
ECONOMIC REVIEW

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Note: J=The Journal, FT=Financial Times, BLS=Bureau for Labour Statistics (US), BSNE=Business Survey North East, DBS=Durham Business School, EC=Evening Chronicle, EcN=The Economist Newspaper, EN=European Newsletter, ESF= European Social Fund Website, Est=Eurostat, ET=Economic Trends, FED= New York Federal Reserve, HBOS=Halifax Bank of Scotland, HMCE= HM Customs & Excise, HMLR= HM Land Registry, LMT= Labour Market Trends; NBC=National Broadcasting Company (US), NECC=North East Chamber of Commerce NSO=National Statistics Online, NUA=Newcastle University Arches Alumni Association Magazine, 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

KEY POINTS:

Global economic growth is expected to **slow** over the next two years. The International Monetary Fund lowered its forecast to **3.7%** in 2008 and 2009 (from 4.1% previously). Growth is forecast to slow to **1.6%** in the **UK**, **1.4%** in the **Eurozone** and just **0.5%** in the **US**. (§1.1-1.2)

The **Bank of England** responded to the continuing credit crunch by introducing a **Special Liquidity Scheme** to help ease inter-bank lending. It expects to trade around **£50bn**-worth of liquid assets in the first few months in exchange for illiquid mortgage-backed bonds. (§1.2)

Banks have responded to the need to raise capital and strengthen balance sheets by launching rights issues. The **Royal Bank of Scotland (RBS)** and **HBOS** launched rights issues of **£12bn** and **£4bn**. (§1.2)

Consumer spending is to **slow** in 2008 and 2009. Growth in sales was strong in Q1 2008 but rising food and fuel costs are driving sharp increases in inflation. **Consumer Price Index** inflation rose 0.5pp to **3.0%** in April, its fastest rate for over five years. (§1.2)

UK house prices experienced the **first annual decline since 1996**, increasing the likelihood of falling demand and even more cautious lending. House prices are **forecast to fall 5%** in 2008 as property **sales fall by a large 40%** -Royal Institute of Chartered Surveyors. (§1.3)

Meanwhile, **net mortgage lending weakened** and **mortgage approvals fell to the lowest level since September 1997**. Mortgage lenders have been withdrawing many of their mortgage offers, as severe funding constraints mean that they are unable to meet demand for the most competitive deals. (§1.3)

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

In Q1 2008, reported **job gains (+2,402)** were exceeded by **losses (-3,806)** by a large -1,404 (all gains and losses from press reports). (§3)

The main **gain** was at **Nissan (+800)** in Sunderland, with the addition of a third production shift. Also, in Gateshead, **350** jobs were created by **Eaga** after it won a £500m contract with the BBC to provide digital televisions. (§3.1)

The major **loss** was announced by **Northern Rock**, which is to cut **2,000** jobs after it was taken into temporary public ownership. The majority of job losses are expected in Tyne & Wear. An additional major loss was from the **Department of Work & Pensions** which is to cut **1,200** jobs in Tyne & Wear as part of 12,000 job losses nationally. (§3.2)

Developments

In **Newcastle**, the **£40m extension to Eldon Square Shopping Centre** has **opened**. It adds 14 new stores covering 48,000sq ft of retail space [in the former bus concourse]. **Demolition** is also well underway at the redevelopment of **Old Eldon Square**, with a number of new stores due to open in 2010. (§5.2)

On **Gateshead's Quayside**, **Gateshead College** has **completed its relocation** to its new **£39m campus**. It accommodates 500 staff and 7,000 students. (§5.2)

In **Sunderland**, the first Olympic-sized pool in the NE, the **£20m Sunderland Aquatic Centre**, has **opened**. It includes a 10-lane 50m main pool, a 25m diving pool and seating for 500 spectators. (§5.2)

On **Newcastle Quayside**, the **Hanover Mill building** has **opened**. The **£30m** housing project includes 174 flats, five restaurants and a multi-storey car park. (§5.2)

In **Shieldfield, Newcastle**, the student accommodation block **Victoria Hall** is **nearing completion**. The **£25m** scheme will provide accommodation for over **440 students**. (§5.2)

On **Newburn Riverside**, Newcastle, **work has begun** on a **£36m** office and industrial development by Caddick Developments. 12 industrial units and two office buildings will be constructed on the 13-acre site, providing a total of 52,500sq ft of office space. (§5.2)

In **Gateshead and Newcastle**, Bridging NewcastleGateshead is to spend **£162m** on **'affordable houses'** and a further **£95m** on **home improvements** in 2008-2011. (§5.2)

In **Sunderland**, a 33-storey building is **planned** by Thornfield Properties as part of the **£150m regeneration** of the **'Holmeside Triangle'** It includes 150 apartments, shops, restaurants, cafes, bars and leisure facilities. (§5.2)

One NorthEast has been given **£255m** [grant] by the European Regional Development Fund to support innovation and business growth. It plans to create or secure around **28,500 jobs** over five years. (§5.2)

Industries & Firms

Northern Rock has been taken into **'temporary public ownership'** after the government rejected private-sector bids. The mortgage bank is to **halve its balance sheet** from £133bn and **curtail mortgage lending**. (§6.16)

Nissan is to build a **new** [compact SUV] **model** at its **Sunderland** plant from 2010 as part of **£55m investment** in the UK (as production of the Micra is moved to India). Nissan produced a record **353,000 cars** in Sunderland in 2007, 84% of which were exported. Its **global net profits rose** almost **27%** to £570m in Q4 2007, compared with a year ago. **Sales rose 18%** to **£12bn** after selling 900,000 vehicles worldwide. (§6.6)

Scottish & Newcastle has agreed a **£7.8bn takeover** by a consortium formed by **Heineken and Carlsberg**. S&N's pre-tax **profits** remained **flat** in 2007 at £444m but **revenue rose 8%** to £4,150m. (§6.8)

BAE Systems is to **invest £120m** over three UK sites after it agreed to continue to supply munitions to the MoD. Its ammunition factory in Gateshead is set to benefit from the deal. (§6.4)

Eaga Partnership has been contracted to deliver the Government's **'Warm Front Scheme'** for home insulation, a programme exceeding **£800m** in 2008-11. (§6.2)

House-builders in the North East have been **hit by the slowdown in the housing market**: Persimmon Homes **will not start work on any new sites** until the market improves. Barratt Developments, Bellway and Taylor Wimpey all reported **falls in profits**. (§6.11)

Newcastle University computer scientists are leading a **£13m European Union project** designed to improve the reliability of IT. The *Deploy* project will work across five sectors –transportation, automotive, space, telecommunication and business information. (§6.18)

Date: 3rd June 2008

1.0 ECONOMIC OVERVIEW

1.1 Global Economy:

Global economic growth is forecast to **slow** to **3.7%** in 2008 and 2009 as a result of the credit crunch –International Monetary Fund (IMF). The new forecasts are 1.25pp lower than growth in 2007. (BBC News 09/4)

US Economy

US economic activity remained weak in Q1 2008, but **growth was faster than expected**, slightly easing fears of a recession. **US annualised economic growth** was **0.6%**¹ in the three months to end-March, **unchanged** from the three months to December –US Department of Commerce. Growth was three times as fast as expected (0.2%). However, concerns remain; consumer spending, a key driver of growth, rose just 1% in Q1 2008. (BBC News 30/4)

The **US Federal Reserve lowered interest rates** by **0.25pp** to 2% in April, after a **second 0.75pp cut** in March. (BBC News 18/3, 20/4) [US interest rates have now been cut seven times since September 2007 –Ed]

The US is expected to **enter a ‘mild recession’** in 2008 –IMF. The US economy is **forecast to grow just 0.5%** in 2008, and will contract in the first half of the year. Economic recovery is expected to be slow, with growth of just 0.6% forecast in 2009. (BBC News 09/4) [A small boost to the US economy is expected in the third quarter as tax cuts are spent –Ed]

European Union

The **European Union** is likely to feel the **greatest impact** from the economic slowdown outside the US –IMF. Growth is forecast to slow to just **1.4%** in 2008 and **1.2%** in 2009. Germany, Europe’s largest economy, is forecast to grow by just 1%. (BBC News 9/4) [Europe is the biggest trading partner with the US. In the NE, the EU is the biggest export market, taking about 60% of the region’s exports –Ed]

Excessive **house prices** in **Spain, Ireland** and the **UK** are among the **most vulnerable** to an economic slowdown in Europe –IMF. House prices in these countries may be over-valued by up to 20%. (BBC News 9/4)

The **European Central Bank (ECB)** left the base rate **unchanged** at **4%** in May.

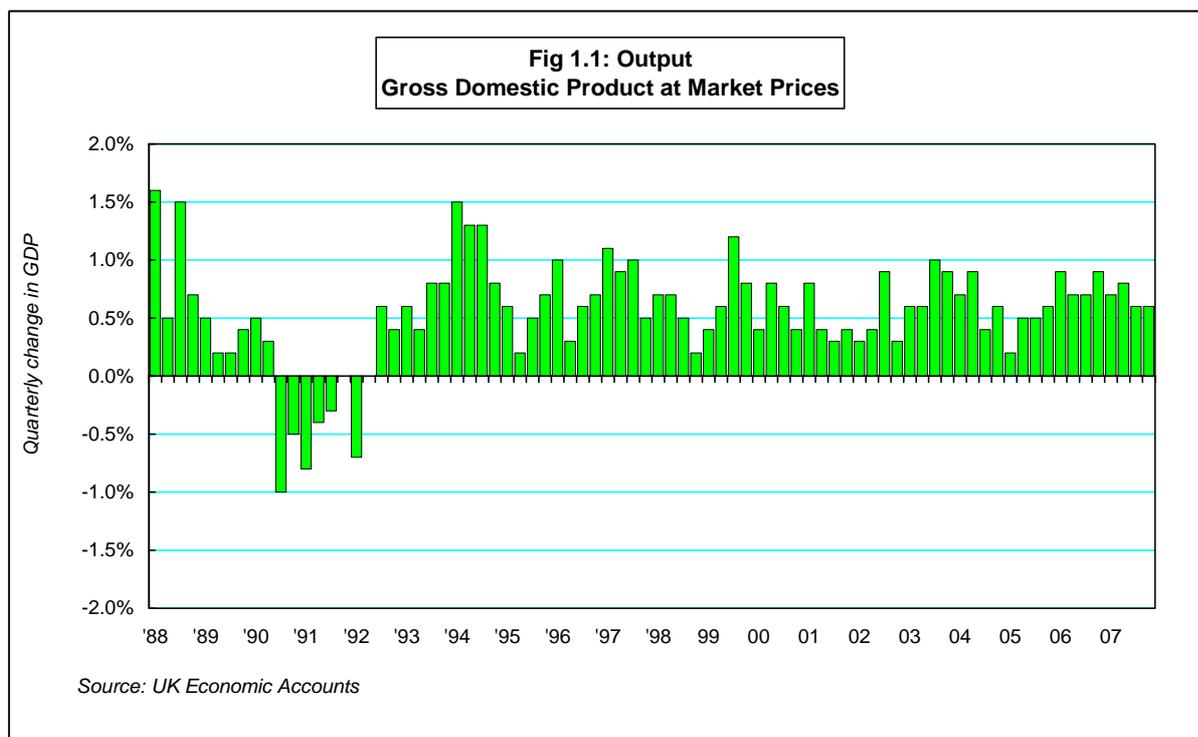
Euro-zone annual inflation reached a **record 3.6%** in March, up from 3.3% the previous month and above the 3.5% expected. It is now much higher than the ECB’s target of 2%. (BBC News 16/4) [This creates an awkward policy dilemma for the ECB. It seems likely to delay rate cuts until there are clear signs of inflation slowing, unless there is a large slowdown –Ed]

¹ Note: US official sources multiply quarterly growth by four to give ‘annualised’ rates.

