
ECONOMIC REVIEW

WINTER 2007/08

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By
Jennifer Brown
Peter Sturman
Kadhem Jallab

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TYNE & WEAR RESEARCH AND INFORMATION

1st Floor Provincial House
Northumberland Street
Newcastle upon Tyne
NE1 7DQ

Tel: (0191) 277 1912, Fax: (0191) 277 1911

E-MAIL: twri@twri.org.uk

WEBSITE: www.twri.org.uk

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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:

The **Credit Crunch** has begun to significantly reduce access to credit (§ 4). For example, net mortgage lending was down a fifth in December (from a year earlier). The banks are also reducing credit to companies. [The Feature in §4.1 gives details of the scale and strands of the ‘Credit Crunch’]

UK commercial property values fell 10% in 2007. Commercial property **transactions** have been **stalling** after prices began to fall in mid-2007. For example, total [monthly] **returns** on commercial properties **fell** in October to **-1.5%** –the worst performance since May 1990. (§5.1)

European economic growth is the **weakest** since November **2004**. (§ 1.1)

The **US economy** is on the **brink of recession**. The Federal Reserve slashed interest rates twice in January (by 1.25%) to 3%. (§ 1.1)

Consumer spending is **expected to slow** to 1.9% in 2008, down 1.2pp from 2007 – CBI quarterly economic forecast. **Consumer confidence** is the **lowest** since March 2003. (§ 1.6)

The **net rise in employment** is **forecast** to be **75,000** in **2008**, [only] a third of the rise forecast in 2006 and 2007 – CIPD. Unemployment [on the LFS definition] is forecast to rise by 150,000 to 1.8million (5.8%). (§ 1.6) The average of economic forecasts, however, was much less gloomy – still expecting only a marginal rise in claimant unemployment.

Forecasts for economic growth in 2008 have been **cut** to **2.2%** (§ 1.2)

Late news: **Northern Rock** is to be brought **into public ownership** (§6.16)

Nevertheless;

- **UK GDP grew 0.6%** in **Q4 2007**, slowing only marginally from 0.7% in the previous quarter. GDP grew **3.1%** in 2007 compared with 2006.
- **Employment** has reached the **highest numbers** since comparable records began. Compared with the previous quarter, in the three months to Nov., the UK **employment rate** was up 0.3pp at **74.7%**, and the UK **unemployment rate** was down -0.1pp at **5.3%**. (§ 1.4)
- **Economic growth (GVA per head) in Tyne & Wear has been [a big] 6 percentage points faster** than the UK over the eight years to 2005 (§4.2).
- The **Bank of England** is responding; it **cut the bank rate** by ¼ pp in December and again in February to 5¼%. The **UK base rate** is **forecast to fall** to **4%** in 2009. (§ 1.2)

Key Points from News Digest (October – end December 2007)

In Q4 2007, reported **job gains** (+1,702) **exceeded losses** (-1,450) in Tyne & Wear by **+252**. (All gains and losses from press reports) (§3)

The main **gain** was at **South Tyneside Council** (+300) as part of a Strategic Service Partnership. Also, in North Tyneside, **250** jobs were created by **Fabricom** as it signed a lease for the former NIM Engineering site. (§3.1)

The major **losses** were from **Atmel**, where **600** jobs have been cut as the company closes its site in North Tyneside and moves production to its factories in the US and France. **500** jobs were also lost at **HM Revenue & Customs** as the government closes 9 offices in Tyne & Wear. (§3.2)

In **Gallowgate, Newcastle**, details have been **revealed** of the **£60m** office scheme to replace **Wellbar House**. It provides 120,000sq ft and is due for completion in December 2009. (§5.2)

In **Sunderland**, **planning permission** has been **awarded** for a 55-acre **business park**. The **£70m** scheme will begin in January, with units ready for occupation in November 2008. (§5.2)

In **Newcastle**, on **Fenkle Street**, the 51,000sq ft Zurich insurance building has been **bought** by Benmore Developments for around **£11m**, well above its £7.2m asking price. (§5.2)

In **Sunderland**, [Urban Regeneration Company] Sunderland arc made a **cash bid** to Tesco for the former **Vaux Brewery** site. It can use a Compulsory Purchase Order if Tesco continues to delay the sale. (§5.2)

In Gateshead, **Gateshead College's** new **£37m Baltic campus** opened in **January 2008**. It has an intake capacity of 7,000 students per term. (§5.2)

At **South Tyneside College**, a **£95m development plan** has been **revealed** to provide new learning facilities for up to 22,000 students over two sites. (§5.2)

Akzo Nobel's shareholders approved its **£8bn takeover** of **ICI**. (§6.3)

Rolls Royce won a contract worth up to **£1bn** from Saudi Arabia in an order for 72 Eurofighter Typhoon aircraft. It is expanding its operating and investing **£150m** over five years to **increase** its **global manufacturing capacity** and cut exposure to the weak US dollar. It is also planning to make 2,300 job cuts across the UK, Europe and the US. (§6.4)

Wellstream is to **invest £35m** expanding the capacity at its factories in Walker, Newcastle. The flexible pipeline manufacturer aims to produce 30% more pipelines in response to growing demand worldwide. (§6.5)

Nissan sold 5.4% more units in Europe (472,117) in the ten months to October 2007 compared to last year, with October's sales up 22% year-on-year. **Renault** is to become **Avtovaz** [Lada] 's **strategic partner** with a blocking stake in the company. Renault and its alliance partner Nissan, aim to add capacity in emerging markets to offset slumping markets in western Europe and the US. (§6.6)

Brewer **Scottish & Newcastle** had been **taken over** by Heineken and Carlsberg for **£7.8bn**. [S&N employs 80 at the Federation Brewery in Dunston, Gateshead] (§6.8)

