m**. The South Tyneside medical testing kit manufacturer intends to open subsidiaries in Canada, Spain and the Benelux countries. [IDS was Immuno-Diagnostic Systems] (J 15/7)

### 6.4 Mechanical Engineering

**Chieftain's profits** were **£1.07m** in the first half of 2008, up 40% on 2007. Turnover at the Newcastle engineering company rose 6% to £22.8m. (It currently employs around 800 staff) (J 5/9) [*Late News*: Chieftain has been sold for over £18m to Redhall –Ed]

Washington-based chemical processing company **PSL Worldwide** has **merged** with **Prelude Engineering** to form **PSL Prelude**. The merged business designs and installs plants for pharmaceutical, drink and dairy companies and is looking to expand operations in the US. (J 30/7)

### 6.5 Offshore, Shipbuilding & Ship Repair

**Wellstream's** half-year **profits rose** to over **£40m** after revenues rose by more than 80%. The Newcastle flexible pipeline manufacturer has an order book of £1bn and is valued at £1.2bn. (J 29/8)

### 6.6 Motor

**Nissan's Sunderland plant** has **started making** the **new** version of the *Qashqai* SUV model. The seven-seater model was due to go on sale in September. European sales of the original version topped 235,000 since its launch in March 2007. Nissan expects to produce 270,000 units in the 2008 financial year. **Nissan has developed a vehicle to run only on hydrogen** at its Sunderland plant. The *HyPower Nissan*, a converted Nissan *Almera*, was developed by Sunderland University's Institute of Automotive and Manufacturing Advanced Practice. (J 18/9, 22/8)

*Late News*: Nissan has stopped production on the Micra and Note for two weeks following falling orders. When production lines resume output they will run on an average of just three-day weeks and speed will be cut by 10% to slow output. The move is expected to affect around 800 employees at its Sunderland factory but wages will not be affected. (FT 21/10)

**Tanfield** is **considering further job cuts** and has **postponed plans** to build an **additional factory** in the NE after announcing profits would be lower than forecast. [Three-quarters of its sales are aerial access equipment –hit by the construction slowdown. It builds electric vehicles at its plant in Washington, Sunderland. It announced 30 job cuts at its Tanfield Lea plant in June] (J 02/7)

### 6.7 Electronics & Electrical Engineering

North Tyneside **Shepherd Engineering Services (SES)** has been **appointed** as M&E **contractor** on the **£10m Boho One** building in Middlesbrough, Tees Valley. It is the first building to be constructed on *Boho Zone*, its digital media, digital technologies and creative industries quarter. The 30,000sq ft

building will include air conditioned units, open wi-fi in public areas, high-speed communications, private multimedia meeting rooms and parking. (J 27/8)

## 6.8 Food & Drink

**Greggs' profits fell 3.2%** to **£13.8m** in the six months to end-July, despite a 7.7% rise in turnover to £276m. The company had been wary of increasing prices despite higher costs. (J 01/8) [The fall in profits is presumably due to the higher cost of energy and raw materials –Ed]

## 6.9 Printing & Packaging

**Rosewood Packaging** aims to **raise turnover** from £14m to **£70m by 2013**. The North Shields-based firm hopes to secure a further contract with Nissan to export car components. (J 14/7)

## 6.10 Other Manufacturing

**Saltwell Signs** plans to **increase sales** from £2.4m to **£4m by 2010**. The Team Valley (Gateshead) signage company is investing in new premises to accommodate an expanded fabrication department. It intends to take-on new staff to fuel growth plans. It recently secured a contract to provide signage for Newcastle United's extensive hospitality operations at St James' Park. (J 22/7)

## 6.11 Construction (including Housing)

The UK could **lose a third** of its 300,000 **house builders** if the credit crunch continues at its current pace –the National Federation of Builders. The Royal Bank of Scotland suggested that **if house prices fall 20%** by 2010, **up to 100%** of the **value of house builders' land banks** could be destroyed. (FT 08/7, J 12/7)

**Barratt** has struck a 'prudent' deal to **extend the repayment of £400m** of its £1bn+ **debt** and renegotiate its banking arrangements. The house builder is also shedding 1,200 jobs to cut costs. (J 11/7)

**Taylor Wimpey** made **£1.54bn losses** in the first half of 2008. The UK's biggest house builder had written off £586m from its UK land portfolio (16% of the total) as well as over £816m linked to goodwill recognised from the merger between Taylor Woodrow and George Wimpey in 2007. (J 28/8)

The Government has pledged **£10.8m funding** to build **new flats** in the North East in order to enable the **elderly** and those with **dementia** and long-term conditions to live in their own homes. Allocations so far include a development at Dorset Avenue, South Shields (£3.5m), a project at Linskill, North Tyneside (£2.8m) and the Racecourse Extra Care Scheme in Sunderland (£1.4m).