1.2 Recent Economic Trends

Economic Growth

GDP grew 0.4% in Q1 2008, slowing one-third from 0.6% in Q4 2007. (NSO 25/4) GDP growth is expected to remain constant at 0.4% in the three months to April –National Institute of Economic and Social Research. It added ‘slower growth could emerge’ in May. (FT 08/5)



Output in both **production** and **service industries slowed** compared with the previous quarter:

Total **production output fell** 0.1% in Q1 2008, compared to 0.2% growth in Q4 2007. The slowdown was largely due to Mining & Quarrying output, although this was partially offset by strong growth in Manufacturing. (NSO 25/4) [The fall in Mining & Quarrying output was attributable to an unexpected fall in oil extraction following bad weather at a large oil field. The slowdown appeared more modest once this had been taken into account. (FT 26/4)]

Total **services output grew** 0.6% in Q1 2008, **slowing** only slightly from 0.7% in Q4 2007. There was slower growth in all service industry categories except for Distribution and Hotels & Restaurants. (NSO 25/4)

UK productivity grew 2.9% in 2007, **more than double** growth in the **EU-15** (1.3%) and **almost triple** growth in the **US** (1.1%) –The Conference Board. Its Executive Director added that it “probably was not sustainable”, particularly if the UK economy is more vulnerable than most to the credit squeeze, owing to its highly valued housing market. (FT 15/1)

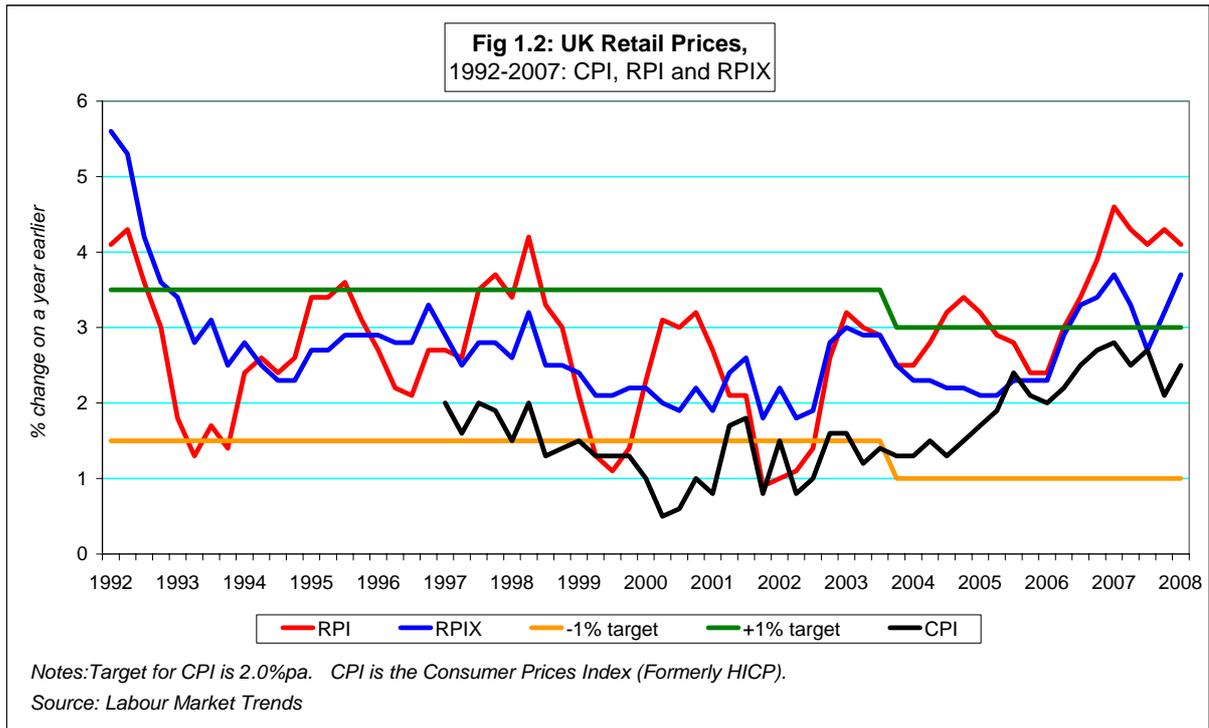
UK Inflation

Consumer Price Index (CPI) inflation was 3.0% in April, **up one-fifth** from 2.5% in March and February, the **fastest rate in over five years**. The largest contribution to the rise came from housing and household services following changes in the price of gas, electricity and heating oil. (NSO 13/5)

[In February ONS changed the way it calculates inflation to include gas and electricity rises from the day they were introduced.]

CPI inflation could reach **3.7%** in 2008 –Mervyn King, Bank of England Governor. Inflation is now just 0.1pp below the threshold at which Mr. King must write to the Chancellor to explain the rise. CPI is expected to **remain above 3%** into 2009 and may remain above the 2% target into 2010. (J 15/5)

Retail Price Index (RPI) inflation **rose** to 4.2% in April, up 0.4pp from March (3.8%) but up just 0.1pp from February (4.1%). [RPIX, which excludes mortgage payments, was 4.0% in April, up 0.5pp from March (3.5%) and up 0.3pp from February (3.7%).] (NSO 13/5, 15/4)



The **Bank of England left interest rates unchanged** at 5% in May. It has lowered interest rates three times in the last six months, down 0.25pp in April and February 2008 and December 2007. Interest rates had remained at 5.75% since July 2007. (FT 08/5)

Inflation remains high for producers:

Output price annual inflation ('factory gate prices') rose to **6.2%** in March, its **highest rate since 1991**. It had been 5.9% in February, after first reaching a 16-year high of 5.7% in January. The figures illustrate the inflationary pressures caused by higher oil prices and a weaker pound. (FT 11/2, 15/4)

Producers' input costs annual inflation rose to 20.6% in March, the **highest since records began in 1986**. It had been 19.7% in February. (FT 15/4)

The Credit Crunch

The **Bank of England** introduced a **Special Liquidity Scheme (SLS)** to ease lending between banks. It will allow banks to trade mortgages loans (made before the end of 2007) for short-term government bonds. The BoE expects to swap **£50bn** assets in the first few months, although analysts expect this will increase substantially as the scheme currently has no cap on its size. (FT 22/4)

[Note: The SLS does not transfer credit risk to the BoE. It will only accept as collateral high quality securities of mortgages issued before 2007 for a fee. These securities will be exchanged for roughly 70-90% of their worth in Treasury Bills. The asset swaps will be available on demand at any time over the next six months and will last for a year and, after renewal, for as long as three years. (EcN 26/4)]

Lenders' borrowing costs ['Libor' –London Inter-Bank Offered Rate] **rose to 6%** for the first time since December 2007. [The SLS may help to reduce Libor as the higher the inter-bank rate, the higher the fee that banks will have to pay to use the SLS, meaning large commercial banks now have a direct incentive to quote lower rates.] (FT 21/4, J 25/3)

Lenders reported a **reduction in the availability of credit** across the **full range of lending activities** in Q1 2008 –Bank of England. **30.7%** of lenders questioned had reduced the amount of **secured credit** available to households in the three months to March while **21.1%** had reduced the availability of **unsecured credit**. The reduction was based on a reduced appetite for risk and concerns over the housing market. (BoE Credit Conditions Survey, Q1 2008)

UK banks are under pressure to strengthen balance sheets which were exposed as fragile following losses in the sub-prime market. Banks have been forced to **launch rights issues** in order to raise additional capital. The **Royal Bank of Scotland** (RBS) announced a [UK-record] **£12bn** rights issue and dividend cut while **HBOS** launched a **£4bn** rights issue.

Late News: **Bradford & Bingley** have become the latest bank to launch a **£300m** rights issue. (FT 13/5) Meanwhile, Barclays has refused to rule out launching a right issue after it revealed a further £1.7bn of write-downs from the sub-prime market. (FT15/5)

Consumer Spending

Growth in retail sales volume was [surprisingly] **strong** in the three months to end-March. Retail sales volume rose 5.6% compared to a year earlier and 2.0% compared to the previous three months (the **highest rise since July 2006**, also 2.0%). Three monthly-growth was 1.8% in predominantly non-food stores, but 5.5% in non-store retailing & repair and 5.2% in other stores (which includes games stores, mobile phone stores and sports stores), the largest growth in the series. (NSO 24/4)

Annual growth was 2.9% for predominantly food stores, the highest growth in the sector since September 2006 (3.2%). It rose 6.2% for predominantly non-food stores and 18.5% in the non-store retailing and repair sector, the highest growth in the series. (NSO 24/4)

Consumer spending is forecast to slow as consumer **inflation** reached its **highest level in over a year** (see 'UK Inflation') –Mervyn King, Bank of England Governor. Rising energy bills, food prices and imports will put pressure on real take-home pay. (J 15/5)

Earnings

Average earnings remained subdued: including bonuses they **rose 4.0%** in the year to March, up from 3.7% in the year to February and 3.9% in the year to January. Average earnings excluding bonuses rose 3.8% in the year to March, unchanged from February and up from 3.7% in January. (NSO 16/4, 14/5)

Pay growth (including bonuses) in the year to March stood at 4.0% in the private sector and 3.8% in the public sector. Growth in both sectors had been equal at 3.7% in the year to February. Conversely, excluding bonuses, growth in the year to March stood at 3.7% in the private sector and 3.9% in the public sector. Both had stood at 3.8% in the year to February. (NSO 16/4, 14/5)

The basic rate of **income tax** dropped to **20%** in April (from 22%) following the 2008/09 Budget. The **10%** band has been **abolished**. (FT 12/3) [This will have redistribution affects, from low paid regions to higher paid regions –Ed]

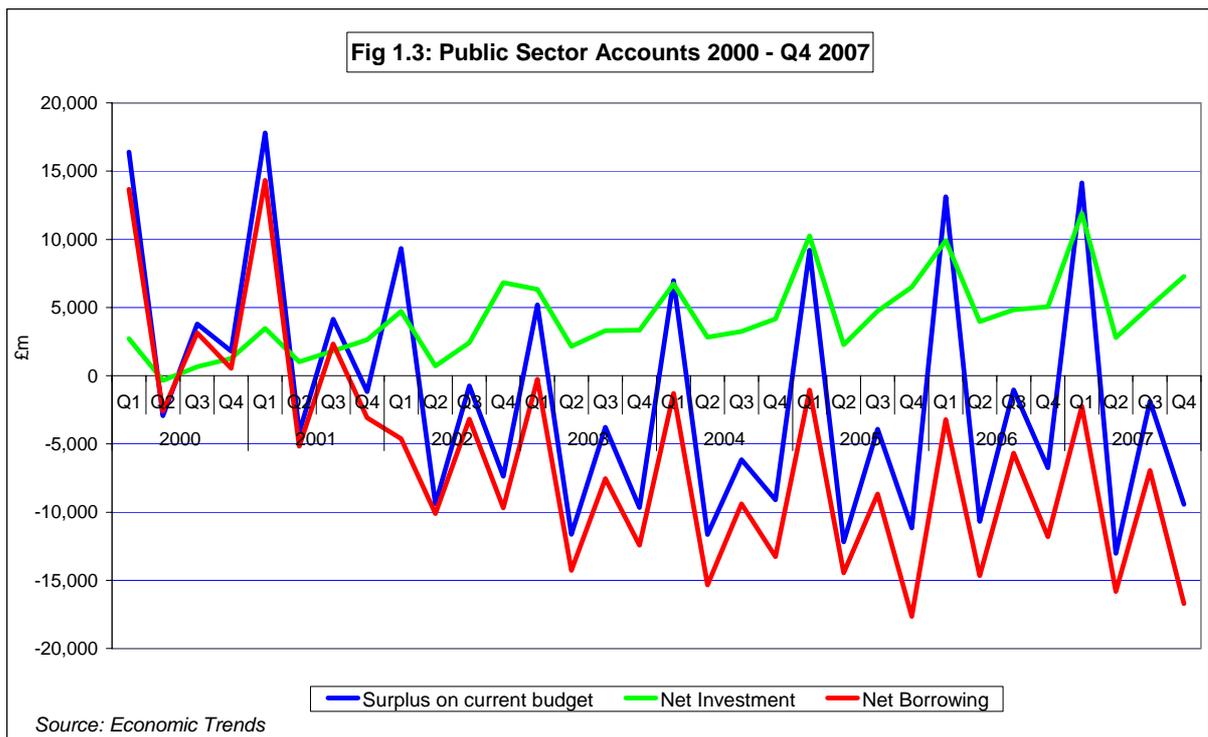
The **minimum wage** is to **rise 3.8%** to **£5.73** an hour from October. The rise is in line with the March increase in average earnings, but slightly lower than Retail Price Inflation. (FT 6/3)

Public Accounts

The **public sector current deficit** was **£7.6bn** in the 2007/08 financial year to March 2008, compared to £4.3bn at the same stage of the 2006/07 financial year. Public sector **net debt** was 36.7% of GDP at the end of March 2008, up just 0.1pp from 36.6% a year ago. The Budget forecast for the end of March 2008 is 37.1%. (NSO 18/4)

Government borrowing is forecast at **£36bn** for 2008, rising to **£43bn** (up £7bn) in 2009, **2.9% of national income** -2008 Budget Report. Borrowing is expected to peak in 2010/11 before falling to 1.3% of national income by 2012/13. (FT 12/3)

The **Government’s borrowing deficit** in 2007/08 will be **£8.8bn**, rising to £10bn in 2008/09 but falling to £4bn in 2009/10 -2008 Budget Report. A £4bn surplus is forecast for 2010/11, rising to £11bn surplus in 2011/12 and £18bn surplus in 2012/13. (FT 12/3)



Business Conditions from Surveys in Q4 2007²

North East conditions **weakened** on UK sales and orders, but **strengthened** on exports.

The balance³ of UK sales **fell by just under one-third**, down from 28% to 19%. In contrast, the balance on export sales **increased** more than five-fold, up from 1% to 5%. **UK orders weakened**

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

significantly, from 23% to 17%. Export orders increased almost ten-fold, from less than 1% to almost 7%.

The **employment balance fell** from 20% to 14% reporting a rise (in the past three months) –but **rose forward-looking**, from 23% to 30% planning an increase (in the next three months).

Business indicators for just Tyne & Wear **weakened significantly** for **UK sales and orders**, but **strengthened sharply** for **export sales and orders**. UK sales balance fell 12pp, from +28% in Q4 2007 to +16% in Q1 2008. Likewise, UK orders fell from +23% to +18%. In contrast, export sales rose 10pp from 0% to +10%. Moreover, export orders grew an impressive 13pp, from -1% to +12%.