[State-owned] **Remploy** now plans to **close or merge 43 plants** with the **loss of 2,300 jobs**. It plans to invest in creating work in 'mainstream' employment. [It employs 280 at seven sites in the NE, including Gateshead and Newcastle] (§6.10)

SCS Upholstery's like-for-like sales **orders fell 16%** since July [17 weeks]. **Sales** at the Sunderland company **fell 7%** since 2006, compared with a year earlier. (§6.12)

Nike is to **acquire** football kit firm **Umbro** in a deal worth **£285m**. It has agreed to keep Umbro's headquarters in the UK and to continuing trading under the Umbro name. (§6.12)

Nexus has received **£12.8m** government funding to **replace ticket-machines** and barriers at 13 key **Metro Stations**. The funding is for phase one of its £600m bid to revamp the service. (§6.15)

Virgin Money and the Northern Rock management made bids for **Northern Rock** to the Treasury (§6.16). Late news: The Treasury announced that Northern Rock is to be brought into 'temporary public ownership'.

Sage's sales grew 30% to over **£1.1bn** in the year to September, with **pre-tax profits** up 14% to **£251m**. Its UK revenues rose 10% to £224m. (§6.18)

Date: February 18th 2008

1.0 ECONOMIC OVERVIEW

1.1 Global Economy:

US economy on the edge of recession

The **US economy** appeared in January to be on the **edge of recession**. [The technical definition of a recession is two successive quarters when the economy shrinks –Ed] **US annualised economic growth fell sharply** to just **0.6%**¹ in the three months to December, down 4pp from July-September – US Department of Commerce. **Overall growth in 2007** was just **2.2%**, the **weakest since 2002**, and is expected to reach just 0.8% by end-2008 [IMF]. (BBC News 30/01)

The **US Federal Reserve lowered interest rates** by **0.5pp** to 3% in January after a **0.75pp** cut earlier in the month (the **largest cut in 25 years**). (BBC News 22/01, 30/01) [US interest rates have been cut five times since September 2007 –Ed]

Losses from bad **mortgage loans** are estimated at **\$150bn**, up sharply from \$100bn –Chairman of the US Federal Reserve. **Overall subprime-related losses** are estimated at up to **\$400bn**, of which \$130bn will belong to banks –Deutsche Bank. (EcN, 17/11) [These losses are driving a slowing of credit, the ‘credit crunch’, see Feature §4.1 –Ed]

The **US government** announced **personal rebates** and **tax breaks** worth **1% of GDP (\$140bn)**. [The US deficit, at around 1.7% of GDP in 2008, is lower than most countries in the G7² –Ed] (FT 18/01) [These rebates are not expected to be paid until May –Ed]

European Economy

Late news: The **Eurozone economy** has been **more affected** by **turbulent financial** markets than previously thought: **growth** in January was the **weakest rate** since November 2004 –Purchasing Managers’ Indices. The Indices were revised significantly downwards and were consistent with a quarterly growth of around **0.3%**. (FT 05/02)

Euro-zone annual inflation rate reached **3.1%** in December, much higher than the European Central Bank’s (ECB) target of ‘below, but close’ to 2%. Inflation is expected to fall to around 2% in 2009 according to ECB forecasts released in December. (FT 07/01, 10/01)

The **European Central Bank (ECB)** **maintained** its base rate at **4%**.

Eurozone unemployment was **stable** at **7.2%** in December, unchanged from November and down 0.6pp from a year ago. Unemployment in the **EU27** was **6.8%**, in December, down 0.1pp from November and down 0.8pp from a year ago. (Eurostat Press Release 31/01)

The euro replaced national currencies in Cyprus and Malta from Jan 2008. This means that 15 states, a majority of the EU 27, now use the euro as their currency.

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

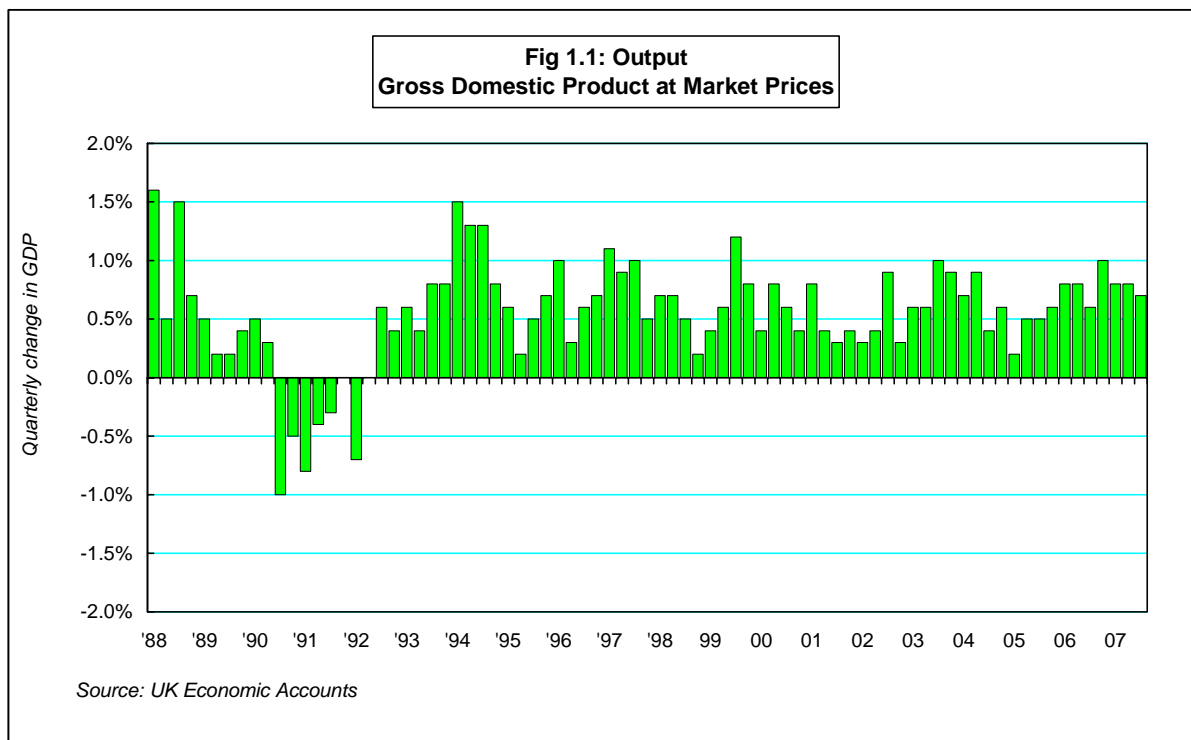
² Except Canada and Germany, which are expected to have budget surpluses in 2008.