**Newcastle Council** is the **first authority** in the country to **buy [new] houses from developers**. It is working to complete the first of a series of planned deals with developers by mid-late October. The homes will then be available for affordable rents. Funding is being finalised with £200m made available nationally from the Government to buy unsold new homes. (J 29/8)

Newcastle central heating business **Fenhams** has **agreed** to be **bought-out** by **Southern Bear** for a deal worth up to **£7.5m**. Fenhams employs around 190 staff with annual sales of around £8m. It specialises in the installation, servicing and maintenance of central heating systems. (J 08/8)

## 6.12 Retailing

**ScS opened new stores** in Nottingham and Cardiff just **three months** after being **rescued** from **administration**. The Sunderland firm was bought out by US investment group Sun European Partners for an undisclosed sum after placing itself in administration. ScS made a pre-tax profit of £7m in 2007, but is expected to make a loss this year after being hit by the credit crunch and declining housing market.[ScS employs 1,300 staff, including over 200 in the NE] (J 04/7, 27/9)

**Berghaus** has revealed **plans to open 400 new stores** across **Asia**. The Sunderland outdoor clothing and equipment company intends to reach sales of £100m by 2012. (J 12/8)

Discount supermarket **Aldi** reported **sales rose 44%** in July, up 25% over the year. The rise has been linked to the continuing economic downturn, as shoppers seek value-for-money options and discount shopping. (Aldi has 377 stores in Britain, including 20 in the North East) (J 01/9)

### Motor Retail

**Pendragon's profits fell** by almost **60%** to **£13.4m** in the first half of 2008. The motor dealership has seen 'unexpected and significant' falls in used car prices since its last update in June. The company, which acquired Sunderland-based Reg Vardy in 2006, has already cut 500 jobs this year. It employs over 5,000 staff in the North East. (J 29/8) In July, **Pendragon** warned it **will not be able to forecast profits** for the year due to an unpredictable market and falling new car registrations. It previously cut 500 jobs nationally in order to cut costs. (FT 01/7)

Benfield Motors' parent company **Addison Motors** posted a **52% rise in pre-tax profits** to **£3.8m** in **2007**. Across the UK, new and used car sales fell 3% in 2007. In July, new car sales fell 13% compared to a year ago. There are 25 Benfield Motors dealerships across the region. (J 18/8)

**North East Volvo** has been **acquired** from Inchcape by businessmen **Bill Ward** and **Bob Nicholson** for **£7m**. The deal includes five Mill dealership sites, with two in Sunderland and Newcastle. They aim to increase turnover by over 15% to £70m within five years. (J 17/9)

## 6.13 Tourism & Hotels

**Monster Travel** plans to **double its projected £15m turnover** over the next **three years**. The Newcastle-based travel agency is looking to extend its range of destinations to cater for adventure holidays. (J 15/8)

**Sir John Fitzgerald's profits fell 92%** to **£0.3m** for the year to end-January, from £3.6m a year earlier. Overall sales at the pub and bar company rose slightly over the same period, up £0.8m to £18.4m. (It operates 23 pubs, bars and cafes across the North East) (J 04/9)

## 6.14 Culture & Leisure

*[There were no Culture & Leisure Announcements]*

## 6.15 Transport & Communications

**EasyJet forecasts a 40% fall** in pre-tax **profits** to **£110m-£120m** in the year to September [presumably largely due to higher fuel costs –Ed]. The low-cost carrier faced high fuel costs, adverse currency movements and a worsening economic climate. It carried 4.59m passengers in August,

900,000 (24%) more than a year earlier, with an average load factor of 91.3%. (FT 18/9, J 06/9) [EasyJet flies to 17 destinations from Newcastle Airport – Ed.]