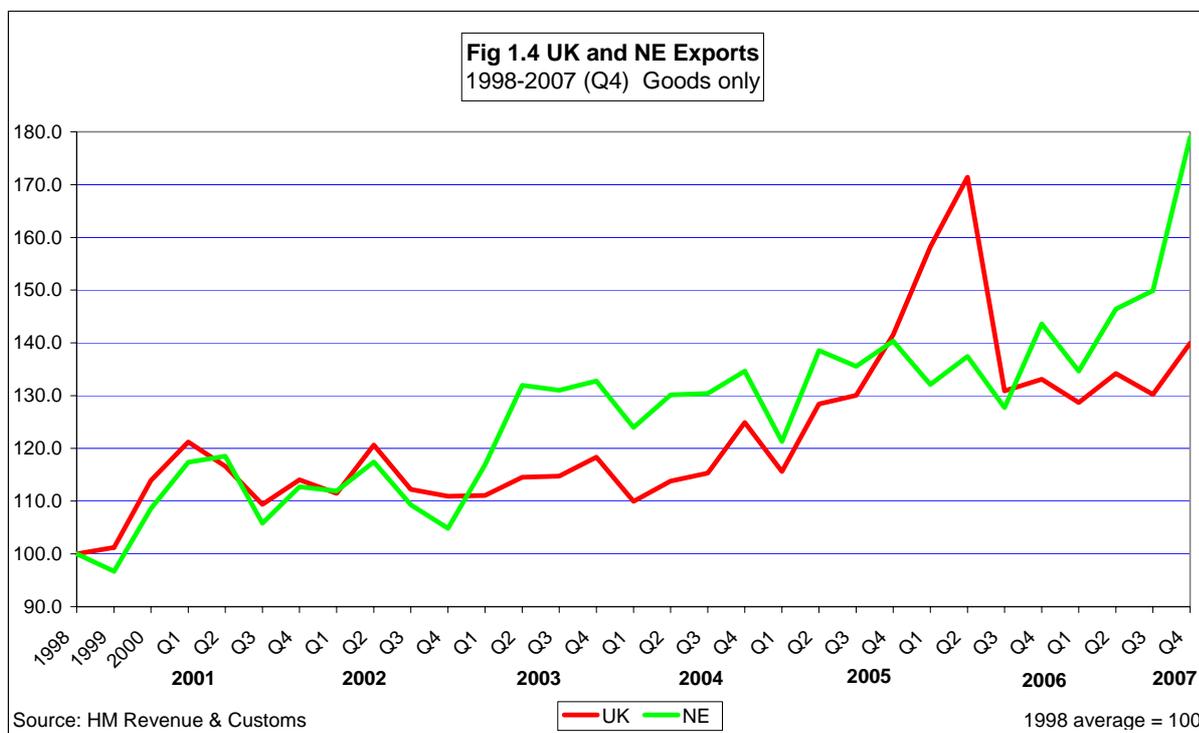
In contrast to previous quarters, the **employment balance fell by over half** but **rose forward-looking**. The employment balance fell by more than half, down from 22% reporting a rise (in the previous three months) to just 10%. The proportion planning an increase (in the next three months) rose by over one-quarter, from 19% to 24%.

UK Manufacturing

UK manufacturing activity slowed in April, as new orders declined. The index of manufacturing activity fell to 51 in April, from 51.3 in the previous two months. (Chartered Institute of Purchasing & Supply and NTC, FT 04/3, 01/5) [A reading of 50 would indicate that the sector was stagnating –Ed]

Exports

The **North East continues to perform very much better than nationally on exports –at least up to Q4 2007**. North East exports **grew a massive 25%** (£504m) to £2.8bn in Q4 2007 compared to Q4 2006. In contrast, UK exports rose 5% (£2,806m) to £57,467bn in Q4 2007 compared to a year earlier. (Table 1.1) HMRC March 2008)



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

Table 1.1: Exports, UK and NE, 2002- 2007 (Q4). Goods only

Exports*	UK (£m)	Q1 1998=100	NE (£m)	Q1 1998=100
2002	186,978		6,938	
2003	188,382		8,018	
2004	190,548		8,122	
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
2005	211,756		8,379	
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
2006	243,821		8,460	
Q1 2007	52,849	128.7	2,106	134.6
Q2 2007	55,116	134.2	2,290	146.4
Q3 2007	53,487	130.2	2,345	149.9
Q4 2007	57,467	139.9	2,800	179.0
2007	218,919		9,542	

* 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;

Downturn in UK housing market gathers pace

UK house prices experienced the **first annual decline since 1996**. UK house prices in the **three months to April fell 0.9%** compared to a year earlier –Halifax. Nationwide reported a fall in house prices for the **sixth consecutive month**: its index fell 1.1% in April, taking annual change from growth of 1.1% in March to a decline of 1%. The decline is likely to increase the prospect of falling demand and even more cautious lending. (FT 30/4, 03/5)

House prices are forecast to **fall by 5%** in 2008 –Royal Institute of Chartered Surveyors (RICS). [Importantly] It warned **property sales may fall by 40%** in the same period as the credit crunch continues, having already fallen 32% on a year ago. According to DCLG figures, the largest annual fall in property sales to date was 26% in 1989. The decline forecast for 2008 could cut consumer spending by 8%. (BBC News 19/5)

Mortgage Offers Withdrawn

Mortgage lenders have been **withdrawing** many of their **mortgage offers**, sometimes at very short notice. Severe funding constraints mean that they are unable to meet demand for the most competitive deals. High [generally 100%+] loan-to-value mortgages have been withdrawn by all six banks offering the products, meaning the **market for borrowers without a deposit has practically dried up**. There are just 6,186 mortgages left in the market, under half the number available last August –Moneyfacts. (FT 23/2, 11/3)

Mortgage Approvals Fall over 40% and Repossessions Rise

Mortgage approvals for house purchase were the **lowest since September 1997** (when the series began) at 35,400 in March. This was down from 43,100 in February, and **down 46.2%** from a year earlier –British Bankers’ Association (BBA). Gross **mortgage lending fell** to £16.6bn in March, down from £17.6bn in February and down 14.7% from a year earlier. (www.bba.org.uk/ 23/4)

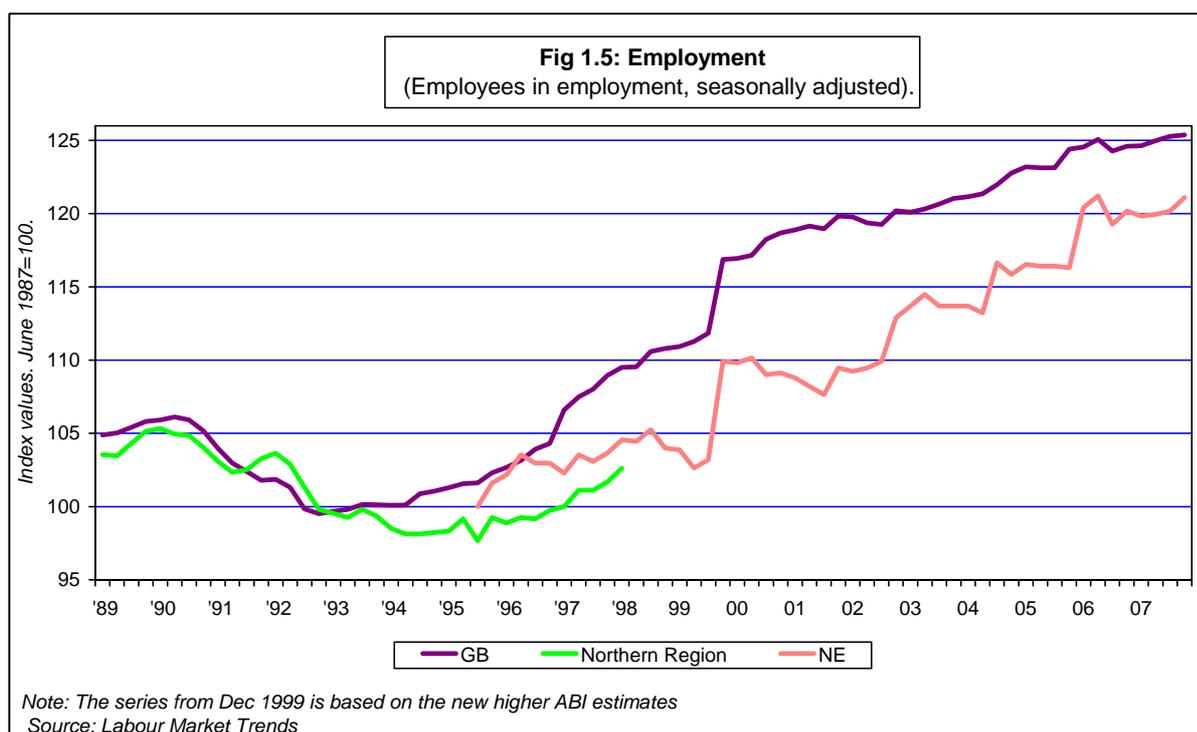
The number of **properties taken into repossession rose 21%** to 27,100 in 2007, the **highest figure since 1999** –Council of Mortgage Lenders. This represented 0.23% of outstanding loans, still under a third of the peak seen in 1991. (J & FT 9/2) [The CML refers to repossessions as ‘possessions’ – Ed.]

1.4m mortgages are considered ‘risky’ by the Financial Services Authority (FSA). Lending characteristics are considered risky if showing:

- Higher than the standard [3.5] loan-to-income,
- Higher loan-to-value ratios [than 90%], or
- Mortgages for longer than the typical 25-year period or for higher than average amounts.

840,000 [around 25%] mortgages taken out between Q2 2005 and Q3 2007 contained at least two riskier elements. 150,000 [around 5%] have all three. [Bank of England data shows that there were about 3.3m approvals for purchase during the period – Ed.] (J 30/1)

1.4 Labour Market Latest



In the three months ending March 2008 the **employment rate** for PWA⁴ in the UK was 74.9%, up 0.1pp from the previous quarter and up 0.6pp over the year. The *number* of people in employment was the **highest since comparable records began**, up 117,000 over the quarter and up 466,000 over the year (to 29.54m). (NSO 14/5)

In contrast to the UK, in the **North East**, the **employment rate** [in the three months to March 2008] was 70.4%, down -1.4pp from the previous quarter and down -0.7pp from a year earlier. (NSO 14/5) [The fall appears to have been sharper in the later months, as the employment in the three months to end February 2008 had been 71.0%, down just -0.6pp from the previous quarter and just -0.2pp from a year earlier. NSO 16/4]

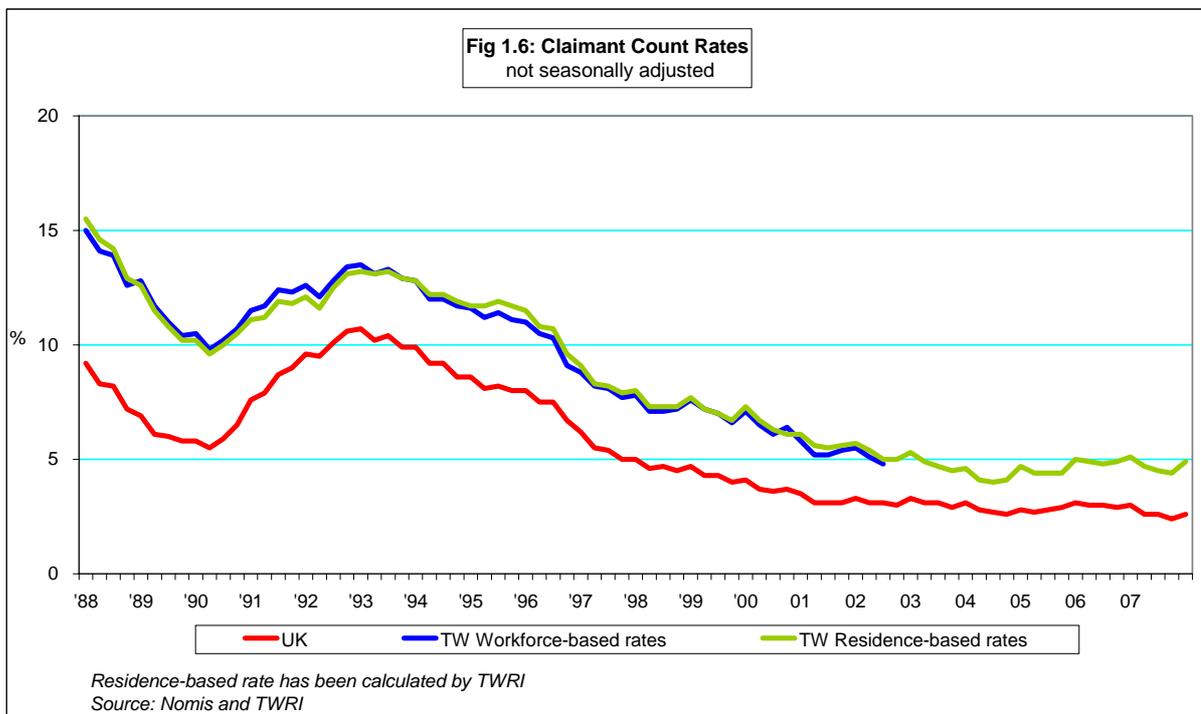
[both are from LFS, and seasonally adjusted]

The (ILO) **unemployment rate** in the **UK** for the three months to end-March was **5.2%, unchanged** over the previous quarter but **down 0.3pp** over the year. The *number* of unemployed people **rose 14,000** over the quarter but **fell -83,000** over the year (to be 1.61m). The quarterly increase in unemployment occurred almost entirely in men (NSO 14/5)

In the **North East**, the (ILO) unemployment rate (in the three months to end-March) was **6.3%**, up 0.7pp over the previous quarter but down -0.4pp over the year. (NSO 14/5)

Tyne & Wear’s (ILO) unemployment rate in the year to September 2007 was **6.8%** (34,000). This was again higher than the North East (6.5%) but by a relatively small 0.3pp. The unemployment rate in Tyne & Wear was 1.4pp higher than Great Britain (5.4%).

Tyne & Wear’s claimant count [unadjusted] in March 2008 was 4.9% (23,306, down -1,214 (-5%) on twelve months ago).



[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.]