1.2 Recent Economic Trends

Economic Growth

GDP grew **0.6%** in **Q4 2007**, slowing only slightly from 0.7% in Q3 2007. For the year, in 2007 GDP grew [a strong] **3.1%** compared with 2006. (NSO, 23/01)

Growth in the service sector was stronger than expected – Chartered Institute of Purchasing and Supply and NTC. Its index rose to 52.4 in December, up from 51.9 in October [Growth in October had been the slowest rate in 4 years]. (FT 6/11, 4/01)



The **UK financial system ‘remains vulnerable’** to new shocks from the global credit squeeze - Bank of England (BoE)’s Financial Stability Review (FT 25/10). The BoE **injected £10bn** into the financial system in December [and lots more for year end] to calm fears of an end-of-year liquidity crisis. (BoE 12/12, FT 30/11)

The UK **slipped** to the **sixth largest economy** in **Q3 2007** [at market exchange rates], after being overtaken by France. The falling value of the pound meant the UK economy in 2008 is 4% smaller than France. (FT 12/01)

The North East Economy

The **North East** had the **third-fastest growing economy** in the UK in **2006** with 5.0% of nominal growth –ONS Regional Accounts. NE GVA *per head* rose 5.5% [to £15,177] in 2006 although it remained 20% below the UK average (£19,063).

Sub-Regional GVA *per head* (for the year earlier, 2005) show Northumberland and Tyne & Wear (£15,511) was at 88% of the UK average. Tees Valley & Durham had the UK’s fourth-lowest GVA *per head* (£13,097 or 72% of the UK average) but growth was the second-fastest of the NUTS2 Regions (5.1%) (NSO 14/12, J 15/12). [Note: 2005 data are Provisional.]

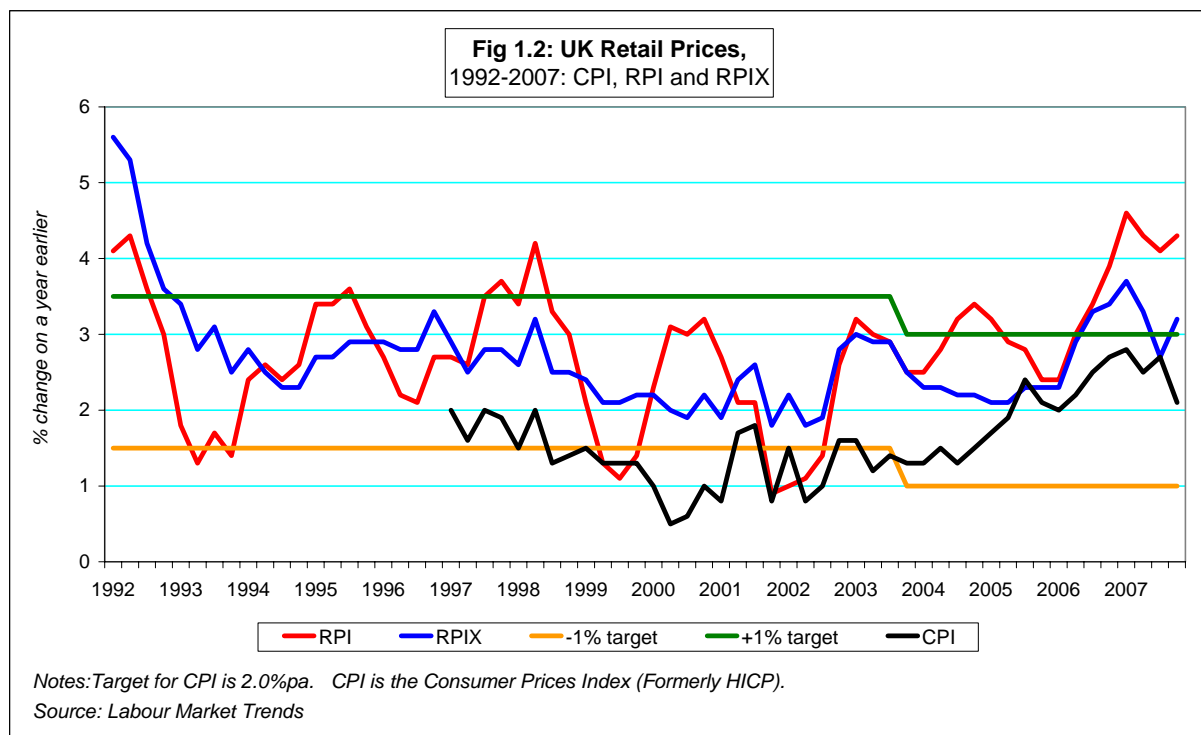
[TWRI calculated GVA/head in Tyne & Wear as 92% of the UK average, at £16,490 in 2005 – Ed. See Feature §4.2 on Strong Economic Growth (GVA) in Tyne & Wear.]