**Flybe** plans to **launch seven new flight routes from Newcastle** to Hanover, Hamburg and Dusseldorf (in Germany), Bergen, Stavanger and Oslo (in Norway), and Stockholm (in Sweden). It also intends to add a fourth daily return flight to London Gatwick. The budget airline currently operates 22 daily flights out of Newcastle to 10 destinations throughout the UK and Europe. (J 09/9)

**Newcastle International Airport's** pre-tax **profits rose 79%** to **£17.7m** in **2007**, despite a fall in turnover of almost 1% to £46.8bn. However, total cost for wages and payments to staff fell a large 43% over the same period to £10.7m in 2007. (J 01/8)

**British Airways** is to **merge** with **Iberia** pending approval from shareholders. BA already owns a 13.5% stake in Iberia, while Iberia recently bought a 2.99% holding in BA. Both airline brands will be retained. (J 30/7) [The merged firm would be in a better position to compete with Air France-KLM and Lufthansa (which took over Swiss Air in 2005). BA has a software centre in Newcastle –Ed]

**Go-Ahead** reported **record profits of £131m** for the year to June, **up 19%** from the previous year. Revenue at the public transport firm also rose 20% to £2.2bn. (Go-Ahead employs around 27,500 across England and has its financial base in Newcastle.) (J 06/9)

## 6.16 Financial Services

**Northern Rock** reported **half-year losses of £585.4m** but it reduced its borrowing from the Bank of England by £9.4bn to £17.5bn. The government agreed to turn £3bn of the repayments into new equity [shares]. (J 05/8)

**Newcastle Building Society's** pre-tax **profits** in the six months to end-June were **£8.5m, up 5%** on a year earlier. Its assets under management were £4.8bn over the same period, up almost 9%. Savings were almost £3bn, up 8%. (J 30/7)

## 6.17 Business Services

**Emax Outsourcing** aims to **recruit** nearly **2,000** call centre staff and more than **double sales to £20m** as it signs new clients. The company is based at Cobalt Business Exchange, North Tyneside. (J 25/9)

**Robson Brown** sales **rose 19%**, reaching **£28.9m** in the year ending February. The Newcastle PR and marketing agency expects to achieve sales of £31m in the current financial year, despite the current economic slowdown. (J 12/09)

**Nigel Wright Recruitment** has **opened** an **office** in **Copenhagen**, Denmark. It plans to open others in France and the Benelux countries. The Newcastle company employs 130 staff. (J 23/9)

**Sec-Tech UK** looks to **treble in size** by **2011**. The North Tyneside security firm has expanded into Dubai and secured a prestigious accreditation from the Security Industry Authority. (J 26/9)

**QGS Synergy** has been **placed** in **administration**. However, the Gateshead training company is continuing to trade and no job losses have been announced as yet. (J 14/7)

## 6.18 Software & Digital Industries

**Platform One** was awarded **£250,000** in funding from **NEL Capital** to fuel its **expansion programme** in the UK and overseas. The Newcastle firm, which was established by former Sage employees in 2003, develops software for online traders. (J 25/9)

**4Projects** has **established bases** in the **US** and **Canada** a year after a management buyout. The Sunderland software firm's revenues rose over 37% to £4.4m in 2007. (J 28/8)

**Advantex** is looking to **double its turnover** to **£4m** in **2009**. The Sunderland IT firm won a six-figure deal to carry out an IT upgrade at chipboard manufacturer Egger UK (in Northumberland). (J 10/7)

**OnePoint Systems** plans to **double in size** as it looks to **expand** operations in the **US**. The software company aims to increase production ten-fold and double its workforce within a year. It currently employs 12 staff in Washington, Sunderland. (J 31/7)

## 6.19 Public Services

**Newcastle University** has **opened** its **first overseas campus** in **Singapore**, the new Marine International Campus. 60 Singaporean students start at the new campus this September. It has four full-time resident staff, its own lecture theatre, study rooms and labs. (J 19/9)

## 6.20 Other Services

**Southern Cross** has **sold seven care homes** valued at £23.7m for **£20.7m** as part of plans to pay off a **£46m debt facility** by the end of October. The care homes operator will now rent the seven properties for £1.7m per year. It also sold off nine other homes for £31.1m in August. (J 05/9)

## 7.0 PUBLICATIONS AND RESEARCH

### 7.1 Tyne & Wear Research and Information Publications

TWRI published the following reports, available at [www.twri.org.uk](http://www.twri.org.uk)

**MSOA Claimant Count in Tyne & Wear** (EU 08/03 [2006] EU 08/04 [2008], Published 08/08)

An overview of claimant unemployment rates for Tyne and Wear, its constituent districts and current Middle Super Output Areas (MSOAs), calculated by TWRI. The estimated claimant count rates were produced by TWRI using the ONS Claimant Count and TWRI's estimates of the Economically Active Population. Available for May 2008 and May 2006.