⁴ People of Working Age (i.e. 16-59/64)

1.5 Labour Market Trends

Hiring of permanent staff fell in February for the **first time since May 2003** but the number of temporary appointments grew at its fastest pace for three months –KPMG/REC. This suggests that employers are **responding to uncertainty in the economy** by moving towards a more flexible labour force. (FT 5/3)

The number of **NE employers expected to make redundancies** in 2008 rose ‘sharply’ –Labour Market Outlook quarterly report, CIPD and KPMG. 42% of those surveyed planned to cut jobs in Q1 2008, compared to 38% in the UK overall. (J 13/2) (www.cipd.co.uk)

1.6 Future Economic Prospects

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

For 2008:

- **Economic growth** is forecast to slow to just 1.7%
- **Claimant unemployment** is forecast at 0.87m by Q4 2008
- **CPI inflation** is forecast to be 2.8% and **RPI inflation** to be 3.1%, both for Q4 2008.

For 2009:

- **Economic growth** is forecast to slow slightly to 1.6%
- **Claimant unemployment** is forecast to rise to 0.96m by Q4 2009.
- **CPI inflation** is forecast to fall to 2.1% and **RPI inflation** to fall to 2.4%, both for Q4 2009.

[Source: HM Treasury, May 2008]

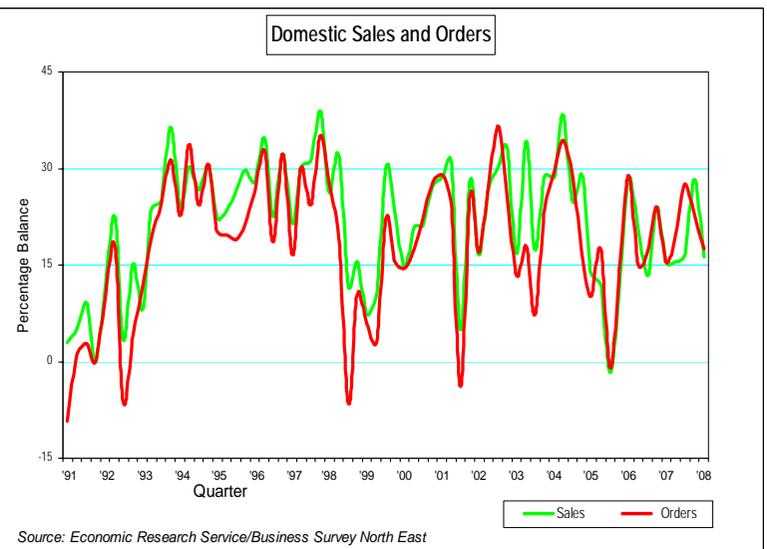
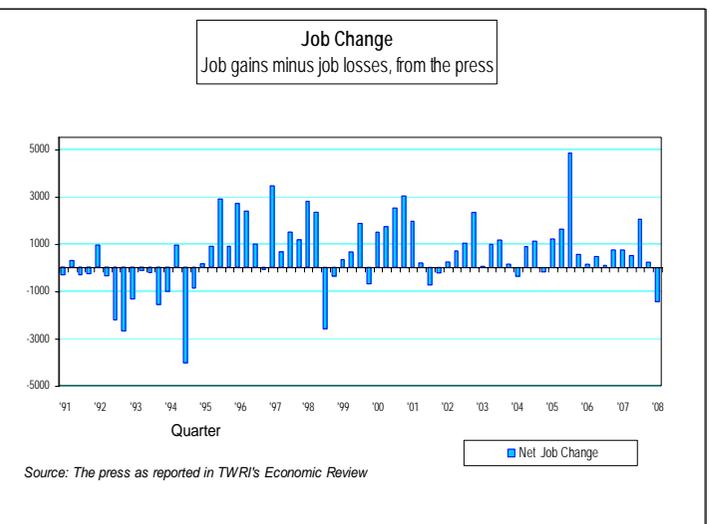
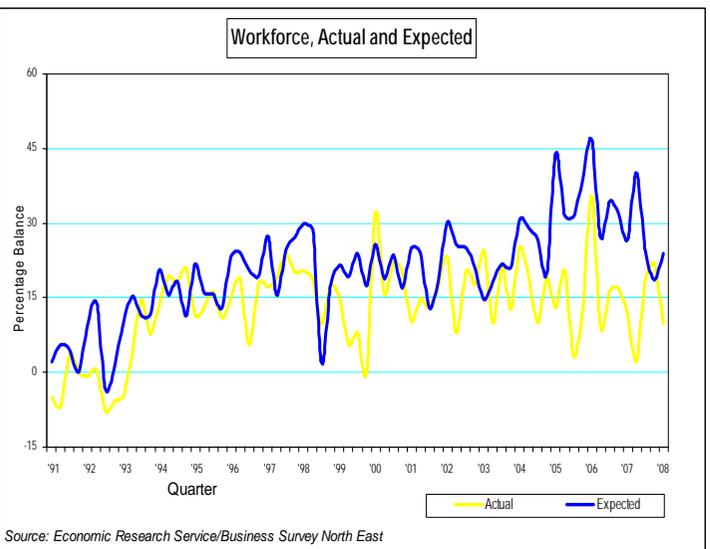
UK growth forecasts were lowered in the 2008 Budget Report to 1¾-2¼% in 2008 and 2½-2¾% in 2009, before returning to trend in 2010. (FT 12/3)

UK economic growth was forecast to slow even more sharply to just 1.6% in 2008 and 2009 –the International Monetary Fund. It expects the UK economy to be affected by a weakening housing market, the contraction of the financial sector and the impact on UK exports of weaker growth in the US and Europe. (BBC News 9/4)

The CBI forecasts that the UK economy will grow slightly more strongly than the consensus in 2008, 1.8% but weaken to 1.7% in 2009. The economy was previously expected to grow 2% and 2.1% respectively. The CBI also expects CPI inflation to peak at 3.2% in Q3. (J 25/3)

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					Change	
		Q4	Q1	Q2	Q3	Q4	Quarterly	Annual
Gross Domestic Product:		109.5	110.3	111.2	111.9	112.6	0.6%	2.8%
(chained volume indices at market prices)	(s.a.)							
Household Final Consumption	(s.a.)	£188,896m	£190,336m	£191,067m	£193,086m	£193,368m	0.1%	2.4%
Retail Sales volume (2000=100)	(s.a.)	132.4	132.9	134.6	136.7	137.5	0.6%	3.9%
Output: production industries	(s.a.)	98.9	98.8	99.7	99.4	99.6	0.2%	0.7%
services	(s.a.)	112.5	113.6	114.5	115.5	116.3	0.7%	3.4%
New Orders:								
Engineering	(s.a.)	NA	NA	NA	NA	NA	NA	NA
Construction (2000=100)	(s.a.)	115.2	119.5	131.6	115.3	119.0	3.2%	3.3%
Fixed Capital Investment								
Manufacturing (at 1990 prices)	(s.a.)	NA	NA	NA	NA	NA	NA	NA
Business Investment:	(s.a.)	£34,877m	£34,925m	£35,096m	£36,057m	£36,723m	1.8%	5.3%
Balance of Payments								
current account	(s.a.)	-£14,739m	-£17,088m	-£13,186m	-£19,063m	-£8,458m	-55.6%	-42.6%
INFLATION INDICATORS:		Feb	May	Aug	Nov	Feb	Change	
Retail Prices Index (All Items)		203.1	206.2	207.3	209.7	211.4	Quarterly	Annual
(Jan 1987 = 100)							0.8%	4.1%
Average Earnings Index:	(s.a.)	Jan	Apr	Jul	Oct	Jan	Change	
(2000=100)		129.4	129.8	131.5	132.7	134.3	Quarterly	Annual
							1.2%	3.8%

Sources: Office for National Statistics' Economic & Labour Market Review (May 2008)

2.3 Labour Market Indicators

LABOUR MARKET INDICATORS

EMPLOYEES IN EMPLOYMENT#

Not seasonally adjusted.

		2006		2007			Change	
		Dec	Mar	June	Sep	Dec	Quarterly	Annual
Total employees:	UK	27.135m	26.881m	27.030m	27.106m	27.321m	0.8%	0.7%
	North East	1.059m	1.047m	1.050m	1.053m	1.068m	1.4%	0.8%
Men employees:	UK	13.633m	13.482m	13.547m	13.629m	13.672m	0.3%	0.3%
	North East	530,000	524,000	521,000	525,000	533,000	1.5%	0.6%
Women employees:	UK	13.502m	13.399m	13.483m	13.476m	13.646m	1.3%	1.1%
	North East	528,000	524,000	528,000	530,000	535,000	0.9%	1.3%
Women full-time:	UK	7.068m	7.009m	7.018m	7.022m	7.073m	0.7%	0.1%
	North East	267,000	262,000	260,000	262,000	264,000	0.8%	-1.1%
Women part-time:	UK	6.434m	6.390m	6.465m	6.454m	6.573m	1.8%	2.2%
	North East	261,000	262,000	268,000	268,000	271,000	1.1%	3.8%
Production employees (C-E):	UK	3.096m	3.084m	3.084m	3.085m	3.076m	-0.3%	-0.6%
	North East	140,000	140,000	139,000	139,000	140,000	0.7%	0.0%
Construction employees:	UK	1.305m	1.250m	1.264m	1.308m	1.293m	-1.1%	-0.9%
	North East	63,000	64,000	63,000	68,000	72,000	5.9%	14.3%
Service employees: (G-Q)	UK	22.479m	22.307m	22.443m	22.473m	22.708m	1.0%	1.0%
	North East	843,000	832,000	836,000	836,000	845,000	1.1%	0.2%
		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

CLAIMANT COUNT

(Not seasonally adjusted).

		2007	2007	2007	2007	2008	Change	
		Mar	June	Sep	Dec	Mar	Quarterly	Annual
United Kingdom		.956m	.856m	.828m	.790m	.843m	52,000	-113,000
Great Britain		.930m	.832m	.804m	.768m	.818m	51,000	-112,000
North East Region		53,824	48,404	46,725	46,734	50,910	4,176	-2,914
Tyne & Wear		24,520	22,546	21,591	21,219	23,306	2,087	-1,214
							Change in rates:	
Claimant Count Rates (workforce rates) %:							Quarterly	Annual
United Kingdom		3.0	2.6	2.6	2.4	2.6	0.2	-0.4
Great Britain		3.0	2.6	2.6	2.4	2.6	0.2	-0.4
North East Region		4.6	3.9	3.8	3.8	4.1	0.3	-0.5
Tyne & Wear+		5.1	4.7	4.5	4.4	4.9	0.5	-0.2

REDUNDANCIES

(from the Labour Force Survey).

		2006	2007	0	0	0	Change	
		Q4	Q1	Q2	Q3	Q4	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
							Change in rates:	
Rates (per 1,000 employees):							Quarterly	Annual
GB		5.3	6.1	4.7	5.2	4.3	-0.9	-1.0
North East		*	*	*	*	*	n.a	n.a

Sources: ONS's Economy & Labour Market Review (May 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.

+ Residence based rates (TWRI).

x Redundancy Data (Numbers by thousands) GB and North East previously used has now been withdrawn

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). 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

(+ 2,402 announced in the press January 1st – March 31st 2008)

* means new opening

+ 800 (+ possible 400 in suppliers)	Nissan , Sunderland. (Motor Vehicle Manufacturer. It is adding a third shift to production in response to higher demand for its <i>Qashqai</i> model. 400 of the 800 are temporary, while a further 400 jobs are expected in suppliers to Nissan.)	(J 31/01, 01/02)
+ 350	Eaga , near Metro Centre, Gateshead. (Energy Efficiency Company. The Newcastle-based firm won a £500m contract with the BBC to provide digital televisions to 7 million homes across the UK as part of the Digital Switchover Help Scheme.)	(J 13/02)
+ 160	Dorin Holdings , Newcastle. (Construction Group. It is launching a housing arm and has secured some lucrative contracts. It is set to double turnover to £40m.)	(J 08/02)
+ 150 *	Hays Travel , Sunderland. (Travel Company. It has set up its first Hays Travel Cruise adjacent to its site in Sunderland. It aims to increase turnover by 20% to £368m.)	(J 30/01)
+ 100-150 (by 2010) (estimated)	The Engineering Business , Wallsend, North Tyneside. (Offshore Engineering Manufacturer. It is to double its workforce to 300 at its two sites in Wallsend, North Tyneside and Stocksfield, Northumberland by 2010. It has been acquired by Dutch shipbuilder IHC Merwede for £30m. EB expects to quadruple turnover to £100m by 2012.)	(J 11/03)
+ 125 *	Flybe , Newcastle. (Airline. It is establishing HQ in Newcastle and launched three daily flights from Newcastle to Gatwick from March 30. The jobs are set to rise to 1,000 when it hits its passenger target of 1m in 2010.)	(J 31/01)
+ 60-70	Twenty4help , Watermark, Gateshead. (Call Centre. The Gateshead-based firm plans to expand its client base after being acquired by French company Teleperformance. The jobs are part of 150 in the UK. It currently employs 550, 250 of whom are in Gateshead.)	(J 15/02)
+ 60 (by 2011)	ITPS , site currently unknown [Gateshead is the preferred location]. (IT Services Provider. It is looking for a new site, double the size of its current HQ at Waterside Drive, Gateshead. It expects turnover to double to £20m in three years.)	(J 24/03)
+ 55 (over 2 years)	Shasun Pharma Solutions Limited (SPSL) , North Tyneside. (Pharmaceuticals Firm. It is to expand its site in Dudley, North Tyneside, over 18 months. It is also opening a laboratory in New Jersey, US, as part of expansion plans.)	(J 18/02)