Proposed economic growth targets for the 3 Northern regions for 2008-12 are up to a **percentage point lower** than those for the South-East. The proposed GVA per head year-on-year [real] growth target is 1.7% in the North-East (2.7% in the South-East). (Regeneration and Renewal, 26/10) [The figures are draft, which R&R has obtained. 1.7% is modest compared with the RES target of 2.8%, and since 2006 3%+ -Ed]

UK Inflation

Consumer Price Index (CPI) inflation again remained unchanged at 2.1% in December, despite continued rising petrol prices. CPI inflation had risen 0.3pp to 2.1% in October, above the BoE's 2% target. Higher petrol prices accounted for almost all the acceleration in October. (NSO 15/01, FT 14/11, J 19/12)

Retail Price Index (RPI) inflation slowed to 4.0% in December after rising to 4.3% in November (from 4.2% in October). [RPIX, which excludes mortgage payments, was well above the target set from 1997-2002 (at 2.5%) was down to 3.1%, returning to the rate in October after rising to 3.2% in November -Ed] (NSO 15/01, FT 14,11, J 19/12)



The **Bank of England reduced the bank rate** by 0.25pp in both December and February, to 5.25%. It had remained at 5.75% since July 2007. (www.bankofengland.co.uk/news, 6/12)

The **UK base rate is forecast to fall to 4%** in 2009 as the UK economy will not be 'bailed out' by a strong world economy in 2008 –Deloitte Economic Review. While the European economy, the UK's biggest export market, is expected to remain relatively strong in the first six months of 2008, it will not be sufficient to offset a US slowdown. (BBC News 28/01)

Output price annual inflation ('factory gate prices') rose to **5%** in December as oil prices continue to rise, its **highest rate since December 1995**. **Input annual inflation** rose to **11.3%** in December, up from 10.9% in November, and only 0.7% in August. (NSO 14/01, FT 13/11)

Consumer Spending

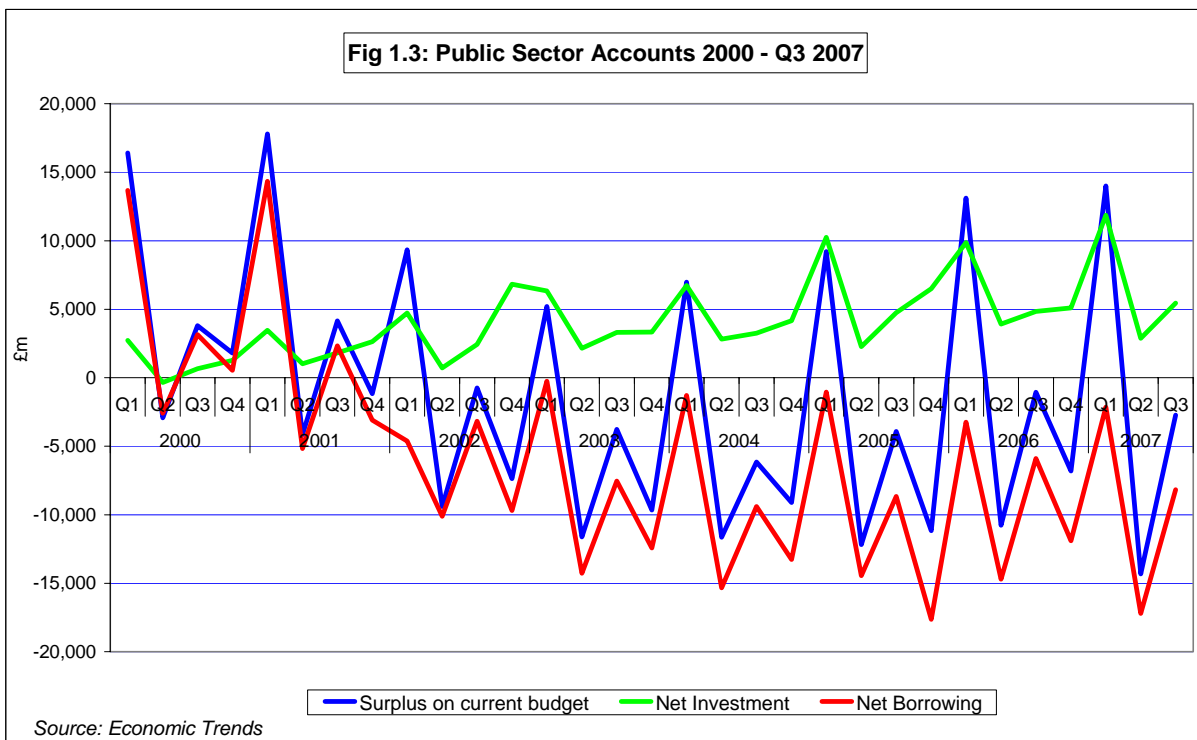
Growth in retail sales volume slowed to 0.4% in the three months to December, compared with the previous three months. Total sales volume in the three months to December rose 3.6% compared with a year ago, but fell 0.4% between November and December. (NSO 18/01)

Earnings

Earnings growth remains stable: Average earnings including bonuses rose 4.0% in the year to November, unchanged from October –NSO. Excluding bonuses, they rose **3.6%**, also unchanged from October. Growth (including bonuses) in the private sector was 4.2%, compared with 3.3% for the public sector. Excluding bonuses, private sector growth was 3.6%, 0.1pp faster than the public sector. (NSO 16/01)

Note: Average earnings may be rising over 1 percentage point faster than official statistics reported – ONS ‘experimental’ pay figures. Annual increases in seasonally adjusted average weekly earnings, including bonuses, since January have been at or above the 4.5% level. Based on a rolling 3-monthly average, this growth rate is between 1 and 1.6 percentage points higher than reported by ONS in its monthly national Average Earnings Index statistics [quoted in the paragraph above]. (FT 29/10)

Public Accounts



The **public sector** current deficit was **£28.1bn** in the 2007/2008 financial year to December, nearly £10bn more than the £18.4bn a year ago. Public sector **net debt** was **37.7%** of GDP at the end of December 2007, 0.4pp higher than a year ago. The pre-budget forecast for the end of March 2008 is 37.6%. (NSO 21/01)

Business Conditions from Surveys in Q4 2007³

Two major NE suppliers of double-glazing went into administration; Budget Windows [based on Teesside] and Pennine Windows. (see § 5.11 Construction). [The Journal attributed the Pennine case to the Credit Crunch – presumably through denial of credit to customers for these products.]