**Unemployment in Tyne & Wear** (Monthly, EU 08/10, Published 10/08, £5)

This report shows how claimant unemployment has risen [by over 3,300] in the year to September 2008. It provides monthly unemployment indicators for Tyne & Wear districts, North East, GB and UK (includes claimant count, incapacity benefit claimants and ILO measure of unemployment) with claimant count statistics for Tyne & Wear wards.

TWRI has also conducted research into the housing market and the impacts of the credit crunch. It has also undertaken work for 'Economic Assessments'.

### 7.2 Research News from Other Organisations

#### Economic Inclusion

The **Centre for Economic Performance** at the London School of Economics published a number of reports, including the following on 'NEETs';

**Idle Youth? It's Bad, but Maybe Not as Bad as You Think** (Dr. Barbara Petrongolo, Centre for Economic Performance. Published August 2008)

This report compares and assesses alternative measures and definitions of Not in Employment, Education or Training (NEET). It considers the rates provided by each definition and suggests that recent media reports of NEET data have been based on a misreading of the data as the NEET rate for 16-17 year olds is closer to official government figures.

#### Innovation in Industry

The Northern Way is completed a number of projects, including the following (available from [www.thenorthernway.co.uk](http://www.thenorthernway.co.uk));

**Northern Way Innovation Programme:** Delivery of technical studies to determine opportunities which exist in the following technology areas where the North has research excellence and industrial capability:

- a) Northern opportunities in the emerging bio-refinery sector.
- b) Biopharmaceuticals Business Hub
- c) Development of Northern supply chain in Printable Electronics
- d) Development of a Northern supply chain in Offshore Wind Turbines
- e) Carbon capture and storage network
- f) Facilitating collaborative R&D in the creative and digital sector

**Northern Innovation Assets ("Jewels in the Crown"):** Companion piece to the OECD report on Innovation Systems to highlight the approach of the Northern regions to creating place-based innovation capacity, highlighting key centres of excellence.

The **Northern Way** is also working on a number of other projects, including the following;

**Absorptive Capacity of Innovative Places:** Potential for follow up work with NESTA on the recent study on absorptive capacity of the UK regions. Would provide a detailed, micro level study of the innovative capabilities of the North at firm / institutional level (complement the macro, systems based study undertaken by the OECD)

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### **Labour-Market Migration**

The **IPPR** has published a number of reports, including the following (available from [www.ipprnorth.org.uk](http://www.ipprnorth.org.uk));

**Your Place or Mine? The local economics of migration** (Max Nathan, 31pp. Published September 2008)

This working paper is the first from ippr's Economics of Migration project. The project aims to improve understanding of the economic impacts of migration in the UK, and how policy should respond to that migration in order to maximise its economic benefits, and minimise its costs.

This working paper makes clear the variety of ways in which migration may have affected local firms and economies. While some impacts of migration – such as filling local skills gaps – are quite visible, migration also affects local economies in less noticeable ways, such as by boosting local markets. The paper brings these out, and underlines the importance of looking at migration's longer-term impacts in local areas, as well as its short-term effects.

The **NEPHO** (North East Public Health Observatory) also published a number of reports, including the following (available from [www.nepho.orf.uk](http://www.nepho.orf.uk));

**New arrivals in North East England: mapping migrant health and NHS delivery** (Elaine Rodger, 48pp. Published June 2008)

The North East England is the smallest and least diverse of the nine English regions. Since 1999 it has received more than ten thousand asylum seekers, several thousand migrant workers; and growing numbers of overseas students. The NEPHO commissioned this report in 2007, in the light of the increasing range of migrant groups and following NHS changes. The report describes who the North East's new arrivals are, the numbers that have arrived since the late 1990s, the areas in which they are living and the regional infrastructure there to support them. It considers their health needs, current service provision and commissioning arrangements. A summary short report is also available.

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### **Northern Futures**

The Northern Way is currently working on a number of projects, including the following;

**Opportunities and Challenges: The Future Economic Environment:** Project to build on the work done by Yorkshire Futures to develop a single extensive 'futuring' project which looks at impact of key external [factors?] and identify impact on the north, identify resilience measures and opportunities for economic development.

**Mapping the Northern Economy:** Project to develop comprehensive map of the economy of the North of England which can provide a baseline for analysis drawing together a range of sources of existing evidence into a single statistical and geographical map of the North looking at it spatially, sectorally and demographically.

**Monitoring Change and Measuring Impacts:** Project to generate a report on the progress at the pan-Northern level based on the key Northern Way performance indicators. Also indicator development work with Priority Leads and the RDA research teams for tools that will measure the outcomes and impacts of the Northern Way's thematic priority interventions.