+ 50 (in 2008)	Kiso , Gateshead. (Kitchen Company. It plans to double its workforce in 2008. Its turnover was £1/2m in its first four months following £1m investment.)	(J 28/01)
+ 50	Nissan , Washington, Sunderland. (Motor Vehicle Manufacturer. Following the continued success of the <i>Qashqai</i> model, it is investing £5m and expanding its axle production shop at its plant in Washington Sunderland.)	(J 13/03)
+ 50	Spark Response , Follingsby Park, Gateshead. (Call Centre. It won a contract with Straight plc, a major supplier of recycling containers.)	(J 26/02)
+ 40	Frank Haslam Milan (FHM) , Sunderland. (Construction company. It has won a number of contracts and expects to increase turnover over 40% to £85m.)	(J 28/01)
+ 40 (by end-2008)	JT Dove , Newcastle. (Builders' Merchant. It plans to double turnover to around £70m by 2011. It currently employs 200.) [This seems odd, given the construction slowdown –Ed]	(J 20/02)
+ 40	Total Global Steel (TGS) , Sunderland. (Steel Trader. It will import and store steel for use in the construction industry after signing a 25-year lease at the Port of Sunderland. It is a subsidiary of Transglobal Holdings.)	(J 26/03)
+ 35 (by 2010)	Ethicalsuperstore.com , Newcastle. (Internet Retailer. It is in negotiations for £3m investment as part of plans to increase revenue to £40m in five years. The Newcastle company sells Fairtrade and eco-friendly products online.)	(J 20/03)
+ 30 (in three months)	Freedom Direct , Gosforth Business Park, North Tyneside. (Internet Holiday Retailer. It currently employs 120 staff at Gosforth Business Park.)	(J 12/03)
+ 30	Hodgson , Gateshead. (Car Dealership. It expects turnover to rise 20% to £70m.)	(J 15/01)
+ 30	QGS Synergy , Gateshead. (Training Company. It received £0.25m worth of investment to fund expansion plans.)	(J 24/01)
+ 20-30	Hays Travel , Sunderland. (Travel Company. The jobs are in IT and other support functions.)	(J 13/03)
+ 20	Newcastle Building Society , Newcastle (Building Society. It has taken on 20 management-level former Northern Rock employees. Its profits rose 52% to £17.6m in 2007. Its workforce rose 20% to 1,200 in the same period.)	(J 27/02)
+ 20 (by the summer)	Ged & Carole Stewart , North Tyneside. (Baggage Weighing Manufacturer. It has secured international financial backing to manufacture a baggage weighing machine. The first model will be launched at Bristol Airport. A total of 100 jobs are expected by 2011.)	(J 16/01)
+ 20 (over 12 months)	Brims , Sunderland. (Building Firm. The Sunderland-based firm aims to increase revenue ten-fold to £70m in five years after it won several large contracts. The jobs will double its current workforce.)	(J 15/02)
+ 15 * (poss. additional +10 in 2008)	Henson Motor Group , North Tyneside & Gateshead. (Motor Retailer. It has opened two 'car supermarkets' at Silverlink, North Tyneside and near the MetroCentre, Gateshead. A further 10 jobs could be created in 2008 as it plans to almost double turnover to £60m.)	(J 06/03)
+ 10-15 *	James Barr , Newcastle. (Property Consultancy. It opened a regional office in May.)	(J 13/02)

+ 12 (in 2008)	Recruitment Now , Gateshead. (Staff Recruitment Company. The jobs are at its temporary recruitment division.)	(J 26/03)
+ 10 * (additional +10 by the summer)	Moneygate , Boldon Business Park, South Tyneside. (Mortgage and Financial Advice Firm. It has taken on 10 staff and aims to recruit an additional ten by the summer. It is moving to a new 6,000sq ft HQ on Boldon Business Park.)	(J 07/02)
+ 10 (in 2008)	Houghton International , Walker, Newcastle. (Engineering company. It expects 25% growth over five years.)	(J 07/01)
+ 10 (in 2008)	Surgo , Newcastle. (Construction Group. It plans to increase turnover by 20% to £60m in 2008. It currently employs 200.)	(J 01/02, 15/02)

Potential Job Gains		
+ 140-180 * (estimated by TWRI)	Asda , across Tyne & Wear. (Retailer. It plans to create up to 9,000 jobs nationally. 7,000 jobs will be created over 12 months through new stores and extensions to existing outlets. A further 1,500 jobs will be created through the expansion of home shopping and delivery services. Asda has 345 stores in total, including 7 in Tyne & Wear.)	(J 21/02)
+ 120	Scottish & Newcastle , Dunston, Gateshead. (Brewery. It plans to close its Reading (in Berkshire) site and relocate up to a third of the plant's production to its site in Dunston, Gateshead. It recently accepted a £7.8bn takeover bid from Heineken and Carlsberg.)	(J 13/02)

Garlands in South Shields, **South Tyneside**, have **started recruitment** for the first **100 jobs** at its contact centre. It aims to recruit around 1,000 staff at its new site over three years. (J 02/01) [The 1,000 jobs were announced in Economic Review Autumn 2007].

Outside Tyne & Wear		
+ 5,500 *	PD Ports , Teesport. (Port Operator. Its plans to create a £300m deep-sea container terminal won Government approval: the Northern Gateway scheme will open up six times more capacity on the river and allow larger vessels to dock. Permission has been granted for a Harbour Revision Order to deepen the river channel. Between 1,300 and 1,800 jobs could be created in PD Ports, with an additional 5,000 in related businesses. 800 jobs are expected at a 1.2m sq ft import centre to be built at Teesport after it was given planning permission by Redcar & Cleveland Council.)	(J 22/02)
+ 500 (by 2013)	Esh Group , Durham. (Construction company. It aims to increase turnover by 65% to £250m. It currently employs 1,100.)	(J 23/01)
+ 400	Fusion , Peterlee, Co. Durham. (Call Centre. It moved to the former Orange site in 2007 and has upgraded it.)	(J 01/03)
+ 300 * (in 2008)	Benfield , North East & Yorkshire. (Car Retailer. The Newcastle firm expects to open up to six dealerships across the North East and Yorkshire.)	(J 27/02)
+ 300 * (in 2008)	Tanfield , unknown location in the North East. (Electric vehicle manufacturer. The jobs are part of a drive for growth. It aims to build a new factory to meet rising orders globally. The	(J 25/2)

	location of the site is not yet known. It currently employs 1,300 people globally, half of whom are at its Washington HQ.)	
+ 300 (by 2010)	North East Centre for Independent Living , Riverside Park, Middlesbrough, Tees Valley. (Charity. It plans to build a £15m centre at Riverside Park for NE entrepreneurs with disabilities.)	(J 05/05)
+ 160	Burdon Engineering , Stokesley Industrial Park, Tees Valley. (Engineering company. It is investing £20m on machinery at its new premises at Stokesley Industrial Park.)	(NE Vision Autumn 2007)
+ 150	AAG Swepeco , Stockton. (Electrical Manufacturer. It supplies and installs electric systems and renewable energy systems. It won contracts worth £2.6m in December-January, while turnover rose four-fold to £8m in 2007.)	(J15/01)
+ 100 (in 2008)	Bannatyne Group , Co. Durham & Darlington. (Retail & Leisure Group. The jobs are part of a £16m investment which includes two new health clubs, a new hotel, two hotel extensions and two new spas.)	(J 03/01)
+ 100	PWS Distributors , Sedgefield, Co. Durham. (Kitchen Component Manufacturer. It plans to open a £10m factory in Sedgefield.)	(J 02/02)
+ 57	Inviron , North East. (Building Services & Facilities Company. It secured £12m new business over the last 18 months and plans to increase turnover to £15m (from £12m) by the end of the year.)	(J 15/02)
+ 30	Paramount Windows and Conservatories , across the North East. (Windows, Doors & Conservatories Manufacturer. The Gateshead firm is opening further sites in the North East after it was recently bought out by three of its managers.)	(J 09/01)

3.2 Job Losses

(- 3,806 announced in the press January 1st – March 31st 2008)

* means closure

- 2,000 (over 3 years)	Northern Rock , Newcastle & Sunderland. (Nationalised bank. It is to cut a third of its workforce by 2011 in response to EU rules on state aid. 1,400 of the cuts will be in the first year. Although the location of the cuts has yet to be finalised, the majority of its employees are in the North East. [See also §5.16])	(J 18/03, 19/03)
- 1,200 (by 2011)	Department of Work & Pensions , across Tyne & Wear. (Government Department. It is cutting 12,000 (12%) jobs nationally by 2011. It wants to cut 5% each year from its spending to save £1.2bn. DWP employs 13,400 staff in the region.)	(J 01/3)
- 200 (in 2008/09)	Newcastle City Council , Newcastle. (Local Authority. It is facing cuts of £14m (around 3%) and estimates cuts of up to £39m over three years.)	NCC website (Jan 08)
- 126 *	Pennine Windows , North Tyneside. (Windows Manufacturer. It has gone into administration; just three jobs have been retained.)	(J 04/01)
- 60 * (TWRI estimate)	Cope Allman Jaycare , North Tyneside. (Plastic Manufacturer. Two of the three of the Jaycare factories are to close after it went into administration. Cope Allman Jaycare plans to keep around 80% of output and retain most of the 200 staff, although there will be an undisclosed number of job losses. 20 job losses were	(J 17/01, 18/03)

	announced in January. [TWRI estimates around 40 additional job losses based on loss of output]. [See also §5.9]	
- 60 *	Pendragon [Evans Halshaw and Stratstone] , Sunderland. (Car Retailer. It is to close two units (car showrooms) in Sunderland after profits fell 51% in 2007 and revenues remained flat at £5.1bn. It was hit by falling car prices, which followed rising interest rates.)	(J 21/02)
- 60 *	Sandcity , Washington, Sunderland. (Sports Goods Retailer. It plans to cut 60 jobs as part of plans to close its headquarters in Washington. It is to merge with Blacks Leisure's Freespirit operations in Northampton.)	(J 19/03)
-44	Capgemini , Newcastle. (Outsourcing firm. It is cutting 44 jobs at Longbenton as part of 450 job cuts nationwide. The cuts follow the decision by HMRC to cutback on its Aspire IT contract.)	(J 05/03)
- 30 *	PH Interiors , Gateshead. (Kitchen & Bathroom Fitter [Previously known as Pennine Home Interiors]. It collapsed with debts of around £200,000.)	(J 28/03)
- 26 *	Wilcomm , Sunderland. (House Builder. It collapsed following a lack of orders for its homes.)	(J 06/03)

Potential Job Losses		
- 66	Bellway , Newcastle. (House-builder. Its pre-tax profits fell 3.9% to £97m in the half-year to January as the slowdown in the NE housing market continues. It has issued redundancy consultation notices to its site staff and is considering job cuts.)	(J 15/02, 27/03)
- 35	Taylor Wimpey , Location not specified (House-builder. It is understood to be looking for redundancies as the slowdown in the housing market continues.)	(J 15/02)

Outside Tyne & Wear		
- 300 * (over 2 years)	GlaxoSmithKline , Ulverston, Cumbria. (Research-based Pharmaceuticals Company. The job cuts are part of plans to save £700m. It is struggling to compete with rivals as patents run out on its own-brand pharmaceuticals. It also employs 1,000 at Barnard Castle, Co. Durham.)	(J 23/02)

3.3 New Orders and Contracts to Local Firms

(At least £43.2m to local firms, plus unspecified construction contracts)

+ £40m	Wellstream , Newcastle. (Pipe Manufacturer. It has won another £40m contract to supply pipelines to Brazil-based Petrobras in 2008. It won orders worth £365m in 2007. It currently employs 500 and is also investing £35m in expanding its Walker site.)	(J 11/01)
+ £3.2m	DermaSalve Sciences , Newcastle. (Skin Care Manufacturer. The Newcastle-based firm has signed a five-year contract with Paris-based MG Advise for the supply of its skin creams in France. MG has placed a £3.2m order for 2008 and expects orders to rise 20% over each year of the contract.)	(J 08/01)

4.0 Features

4.1 Economic Slowdown –Effects in Tyne & Wear

TWRI estimates that TW's economic growth rate may slow to around 1-1½% in 2008⁵. Total employment in TW might be around 4,000 (nearly 1%) lower at the end of the year (than would have been the case).

In Tyne & Wear, the slowdown might be expected to be sharper because of the local **effects of Northern Rock (NR)**. Actually, the 2,000 planned job losses at Northern Rock amount to less than 0.5% of all jobs in Tyne & Wear.

The indirect effects of NR on consumption by households across TW might be more significant than that from its direct job losses. Say 80,000 households have lost £6,000 each from their shares in NR; this would be an aggregate loss of £480m. This amounts to about 3% of all [annual] consumer spending by residents of TW. This “wealth effect” can be expected to have a negative effect largely over a couple of years or so. Say two-thirds of this negative impact is on firms in TW.

An additional unknown variable is the effect of NR on *local consumer confidence*. It could well make households more cautious.

Clearly the **UK economy has begun to slow**. In the UK, economic growth is expected to slow to 1½% or so in 2008 – or little more than half that in 2007. The parts which have, so far, slowed most markedly include; housing transactions (down by almost half in April), and new house-building has already begun to slow. Parts of retailing have also slowed (notably related to housing transactions, such as furniture and carpets). Parts of financial services have slowed sharply; in London 40,000 financial services jobs might be lost (about 1% of all jobs in the capital).

On likely **job losses** in TW, TWRI expects that by the end of 2008, there could be (roughly) the following:

-1,400 from Northern Rock (directly).

-2,000 from construction (initially from house-building and then from commercial developments).