North East conditions strengthened on all indicators (except forward employment).

The balance⁴ on UK sales **more than tripled**, up from +8% to +28%. Export sales rose (slightly) from -1% to +1%. UK orders also **rose strongly** (almost 10pp) from +14% to +23%. Export orders rose from -5% to +1%.

The **employment** balance **rose** from +17% to +20% reporting a rise (in the past 3 months) –but **fell forward-looking** from +23% to +14% planning an increase (in the next 3 months).

Business indicators for just Tyne & Wear in Q4 2007 **strengthened sharply** (by over 10pp) for **UK sales** but **weakened** for **UK orders**. In contrast, indicators **weakened** for **export sales** but **strengthened** for **export orders**. UK sales balance rose significantly, from +17% to +28%. UK orders fell from +28% to +23%. Export sales fell from +1.5% to 0%. Export orders rose from -3% to -1%.

The **employment** balance **rose** to +22%, up from the 19% reporting a rise (in the previous 3 months) – but again **fell forward looking** from 24% to 19% planning an increase (in the next 3 months). [Caution: Sample size in TW is about 75 for UK indicators and 50 for export indicators.]

UK Manufacturing

Manufacturing growth slowed to a 9 month low in October, as **overseas demand weakened**. The index of manufacturing activity fell from 54.7 in September to 52.9 (CIPS and NTC, FT 2/11) but the **NE** was the **only region** to record a **fall in manufacturing output and orders** in the country in the quarter to October, 12% more manufacturers recorded a drop than a rise in output (CBI, J 12/11)

However, the EEF (Engineering Employers' Federation) reported that **UK manufacturing** is at its **strongest for over a decade**. Growth in output and order books remained robust in Q4, making overall responses the strongest since 1995. (FT 3/12)

Despite this, manufacturers' **confidence** in the business climate **declined** in Q3 2007 at its sharpest rate since January 2006. A balance of 13% of companies were **less optimistic** than 3 months ago-CBI. (FT 24/10) [This signalled slower economic growth –Ed]

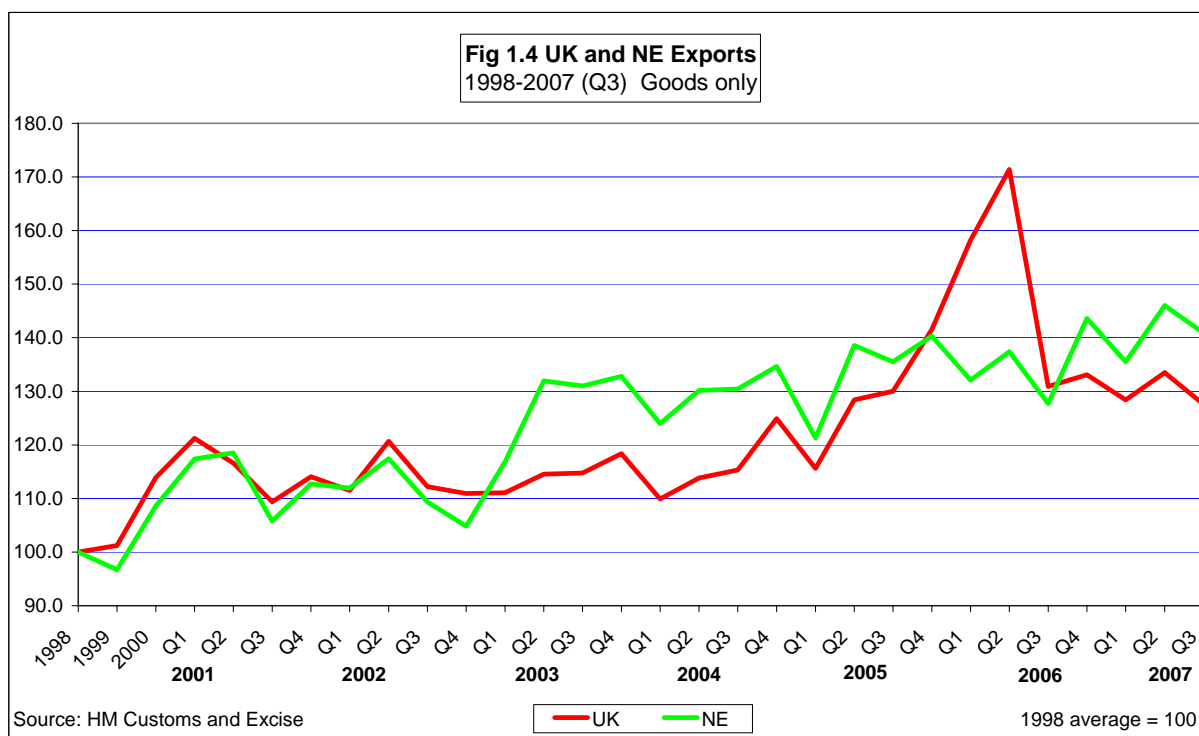
Exports

The **North East continues to perform better** than **nationally on exports –at least up to Q3 2007**. **North East exports grew** by 10% (£206m) to £2.204bn in Q3 of 2007, from Q3 of the previous year. Meanwhile, UK exports fell 3% (£1,371m) to £52.393bn in Q3 2007, from Q3 of the previous year. (Table 1.1). (HMRC December 2007)

The current account deficit widened [sharply] from a revised £13.7bn to **£20bn** in the Q3 of the financial year –ONS. This is equivalent to **5.7% of GDP**, giving Britain the biggest deficit in the G7 group. (FT 21/12)

³ Results from BSNE for both NE and Tyne & Wear. [Tyne & Wear data kindly supplied by Economic Research Services Ltd]

⁴ Taken from responses to questions 'Excluding seasonal variations, how have your domestic sales changes during the past 3 months?'