**Economic Analysis of Leeds-Manchester Connections:** Collaborative project with SERC (the new Spatial Economics Research Centre) to assess;

- The economic opportunities which could accrue from closer links, both to the cities and other Northern territories (and indeed the wider UK)
- Risks, either in terms of potential for congestion, impacts on the economy of one of the two centres, or impacts on surrounding territories
- The potential for public policy to stimulate and encourage such relationships, should it be seen as ultimately desirable

**City Links:** Project to explore complementarity (complementarity *sic*) and spillovers between northern places and look in detail at the possibilities for achieving higher levels of mutually supportive economic development around the Northern cities of Leeds, Manchester, Sheffield, Newcastle and Liverpool. Based on methodology developed by Paul Hildreth (SURF).

**The Economic Contribution of the North's Rural Area:** A workshop to bring at its first meeting the IRS working group identified further thinking about the economic contribution of the North's rural areas as one of potentially common interest to the three RDAs. This project will use a workshop to assemble the current evidence base on this issue from a range of sources

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## Skills

The **Learning and Skills Council** has published a number of reports (available from <http://www.lsc.gov.uk/regions/NorthEast/Aboutus/strategic-analysis>);

### Regional Strategic Analysis 2008

The Regional Strategic Analysis provides the evidence to inform decisions about the LSC's strategic priorities and the learning provision we need to commission from our providers in 2009/10. It takes the form of a comprehensive, high-level analysis of the LSC's learner data and a range of other sources which set the learning provision we fund within the North East context.

### Level 2 and Level 3 at age 19 in 2006/07: Key findings:

Summarises the latest figures on Level 2 and Level 3 attainment by age 19.

### Qualification levels of adults in the North East

Explores the characteristics of adults in the region, according to the level of their highest qualification.

### First Level 2 qualifications among adult learners in the North East

Looks at the evidence on prior qualifications of adult learners, and assesses the extent to which they're undertaking first Level 2 and Level 3 qualifications.

### Lone parents in the North East

Provides a brief overview of the number and characteristics of lone parents in the North East.

### Incapacity Benefit claimants in the North East

Looks at the key characteristics of Incapacity Benefit claimants in the region, and considers the aspirations and needs of those who might be re-engaged in the labour market.

### **National Employer Skills Survey 2007: North East analysis**

Provides detailed regional analysis of the National Employer Skills Survey 2007, covering recruitment demand and recruitment difficulties, skills shortages and skills gaps, investment in training and development, and recruitment of young people.

### **Sector Skills Needs Matrix 2008**

Presents key statistics to illustrate the nature and scale of skills needs in the North East by sector and occupation, using a consistent set of indicators for each sector to allow the needs of different sectors to be easily compared.

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## **Regional Economic Conditions**

NERIP has published a number of reports, including the following (available from [www.nerip.com](http://www.nerip.com));

**Quarterly Economic Summary: September 2008** (Rebecca Hulbert, NERIP, 14pp. Published September 2008)

An up to date summary of economic issues for the North East. This report is produced each quarter by NERIP and includes information about trends in the labour market, economic output (GVA), business stock, house prices and so on. Data is extracted from ONS, CLG, the North East Business Barometer and the EEF Engineering Outlook.

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## **Urban Policy Evaluation**

The **European Institute for Urban Affairs** has published the following report;

**Mid-Term Review of Sunderland Arc** (Professor Michael Parkinson, 48pp. Published July 2008. Available from [www.sunderlandarc.co.uk](http://www.sunderlandarc.co.uk))

This report reviews the objectives and progress of Urban Regeneration Company (URC) Sunderland ARC since its establishment in 2002. It covers the Arc's key projects; activity, expenditure and outputs; impacts, changes and challenges facing Sunderland; the overall performance of Sunderland Arc; and the future of existing partnerships and options for regeneration.

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## **Wider Regional Economy – 'Innovation Systems'**

The **Organisation of Economic Co-operation and Development** has published a number of reports, including the following;

**OECD Reviews of Regional Innovation: North of England, UK** (Karen Maguire, Andrew Davies and Brunella Bosselli et al, SourceOECD, 246pp. Published 2008)

This report reviews how both national policies and regional strategies support innovation in the North and how these efforts could be improved. It simultaneously recognises the position of the North of England as a historic centre for innovation in transport, computing and in-vitro fertilisation, and the need for the region to adapt in order to 'catch-up' to more prosperous regions following massive losses in manufacturing employment.