Some jobs will be lost in suppliers, such as brick manufacturers. Estate agencies can be expected to shed a proportion of jobs too.

There will also be some job losses from retailing (especially in housing-related activities) and other consumer services but this can be expected to widen out with time. As the ‘wealth effect’ and local consumer confidence have their impacts it is possible that consumer spending growth could slow from around 3%pa to about 1%.

The largest **elements of construction activity** in Tyne & Wear are probably in public investment (in hospitals and schools especially) and commercial developments (offices and retail developments). Housebuilding activity is only a minority of construction activity in Tyne & Wear (perhaps around a fifth by value). The rest of activity is made up of repairs, alterations and industrial building (which is low).

As a rule of thumb, it may be wise to assume between spring 2008 and mid-2009 around 2,000 job losses from each of financial services, construction and retailing.

On the other hand, there will be a stimulus from the weaker pound – mainly benefiting manufacturers, but also tourism from abroad. It is notable that Nissan has announced 800 additional jobs as it introduces 3-shift working.

⁵ This is not dissimilar to Cambridge Econometrics' forecast for the NE region of 1½% economic growth in 2008. Source: Cambridge Econometrics' Regional Economic Forecasts (Feb. 2008).

This slowdown can be expected to raise unemployment somewhat (perhaps by early 2009). At first, the impact of fewer jobs will be on employment rates. Out-migration to the rest of the UK may be slightly higher (but the gross flows may well be damped by lower housing market transactions/difficulty in selling homes). Slower international *in*-migration can be expected too (but perhaps by hundreds rather than thousands).

Fortunately, TW enters this period of turbulence on a relatively **high-growth trajectory**. TWRI has estimated TW's average annual economic growth rate over the four years 2001-2005 at 3½%. It slowed somewhat in 2006, but may have been growing at around 2½% or so in 2007.

Further consequential effects of the slowdown include an impact on the number of **businesses**⁶. TWRI expects the growth of the business base in TW to slow from over 2%pa to more like 1% in 2008. In recent years the construction sector has lead the growth of the business base in TW, but this can be expected to go into reverse for a period as construction activity falls.

Outlook for 2009: A Further Slowdown looks likely –despite the (dated) forecasts

The average of independent forecasts for 2009 (as in May) seems clearly on the high side; it is that economic growth will continue in 2009 (to 1.6%).

Note: the greater part of 10,000 jobs in TW *could* be lost in 2009. This is because there are now **three 'triggers'** which could each hit consumer spending hard in 2009;

- i) **Banks' spreads** have widened on their lending – partly to re-build their capital. If the spread on the average mortgage has widened by 1 percentage point this will cost households about £12bn pa.
- ii) **Oil price rises** eat into consumer incomes⁷. An extra \$30/barrel (eg the rise since autumn 2007 from \$90 to \$120) costs UK consumers about £10bn pa. Higher tax revenues (from the N Sea), however, provide some offset.
- iii) **Much lower net mortgage lending**; this is currently down by around 40% (or down by a huge £40bn if this continues for a year).

Together these triggers could reduce consumers' real income plus net borrowing in 2009 by around £40bn - or over 4%.

Caution: This scenario rests on the mortgage market not recovering (i.e. net lending continuing at around a third or more below the annual average of £100bn seen in recent years).

The hit to consumer spending could be as large as -3%⁸ (and thus -9,000 jobs in TW) – although this may be spread over longer than one year. This would be sufficient to reduce real growth of consumer spending almost to zero in one year (or halve it to around 1½%pa, if spread over two years).

In this scenario, in 2009, growth of TW's business base could slow to around zero.

This analysis leaves out the effect of falling house prices on consumer confidence and spending.

⁶ VAT registered businesses.

⁷ 'If oil remains close to its current level [\$135/barrel], it could well prompt the first recession in Britain since the early 1990s.' (Economist Newspaper May 31st 2008).

⁸ The RICS has suggested that the fall in consumer spending due to lower net mortgage lending could be -8% (BBC News 19/5). This would seem to require a £80bn (80%) fall in net lending, which looks unduly pessimistic.

4.2 Gross Disposable Household Income

The 2006 estimates of Regional and Sub-Regional Gross Disposable Household Income (GDHI) were released by the Office for National Statistics in May. The latest release includes revision to earlier years as well as provisional estimates for 2006.

Gross Disposable Household Income aggregates income from employees, self-employment, investment, rental or property income, pensions and benefits. Deductions are made for taxes on income and wealth (including council tax, motor vehicle duty), social contributions (national insurance contributions) and other outgoings (interest payments, rent, insurance policies, charity donations).

NE GDHI *per head* was £11,846 in 2006, up 3.4% from a year earlier (Table 4.1). Growth was the fastest among the UK regions and faster than UK growth overall (up 2.9% to £13,778 in 2006).

Table 4.1 Gross Disposable Household Income

	UK	North East	Northumberland and Tyne & Wear	Northumberland	Tyneside	Sunderland
GDHI per head (£)						
2005	13,390	11,462	11,568	12,776	11,411	10,686
2006	13,778	11,846	11,978	13,205	11,811	11,106
% Change	2.9	3.4	3.5	3.4	3.5	3.9
Indexed Values						
2005	100.0	85.6	86 *	95.4	85.2	79.8
2006	100.0	86.0	86.9	95.8	85.7	80.6

* This figure was only available rounded to whole digits

Source: ONS Regional and Sub-Regional GDHI Estimates, ONS Regional Statistician for the North East and ONS First Release, May 2008

Growth in the North East's sub-regions was led by Northumberland and Tyne & Wear, where GDHI per head rose 3.5% to £11,978 in 2006. Northumberland and Tyne & Wear has been moving closer to the UK average since 2001 and rose to 86.9 in 2006 (above the NE average of 86.0). However, indexed on the UK GDHI per head, Northumberland and Tyne & Wear is still ranked 35th out the 37 UK [NUTS 2] sub-regions, unchanged from 2005.

Growth in Northumberland and Tyne & Wear's sub-regions was led by Sunderland, where GDHI per head rose 3.9% to £11,106 in 2006, compared to 3.4% growth in Northumberland (to £13,205) and 3.5% in Tyneside (to £11,811). Despite the faster rise, NE GDHI per head relative to the UK remains lowest in Sunderland, at just 80.6 when indexed on the UK, compared to 95.8 in Northumberland and 85.7 in Tyneside. [In 2006, Sunderland ranked 124th out of the 133 UK NUTS3 sub-regions, up slightly from 126th in 2005. Northumberland ranked 52nd, unchanged since 2003.]

Tyne & Wear's aggregate GDHI was £12,647m in 2006, up 3.8% from £12,188m in 2005 [NE GDHI rose 3.6% to £30,276m in 2006]. TW's GDHI is equivalent to around 68% of GVA produced in TW [£17,907m in 2005].

North East GDHI was £30,276m in 2006, up 3.6% from £29,225m in 2005. The NE experienced employment growth of around 1%⁹ in 2006, which implies, in households with no employment growth, GDHI per head growth of roughly around inflation¹⁰.

⁹ Employment growth in the three months to February 2006 was 1.4% compared to a year earlier.

¹⁰ Consumer Price Index inflation was 2% in the year to April 2006. Retail Price Index inflation was 2.6% for the same period.

5.0 INVESTMENTS & DEVELOPMENTS

5.1 Investment & Development Trends

Total **returns** in the **commercial property** market **fell -3.6%** in the Q1 2008, half the fall in Q4 2007 (-7.6%, the **largest fall in its history**) -IPD. Capital values of UK commercial property fell -4.6% compared to -8.7% in the previous quarter. (IPD UK Quarterly Index Results, www.ipd.co.uk) Total **returns** are **forecast** to be **-2.6%** in 2008, compared with a positive return of 0.9% predicted three months ago – Investment Property Forum (IPF). Capital values are forecast to fall -7.8%. Rental growth is forecast to slow to only 1.1%, from a forecast of 2.4% last quarter. (FT 8/3)

The **North East [commercial] property market** is expected to be **turbulent** in 2008, but **growth should return** in 2009 –Mr Steventon, Director of Research, Atisreal. He predicted the UK would be the worst-performing market in Europe, but undersupply in the NE in some markets should maintain activity. Office supply in Newcastle remains limited, and prime rents are likely to rise as a result –Mr Gifford, Director of Investment. (J 20/2) In **Newcastle, office rents** are expected to **rise 4.5%** to £23per sq ft in 2008 –LSH property agents. The rise is slower than that in 2006 and 2007. (J 05/3)

Activity in the **UK construction industry** in January **fell** for the third consecutive month –property service firm Savills. 14.5% more construction firms saw a decline in activity than those who saw an upturn. (J 15/2)

5.2 Investment & Development News

Office Developments

In **Gosforth, Newcastle** [in front of the Regent Centre] **work has started** on construction of the new **100,000sq ft Regent Point** office development. The four-storey building will provide accommodation for around 1,000 people and is due for completion in spring 2009. (J 05/3)

In **South Shields**, on Westoe Road, **South Tyneside House** is to receive a **£1.2m refurbishment**. The four-storey former Co-op building will provide 20,000sq ft office space. (J 23/1)

At **Newcastle Great Park**, North of Tyne Primary Care organisations have agreed to **lease** 36,000sq ft office space at a reported **£18 per sq ft**. It is the first major commercial letting to be secured at the new £30m phase of development. More than 300 staff are due to relocate to the new building in July. (J 19/3)

Industrial Developments

[No Industrial Developments were announced, but see Newburn Riverside, below]

Mixed Developments

On **Newburn Riverside, Newcastle**, **work has begun** on a **£36m** office and industrial development by Caddick Developments. 12 industrial units and two office buildings will be constructed on the 13-acre site, providing [industrial units from 5,000 to 28,000 sq ft and] a total of 52,500sq ft of office space. (J 26/3)

On **Newcastle Quayside**, the **Hanover Mill building** has **opened**. The **£30m** housing project at the seven-storey former warehouse (formerly known as Mandale) includes 174 flats, five restaurants and a multi-storey car park. (J 11/1)

In **Sunderland**, a 33-storey building, the **‘Sprit of Sunderland’** is **planned** for the city. It is part of the **£150m regeneration** of the **‘Holmeside Triangle’** by Thornfield Properties. The tower would house 150 apartments, shops, restaurants, cafes, bars and leisure facilities. (J 06/02, Sd Echo 04/3).

In **Hebburn, South Tyneside**, a **consortium led by Tesco** is the **preferred bidder** for a **£40m redevelopment project** in the town centre. Proposals include demolishing the shopping centre, car park and the Newton flats and commercial properties in Station Road and Victoria Road West. The new development will include a supermarket, 200 homes (including 50 affordable units), a library, a gallery facility, a café and some retail units. (J 06/3)

In **Newcastle**, at the site of [the former] Newcastle Breweries, **Newcastle Business School** has agreed a **lease for 100,000sq ft** of the **Downing Plaza** development. The 22-year lease at **£20.50 per sq ft** is the largest ever commercial pre-let in Newcastle. The £200m, 600,000sq ft development includes 200,000sq ft office space, 462-bed student village, 200-bed hotel, 24 apartments, 20,000sq ft retail space and car parking. (J 20/2)

In **Newcastle**, the disused **St Michael’s Church** could benefit from a **£3m** project to turn it into a **community and enterprise complex**. The **Byker Centre project** aims to turn it into a community, conference, studio and office space. It has bid for a share of £30m funding under the Government Community Assets Fund. (J 13/3)

Housing Developments

In **Gateshead and Newcastle**, housing market renewal agency Bridging NewcastleGateshead is to spend **£162m** on **‘affordable houses’** and a further **£95m** on **home improvements** in 2008-2011. The 1,170 (390pa) ‘new’ [and replacement] homes announced equate to around 5% of the additions to North East housing stock set by the Regional Spatial Strategy (7,425 pa). (J 01/3) [In Gateshead and Newcastle, they could amount to around one-third of additions to the housing stock –Ed].