**Table 1.1: Exports, UK and NE, 2002- 2007 (Q3). 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	52,735	127.4	2,119	135.5
Q2 2007	54,838	133.5	2,284	146.0
Q3 2007	52,393	127.6	2,204	140.9

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

Source: HM Customs & Excise's 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;

UK House Prices continue to fall

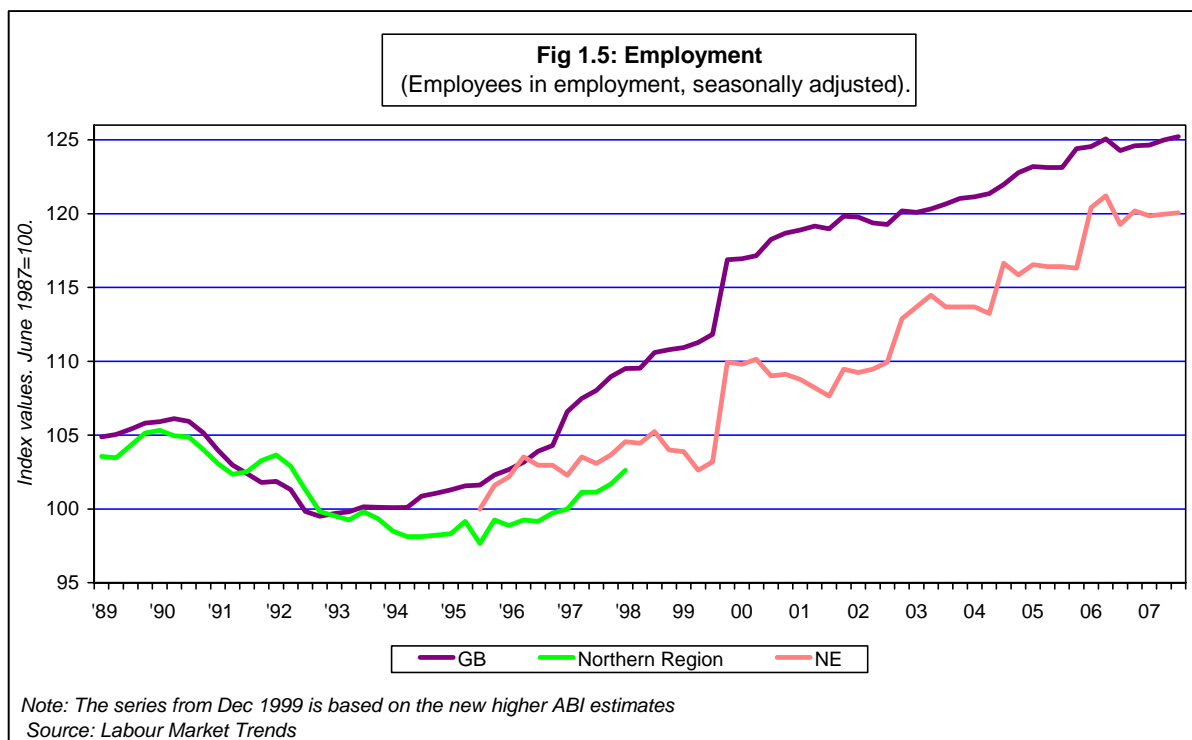
The **downward trend** in house prices **continued** as house prices fell in the three months to January – FT House Price Index. House prices rose 0.1% in January, but growth reported in November and December was revised downwards, meaning the average house price in England & Wales is now £229,625, down from £230,284 in October. Annual house price inflation was 6.5% in the year to January, down from 7.4% in December and 10.5% in August. (FT 08/02) [The FT's HPI is produced using Land Registry data –Ed]

UK Mortgage Approvals also fell

Mortgage approvals fell to 42,088 in December, the lowest since records began in 1997 –British Bankers' Association. The overall **value of mortgage** approvals in December was £16,5bn, **down 10%** on a year ago. The amount of money advanced for home purchases (£15.1bn) was the lowest since September 2005. (BBC News 24/01)

The number of **buy-to-let** [BTL] mortgages taken out in the first half of 2007 **fell 3%** compared with the previous half, with **yields falling** to about **5%**. Investors now need to raise 30% of the average house price, compared with only 8% in 2002 –RICS. (FT 19/11) [These yields are too low for BTL landlords to cover their mortgage costs. BTL mortgages had underpinned the housing market in the first half of 2007 – Ed.]

1.4 Labour Market Latest



In the three months ending in November 2007 the **employment rate** for PWA⁵ in the **UK** was **74.7%**, up 0.3pp from the previous quarter and up 0.1pp over the year. The *number* of people in **employment** was the **highest since comparable records began**, up 175,000 over the quarter (the largest quarterly increase since 1997) and up 263,000 over the year (to over 29.36m). (NSO 16/01)

In the **North East**, the **employment rate** [in the three months to November 2007] was **71.5%**, up 0.1pp from the previous quarter and **up 0.4pp from a year earlier** (NSO 16/01)
[both are from LFS, and seasonally adjusted.]

The (ILO) **unemployment rate** in the **UK** was **5.3%**, **down -0.1pp** both over the previous quarter and over the year (the number of unemployed people was down 13,000 over the quarter and 29,000 over the year).

In the **North East**, it was **5.9%**, down -0.2pp over the previous quarter and down [a stronger] -0.7pp over the year.

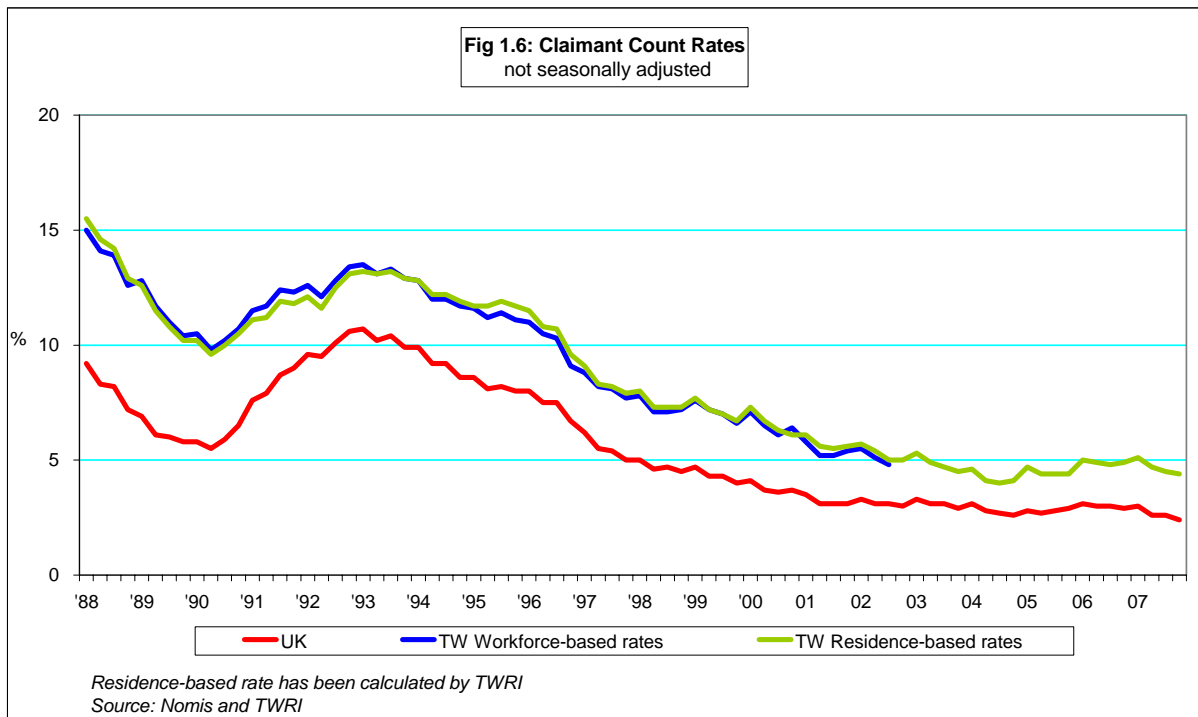
(NSO 16/01)

Tyne & Wear's (ILO) unemployment rate in the **12 months to March 2007** was **7.4%** (36,600). This was [again] 0.7pp higher than the North East (6.7%) and was 2pp higher than Great Britain (5.4%)

Tyne & Wear's claimant count [unadjusted] in December 2007 was 4.4% (21,219, down -2,208 (-9.4% on 12 months ago). This is opposite to the upward trend from autumn 2004 to autumn 2006.

[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.]

⁵ People of Working Age (i.e. 16-59/64).



Demand for labour is weakening sharply: Companies expecting to hire more staff in Q1 of 2008 outnumbered those expecting to cut jobs by the narrowest margin for 6 years [2001] –Manpower. 87% of employers had no plans to hire more staff. (FT 11/12)

The **demand for permanent staff** is the **lowest** for 17 months. The number of people placed in **permanent posts** increased at the **slowest rate** 13 months according to a survey of more than 400 recruitment agencies- the Recruitment and Employment Confederation and KPMG. (FT 7/11)

1.5 Labour Market Trends

Employment in the **North East** rose **35,000** [about 3%] over the six years 2000-2006. It **rose 47,000** [about 16%] to 338,100 in the **public sector**, but fell 12,000 in the private sector [This is based on LFS data, as reported in TWRI's report for RSP (www.skillsnortheast.co.uk)]. (J 30/11)

Low investment in skills and training is threatening British manufacturing growth – Skills Development Agency. Productivity in *some* US and EU manufacturing sectors was more than double that of the UK. £80bn [about 6%] could be added to the UK's annual GDP if it achieved the average productivity rate of EU countries before the 2004 enlargement. (FT 19/10)

1.6 Future Economic Prospects

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

For 2008:

- **Economic growth** is forecast to slow to **1.8%** (slowing from 3.2% in 2007).
- **Claimant unemployment is forecast to rise** [up 60,000] **to 0.91m** by Q4 **2008**.
- **CPI inflation is forecast** to be unchanged from 2007 at 2.1% in Q4 **2008**.
- **RPI inflation is forecast** to be 2.5% (slowing significantly from 4.1%) in Q4 **2008**.