In **Gateshead**, over **2,000 homes** in **Bensham and Saltwell** are to benefit from a **major revamp**. The six-year project is part of a wider regeneration programme funded by Gateshead Council and Bridging NewcastleGateshead, which will see substantial new investment in existing properties, new housing, environmental improvements and better services. (J 07/2)

In **Gateshead and Sunderland**, house-builder Gladedale is **continuing work** on a **£45m** development programme to build 430 new homes in the North East. Projects in Tyne & Wear include a **£3.5m** development of **34** homes at Hepburn Gardens, Gateshead; a **£9m** regeneration initiative of **90** homes at Flodden Road, Sunderland; and a **£8m** regeneration programme of **72** homes in Neil Street, Sunderland. (J 28/3)

In **Shieldfield, Newcastle**, the student accommodation block **Victoria Hall** is **nearing completion**. The **£25m** scheme will provide accommodation for over **440 students** from both Newcastle and Northumbria universities. It has been built by Victoria Hall Ltd, part of O’Flynn Group. (J 12/3)

In **Gosforth, Newcastle**, the Newcastle upon Tyne Hospitals NHS Foundation Trust has **sold** the **Sanderson Hospital** site on Salters Road to George Wimpey. **Planning Permission** has been **granted** for the site, which will contain **48 houses** and **10 apartments**. Demolition is due to begin in summer 2008 with completion in 2010. (J 13/2)

Retail Developments

In **Newcastle**, the **£40m extension** to **Eldon Square Shopping Centre** (St George’s Way) has **opened** (in the former bus concourse). It adds 14 new stores [including a Waitrose, due in the summer] comprising 48,000sq ft of retail space and forms a [street-level] pedestrian link from Percy Street bus interchange to Blackett Street via Old Eldon Square. Work is also continuing on the

redevelopment of Old Eldon Square. Demolition is well underway and a number of new stores are due to open in 2010. (J 19/2)

In **Washington, Sunderland**, work has begun at **The Galleries** shopping centre. The **£3m** contract by Chester-le-Street-based Coupe Construction will see it develop **new outlets** and replace the nearby bus station. (J 14/3)

In **North Shields, North Tyneside**, the **Beacon Shopping Centre** has been **sold** to Baronsgate Estates for **£31m**, £4m below its asking price set in 2007. This appears to reflect the deterioration of the commercial property market in the second half of 2007. (J 12/3)

Leisure Developments

In **Sunderland**, the first **Olympic-sized pool** in the NE has **opened**. The **£20m Sunderland Aquatic Centre** has been earmarked as a potential training camp for the 2012 Olympics. It has a 10-lane 50m main pool, a 25m diving pool and seating for 500 spectators. (J 19/2)

In **Newcastle**, a **£15m Holiday Inn** is to be built on the **Newburn Riverside** regeneration site. The 155-room, six-storey hotel is due to open in 2010, subject to planning permission. (J 20/2)

In **North Tyneside**, the **Whitley Bay Playhouse** is being **renovated** in an **£8m investment**. Work is due to be complete in spring 2009. It is part of a £60m project to redevelop Whitley Bay's Spanish City area. (J 01/2)

In **Newcastle**, work has now begun on a **£1m Community Centre** in Ouseburn. Demolition has started on the old building at Mowbray Street. The centre is due to open in September and will include an area for children's activities, community café and main hall. (J 15/1)

In **North Tyneside**, **Tavistock Leisure** plans to **open a £1m hotel in Whitley Bay**. In **South Tyneside**, it is investing **£1m refurbishing** the former Douglas Tavern in **Hebburn**. It will also be seeking two more sites for new hotels in 2008. (J 10/1)

In **Whitley Bay, North Tyneside**, Spirit Group has submitted **plans** to build a three-storey, **40-bed hotel** next to the Foxhunter's pub at the north end of Preston North Road. (J 09/1)

Education Developments

On **Gateshead's Quayside**, **Gateshead College** has **completed its relocation** to its new **£39m campus**. It accommodates 500 staff and 7,000 students and includes a 200-seat theatre, state-of-the-art gym and dance studio, hair and beauty salon, library, business centre, car and bike park and public art. (J 12/2)

In **Newcastle**, **Newcastle College** has **invested £8.6m** in a new business centre, the **Sandyford Building**. Its focus is to provide real working environments for apprenticeships and offer comprehensive and bespoke training programmes to the business community. (NE Vision, Autumn 2007)

In **Newcastle**, at **Newcastle International Airport**, Newcastle College is being **advised** by Watson Burton on the creation of a **new Aviation Academy** building. The **£3.2m** scheme will combine activities from the two sites currently at Rye Hill campus and the airport, and is due to open in September. (J 20/2)

In **Wallsend, North Tyneside**, plans to create a **University** on the Riverside were **revealed**. The local authority is in discussions with several higher education institutions to further the scheme. (J 8/2)

Other Developments

At **Grainger Street, Newcastle**, **British Land** has sold **5,600sq ft freehold property** to developer **Hanro**. An earlier reported deal collapsed, as the buyer was unable to secure finance following the credit crunch. (J 20/2)

5.3 Economic Development Aid & Finance

Regional Development Agency **One NorthEast** has been given **£255m** [grant] by the **European Regional Development Fund** to support NE **innovation and business growth**. It plans to create or secure around **28,500 jobs** over five years, benefiting more than **3,000 new businesses**. This is expected to add **£1.1bn** [about 2¾%] to the NE economy by 2013. (J 15/2)

Knowledge House has been **awarded** a further **£1.79m** (for two years) from the **European Regional Development Fund** to **support local businesses**. [The organization works with all five NE universities, including Sunderland, Northumbria and Newcastle] (J 12/2)

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

Table 5.1 SFI in England: Offers of £75,000 or more (1 January-31st March 2008 ¹)

Company	District	£
Cope Allman Plastic Packaging Limited	North Tyneside	230,000
Ultimate Precision Engineering Design & Manufacture Ltd	Sunderland	150,000
Onyx Scientific Limited	Sunderland	80,000
	North East Total	5,546,000

Source: Department for Trade and Industry website (www.dti.gov.uk)

¹*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 **business start-ups** in the **North East rose 11%** in 2007, **the fastest rate of growth in the UK** –Barclays Bank. 15,600 new businesses were launched in 2007, compared with 14,000 the previous year. (J 18/3) [Figures are based on the number of new business accounts, not the number of VAT-registered firms]

The **number of insolvencies fell 0.6%** to 106,645 in 2007. The number of bankruptcies fell 8%, while IVAs fell 27%. The number of company liquidations rose 0.3% to 3,135 in Q4 2007, compared with the previous quarter. (FT 3/2) [These numbers are set to rise in 2008 – Ed.]

Business confidence in the NE has **fallen** since the start of the credit crunch –Lloyds TSB Commercial. The balance of firms expecting improved rather than worsening conditions over the next six months halved to 25% from 54% in July. The balance of firms reporting higher sales in the six months to end-2007 dropped over a third to 29% (from 45% in July) while the balance of those seeing bigger order books dipped to 33% (from 39%). (19/1)

Consumer confidence is at a **15-year low** –GfK NOP. The barometer of UK confidence fell for the seventh month running to -19 in March, from -17 in February. (J 29/3)

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

6.2 Energy & Water

Eaga Partnership has been contracted to deliver the Government's '**Warm Front Scheme**' for home insulation, an investment programme exceeding **£800m** in 2008-11. The Newcastle company also expects to carry out 16% of energy suppliers' new Carbon Emissions Reduction Target work, estimated at £2.8bn. Its revenues rose 44% in the six months to November. (FT 30/1)

British Gas' profits were £571m in 2007, up 500% from £95m in 2005. Ofgem launched an investigation as the announcement followed price increases of 15% for around 13m customers. (J 22/2)

6.3 Biotechnology & Chemicals

Scientists at **Newcastle University** have been given the **go-ahead** to create '**hybrid**' **human-animal embryos** to develop therapies for conditions such as Parkinson's Disease. Researchers will use the embryos to extract stem cells and grow tissue. The **one-year study** is set to ease the shortage of fresh human eggs for research. (J 18/1) [The human DNA will be inserted into animal eggs from which the DNA has been removed –Ed]

6.4 Mechanical Engineering

Rolls-Royce (RR) plans to **cut 2,300 jobs** (about 6%) from its global workforce. It wants to cut costs as a result of rising raw material costs and the weak dollar. About 60% of its workforce is based in the UK. (FT 12/1) [RR employs around 400 people at its plant in Sunderland – Ed.]

BAE Systems is to **invest £120m** over three UK sites after it agreed to continue to supply munitions "to the MoD. Its **ammunition factory** in **Gateshead** is set to benefit from the deal. [The future of employees at its Newcastle tank factory still rely on the MoD finalising plans for the Future Rapid Effects Systems programme of military vehicles –Ed] (J 22/2)

EADS won a **£35bn** deal to supply 179 in-flight refuelling tankers to the US air force. It includes the procurement of around 15 Airbus A330 jets per year, and service and support revenue between 2009 and 2020. BAE Systems is set to be a major beneficiary. (FT 03/3) [It is not yet clear whether any components will be made in Tyne & Wear –Ed]

6.5 Offshore, Shipbuilding & Ship Repair

SMD opened a new **£1.75m office development** at its Turbinia site in **Wallsend, North Tyneside**. A total of £2.75m has been spent redeveloping the site. The designer and manufacturer of specialist underwater robot vehicles recently unveiled the world's largest remote controlled submersible robot (ROV), worth £10m. (J 20/3, www.smd.co.uk/news 12/5)

McNulty Offshore and **A&P Tyne** are set to benefit from work on a **£3.9bn Government order** for two new **aircraft carriers**. BAE Systems Submarine Solutions was awarded the contract to build HMS *Queen Elizabeth* and HMS *Prince of Wales*. Some Tyneside staff will transfer to the BAE shipbuilding yard in Barrow [in Cumbria] to carry out some of the work. (J 5/2)

In **North Tyneside**, the **dismantling** of the **cranes** at the **former Swan Hunter yard** has **started**. They will be shipped to India by new owners Bharati Shipyard. (J 08/1)

Amec plans to spend £100m in the next six months to strengthen its presence in the higher margin oil and power engineering services sector. The company has over £700m cash, of which £80m may be spent on buying back shares. In 2007 it undertook a major restructure that led to the sale of several divisions. (FT 12/3) [Amec has a yard in Wallsend, North Tyneside, which is currently inactive –Ed.]

Chieftain Group saw turnover rise 39% to £46m in 2007. The Newcastle engineering firm's profits rose 40% to £2.2m. It revealed its largest ever order book of £69m in 2007. (J 19/3)

6.6 Motor

Late News: **Nissan** is to build a **new model** at its **Sunderland** plant when production of the current version of the Micra ends in 2010. Nissan's **£55m investment** in the UK (£6.2m of which is from the UK government) will safeguard over 1,300 jobs at the plant and 2,000 in suppliers. (BBC News 03/6, J 03/6) [Production of the next Micra is moving to a new factory in Chennai India. The new Sunderland model, a compact soft-roader, is still in the design stage.]

Nissan produced a record **353,000 cars** in Sunderland in 2007, 84% of which were exported. Its global net profits rose almost 27% to £570m in Q4 2007, compared with 12 months ago. Its sales rose 18% to £12bn after selling 900,000 vehicles worldwide. The **Renault-Nissan group** will become the **world's third-largest carmaker** when it acquires Russian Avtovaz (makers of Lada). [It is currently the fifth-largest by volume. It also announced the creation of 800 jobs at its Sunderland plant due to high demand for its *Qashqai* model.] (J 2/2, 13/2, FT 15/2) [See also §3.1]

Nissan is to **showcase plans** for **electric vehicles** by **unveiling** the *Denki Cube* at the New York International Auto Show. It will launch a commercially-produced electric car for fleet buyers in the US in 2010, and for retail customers in 2012. Nissan will be one of the first manufacturers to submit an all-electric, zero emissions car to the mass market. (FT 18/3)

¹¹ Chennai was formerly known as Madras, in eastern India

6.7 Electronics & Electrical Engineering

Tanfield has **acquired Optare Holdings**, a £60m-per-year Leeds-based bus and coach manufacturer. Tanfield's order book was 'ahead of management expectations' in January. Production capacity at the Washington electric vehicle maker has now risen to 30 units per week [previously 10] to meet the high demand. (J 15/1, 14/3)

Innocore Gaming is to **relocate** to a new [world] HQ in **Silverlink, North Tyneside** less than a year after a management buy-out. The company, which makes sophisticated motherboards and software for video slot machines, saw its sales rise 150%. (J 8/2)

6.8 Food & Drink

Scottish & Newcastle has agreed a **£7.8bn takeover** by a consortium formed by Heineken and Carlsberg (Sunrise Holdings). Heineken will acquire S&N's UK operations, while Carlsberg receives full ownership of Baltic Beverages Holdings. S&N's **profits** remained **flat** in 2007 at £444m but **revenue rose** 8% to £4,150m (including the contribution from BBH). [S&N is the UK's largest brewer –Ed.] (BBC News 25/1, FT 20/2)

Greggs plan to open a further **70 shops** and **close 10 shops** in 2008. Its **sales rose** 6.4% to **£586m** in 2007. **Profits** were **up 27%** to £51m after falling 20% in 2006 due to high energy costs and company restructuring. (J 12/3)

Northumbrian Fine Foods has been **acquired by Burton's Foods**. NFF employs 200 people at its **Team Valley** factory in **Gateshead**. (J 11/1)

6.9 Printing & Packaging

Jaycare has been **bought by Cope Allman Plastic Packaging**. Jaycare, in **North Tyneside**, went into **administration** in January. It made 24 people redundant in December blaming the loss of a major contract and rising energy and transport costs. Cope Allman is based in Portsmouth. (J 1/3) [*See also §3.2 and §4.4 Regional Development Grants*]

Encore Washington is to start developing its **own brand** and will **invest £300,000** at its factory, a year after a management buy out. It makes 2.5bn envelopes (10% of Royal Mail's annual deliveries) and employs 275 people. (J 30/1)

6.10 Other Manufacturing

Tor Coatings has **acquired Bollom Fire Protection** after Bollom's parent group went into administration. The paint and adhesive manufacturer (Tor Coatings) is part of US-based RPM and employs 200 at its base in **Birtley, Gateshead**. (J 04/1)

Procter & Gamble is to cut 15% of its senior staff and reorganise its international operations. It wants to accelerate productivity growth per employee from 6% to 7-8% by 2013. (FT 25/2) [P&G's European HQ is based in North Tyneside –Ed]

Barbour is to **close** its factory in **Gallashields** (in southern Scotland), with the loss of 46 jobs due to a fall in demand for its classic knitwear. However, production at its **South Shields** plant remains **unaffected**. It employs 350 people in South Tyneside. (J 16/1)

6.11 Construction (including Housing)

House-builders in the North East have been hit by the slowdown in the housing market:

- **Persimmon Homes** announced it **will not start work on any new sites** until the market improves. Its sales have fallen 24% since the start of 2008. (J 25/4)
- **Barratt Developments** reported **falling sales** and **rising cancellations**. Reservations fell one-third in the year to 11 May, with the largest fall taking place since end-March. (BBC News 14/5) [Pre-tax profits had fallen 3.9% to £97m in the half-year to January. It is expected to announce job cuts. Barratt has £1.7bn of debt. Its share price has fallen nearly 80% since early 2007. It may have to make a rights issue (EcN 24/5)]
- **Bellway** announced a **3.9% fall in profits** to £96.9m in half year profits to end-January. It sold 3,252 houses, down slightly from 3,264 a year earlier. Turnover was up just 1% to £581.5m. (J 23/4)
- **Taylor Wimpey** announced a **£19.5m loss** for 2007 compared to £405.5m profit in 2006. Group sales were down 12% to £5.9bn and completions fell 11% to 27,462. (J 23/4) [It is seeking redundancies.]

Note: House builders can be expected to make large write-downs on their land holdings.

Builder Rok is aiming to almost **double turnover** in the NE to £109m by 2009. Its acquisition of S Harrison's construction arm in September supported its 25% turnover rise to £59m. It employs 360 people in the NE. (J 7/3)

6.12 Retailing

Somerfield, the grocery chain, plans to **open** around **250 stores** by 2011 and **refurbish 200 existing stores**. Its like-for-like sales rose 6.4% in the 12 weeks to Easter, ahead of its larger supermarket rivals. (J 28/3) [The Co-op is negotiating to acquire Somerfield –Ed]

SCS Upholstery's profits for the year to end July 2008 are forecast at just **£2m, down almost 65% from previous forecasts**. The Sunderland firm posted a 16% fall in revenue in the January sales, compared with a year earlier. It will now open only one store in 2008 instead of five previously planned. (J 15/1)

The **Plasma Centre** aims to **double turnover** to **£4m** in 2008, after doubling to £2m in 2007. The Washington TV and accessories retailer is preparing to enter established European markets in a drive for growth. (J 29/3)

Grainger Games plans to **open six stores** across the UK in 2008 in a **drive for growth**. The Newcastle-based firm has grown rapidly since 1997 and is now the UK's largest independent [games] retailer. It employs 87 across 13 stores in the NE and Scotland. (J 11/2)

6.13 Tourism & Hotels

Thomas Cook bought **Hotels4U.com**, its first acquisition since merging with MyTravel [which has a call centre in North Tyneside]. Hotels4U.com is the UK's largest independent 'bed-bank' and sells exclusively over the internet. (FT 15/2)

6.14 Culture & Leisure

Tyneside Cinema, in Newcastle, **re-opened** after a **£7m restoration**. The art-house cinema specialises in innovative and foreign films.

6.15 Transport & Communications

The **Go-Ahead Group** is to **relocate** its **HQ** from **Newcastle** to **London** where most of its business is focused. No jobs will be lost as 24 people will remain at the Newcastle office. (J 24/1)

At **Newcastle Airport** two airlines are **expanding** their **services**: Eastern Airways have **increased** the number of **daily flights** to **Aberdeen** from five to six and to **Southampton**, from three to four. Meanwhile, Emirates is considering **upgrading** its service to **Dubai** from a 180-seat Airbus to a 400-seat Boeing 777. (J 3/3)

EasyJet's passenger numbers **rose 22%** to 3.24m in February [compared with a year ago]. Its load factor rose 1.4pp to 84.3%. Its acquisition of GB Airways contributed a 4.4% improvement in passenger numbers. (J 8/3) [EasyJet flies to 17 destinations from Newcastle International Airport, or over a third of the scheduled destinations – Ed.]

Van Hee Training plans to **double** the **number of trainees** at its Gateshead base to 2,400 as profits rise. The [road] transport firm trains workers for the logistics industry. (J 5/3)

6.16 Financial Services

Northern Rock has been taken into '**temporary public ownership**' after the government rejected private-sector bids. The bank is expected to repay £10bn of its £24bn BoE loan in one year. The Government plans to refinance the loan by issuing more government bonds. NR is also to **halve** its **balance sheet** from £133bn and **curtail mortgage lending**. It plans to reduce new mortgages to around 100 per day, rather than the previous high of 1,000 per day. **Ron Sandler** is now executive chairman. An independent valuer has been appointed to consider compensation for shareholders. (FT 18-19/2, 22-23/2, 13/3, 16/3, 18/3, J 18-19/2, 20/2, 22/2, 18-19/3) [Ron Sandler helped rescue Lloyd's of London, the insurance market, in the 1990s –Ed. The Northern Rock Foundation has been guaranteed £15m annually over the next three years.] [See also §3.2]

The **FSA** has admitted to a **catalogue of failures** while supervising **Northern Rock**. This includes an extraordinarily high turnover of FSA staff directly supervising the bank, inadequate numbers of staff and very limited direct contact with Northern Rock's executives. (FT 27/3)

Newcastle finance co-operative **Shared Interest** plans to treble funds to £75m by 2012. Cash investments by its 8,400 members are loaned to farmers and artisans in Africa and South America to buy equipment to produce fair trade goods. (J 20/2)

The **Royal Bank of Scotland** (RBS) is **relocating** its corporate services to a **new HQ** on **Newcastle Quayside** to handle its growing NE business. It has trebled the floor space to 22,000sq ft after its corporate banking team grew by 50% in 2007. (J 6/2)

Newcastle stock-broker **Wise Speke** is to be **re-branded** as **Brewin Dolphin** [who own the firm] and **relocated** to the **Times Central development** close to **St. James' Park**, Newcastle. (J 20/2) [Wise Speke employs 300 at Commercial Union House on Pilgrim Street]

6.17 Business Services

Sintons LLP had a record **fee income** of **£8.2m** in the year to end January 2008, up 23% from the previous year. The **Newcastle-based** law firm has doubled in size in four years. (J 13/2)

6.18 Software & Digital Industries

Newcastle University computer scientists are leading a **£13m European Union project** designed to improve the reliability of IT. The *Deploy* project will work across five sectors –transportation, automotive, space, telecommunication and business information. Formal engineering methods will be used to test the fault-tolerance of each system. These will then be refined in an industrial setting to ensure they meet the needs of an increasingly IT-based society. (J 30/1, www.newsguardian.co.uk)

Aspire Technology Solutions (ATS) is expected to **triple turnover** to £4m by 2009. The **Gateshead** IT firm won a contract to set up corporate intranet systems for PR firm Brunswick. (J 13/3)

Buy.at has been **acquired by AOL** through its Advertising.com business. The **Newcastle** company was named as the UK's ninth fastest-growing private technology company in the Sunday Times Tech track. The £13m turnover group was formed under the banner of Perfiliate Technologies. (J 7/2)

Nomad Digital is **bidding on six new-build railway projects** in the Middle East, which could be worth up to £5m each. The **Newcastle** company supplies wireless internet services to trains. (J 7/2)

6.19 Public Services

[There were no Public Services announcements]

6.20 Other Services

[There were no Other Services announcements]

7.0 PUBLICATIONS AND RESEARCH

7.1 Tyne & Wear Research and Information Publications

TWRI published the following reports, available at www.twri.org.uk

Unemployment in Tyne & Wear (Monthly, EU 07/04, Published 05/08, £5)

This report shows how claimant unemployment has fallen in the year to April 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.

Businesses Registered for VAT in Tyne & Wear and its City Region: 2006 (EB 08/01, 46pp. Published 04/08)

This reports shows the growth of VAT-registered businesses has been faster than the UK every year for five years (2002-2006) [In 2006, TW's business growth was 2.5%; TW City Region's was a record 2.7%].

The analysis covers business registrations, deregistrations and stocks, comparing Tyne and Wear Districts and County with the North East and UK. In the last five years, Tyne & Wear's top Districts in terms of growth of business numbers have been North Tyneside (up 15%) and Gateshead (up 19%); above TWCR (up 13%) and the UK (up 11%)

New Deal Tables May 2007 (EN 036, Published 02/08)

Four tables are presented. Tables 1 and 2 cover participants in the New Deal for Young People (NDYP). Tables 3 and 4 cover the Long-Term Unemployed aged 25+ (ND25+). The NDYP is aimed at those aged 18-24 who have been claiming Jobseekers Allowance (JSA) for at least 6 months.

7.2 Research News from Other Organisations

The ippr North has published a number of reports, including the following (available from www.ipprnorth.org.uk);

Social Capital in the North East: How Do We Measure Up? (Kate Schmuecker, 59pp. Published 22 April 2008)

Measurement of social capital in the United Kingdom is still in its infancy. When compared to the analysis that is possible in the United States, there is much more to be done in improving our understanding of how social capital varies at a local level.

This report attempts to break down national statistics to a regional level. It tests some commonly held hypotheses about the friendliness of people in the North East and the strength of their communities, and makes some interesting comparisons between the North East and the South.

Moving On: A Progressive Transport Policy for Northern England. Paper 4 from the Northern Economic Agenda Project (Howard Reed, 54pp. Published 28 February 2008)

This is the fourth paper produced for ippr's Northern Economic Agenda project, which aims to provide a detailed insight into the performance of England's three Northern regions: the North East, North West and Yorkshire & the Humber.

This report looks at the economic, social and environmental aspects of the North's transport system and attempts to answer a range of crucial questions:

- How can the transport network be improved to better support economic development in the North?
- Can the transport system contribute to faster and more balanced economic growth across the northern regions and city-regions?
- Are the Government's plans for aviation and the road and rail networks in the North compatible with Britain's long-term commitments on climate change?
- What governance arrangements for transport at the national, regional and local level are most conducive to a dynamic, well-functioning, pan-Northern transport system?

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

State of the Region 2008 (North East Regional Information Partnership, 172pp. Published 13 May 2008)

The State of the Region report 2008 aims to provide a statistical profile of North East England, covering a wide range of themes. There are sections covering Business, People and Place. In each section, a variety of topics is discussed, aiming to provide an understanding of how the North East's performance compares with that of other UK countries and regions, and also showing how that performance has developed over the past few years compared to the national picture. Where possible, performance has been graphed and in some cases there are maps which show how the different parts of the North East compare with each other. There are also short, policy-orientated summaries for each section and an Executive Summary provides a précis of the key issues for North East England in 2008.

The North East operates in a global marketplace and so for the first time, this State of the Region report provides comparisons with a group of 20 world regions that have been identified as having economic and social similarities to the North East. The report also contains a few statistical projections, which show on graphs how the region's performance might develop in the future. These projections are included to stimulate debate rather than being a definitive set of forecasts, at a time when the region is about to embark on the production of a single regional strategy.

Research into Skills for Festivals and Events in the North East Region (David Taylor Partnership Limited, Gecko Limited. Northern Cultural Skills Partnership. 48pp. Published 20 February 2008)

Across the UK there has been a growing interest in and recognition of the benefits of a thriving Festival and Event scene. There is a widespread belief that a shortage of skills is constraining the development of the sector both nationally and regionally in the North East. The research undertaken in this study attempted to identify the regional skills issues through a combination of literature review and interviews with a wide range of festivals and events.

The findings show that whilst there are some skills shortages, as well as some areas where the North East excels, there are other issues which act as barriers to the development of festivals and events in the region. These need to be resolved alongside, if not before, any skills issues for the sector to progress. Areas where skills shortages were reported include festival programming, outdoor event management, specialist supervisors and stewards and 'top end' equipment and skills.

Quarterly Economic Summary (Rebecca Hulbert, NERIP, 13pp. Published 19 February 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.

CURDS (Centre for Urban and Regional Development Studies) at Newcastle University has completed two reports:

City Region Linkages (David Bradley & Liz Dixon, for Northern Way, sub-contract via Manchester University)

Project involved interviewing private sector representatives to understand economic linkages between city regions, both across the wider northern England, but also with Scotland and the London region. Completed report submitted to Manchester University.

Modelling Future Housing Markets in the Newcastle Gateshead Area (Glen Bramley & David Watkins, Heriot-Watt University, Tony Champion & Mike Coombes, CURDS)

This report presents research undertaken for Bridging NewcastleGateshead (BNG) during the summer and autumn of 2007 on 'Modelling Future Markets'. The modelling includes impact assessments of policy interventions, within various scenarios of wider market change. CURDS inputs involved

verifying modelling output and issues of demographic and local knowledge. The report is available at http://www.bridgingng.org.uk/docs/research/FINAL%20BNG_MFM_Report.pdf.

CURDS is also working on a number of ongoing projects:

Advanced Manufacturing Skills Tracking Study (Stuart Dawley, for LSC and Atmel Taskforce)

This study will survey the former workforce of Atmel NTS, six months after the plant closure, to better understand the geographical and sectoral patterns of labour market resettlement.

Migration and Urban Labour Markets (Mike Coombes, Emmanouil Tranos & Tony Champion, for EUROCITIES)

Part of an Inclusive Cities for Europe programme of EUROCITIES. The study will analyse both quantitative and qualitative secondary source material for around six different European cities (one on Tyneside). A key focus is on inclusion issues, both for migrants and local people.

NE Business Accommodation Project: Phase 2 (David Bradley & Mike Coombes, for One North East & North East Assembly, sub-contract via GHK consulting)

The study aims to provide a credible reliable and updatable database to guide investment decisions, to inform spatial planning at regional, sub-regional and local levels and to generate the on-going information required for marketing and for the review of economic performance.

Regional Insights (Stuart Dawley & John Tomaney, for One North East)

A rolling programme of events hosted by CURDS featuring experts and leaders of economic developments from across the world to share best practice and inform policy at the regional level.

Talent Retention (Mike Coombes, David Bradley, Cheryl Conway, Liz Dixon & Ranald Richardson, for Gateshead Borough)

This research investigates how Gateshead can make the most of opportunities to ‘embed’ skilled migrants. Migrants may have under-utilised skills due to the type of work they have found. The research will seek systematic data on in-migrants’ skills, and also their movement patterns (as anecdotal evidence suggests many move on quite quickly).