[Source: HM Treasury, December 2007]

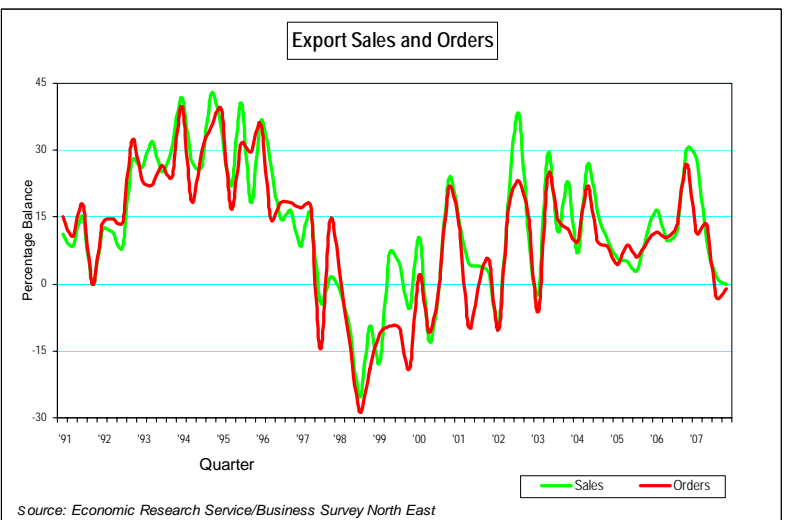
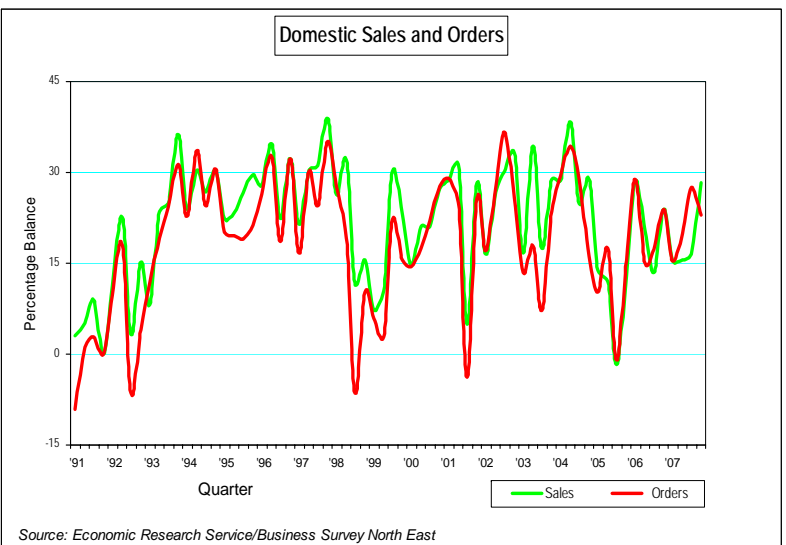
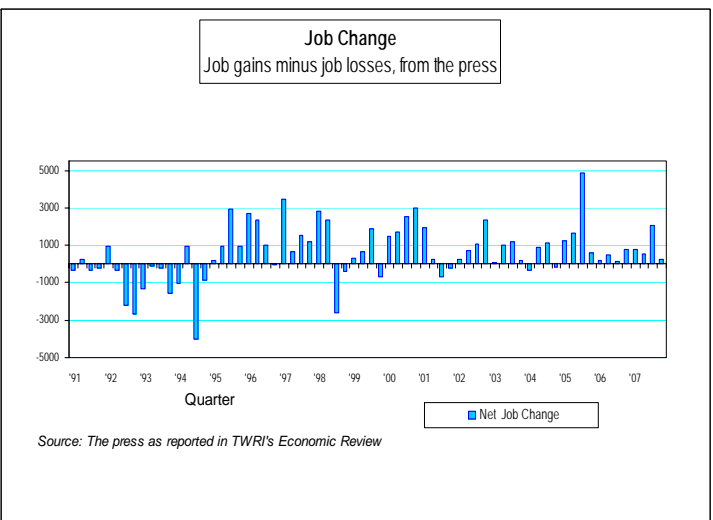
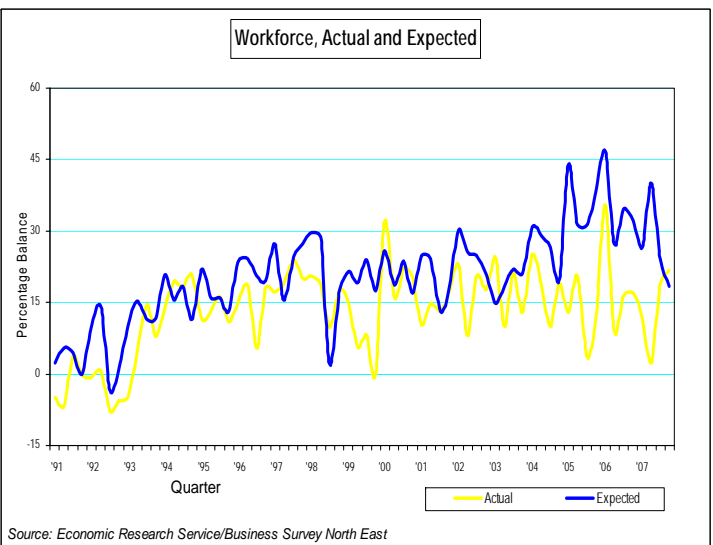
Late news: The **Bank of England's** quarterly **Inflation Report** shows its central projection for 2008 is that inflation rises to **around 3% in the third quarter** of 2008. Also, it now expects **economic growth to slow to 1.6% by late 2008**. The Governor said it was "more likely than not" that he will have to write a letter of explanation to the Chancellor [which would be triggered if CPI inflation was at least 3.1%] (EcN 16/2). The Governor also said he expected **house prices** to be broadly **stable "for a considerable period** of time" (C4N 13/2). [This appears to be an ideal path for the BoE since it preserves the capital of the banking system and would not undermine consumer spending as much as a fall in house prices].

Consumer spending [nearly half of which is on retailing] is **expected to slow** from 3.1% in 2007 to 1.9% in 2008, according to the CBI's latest quarterly economy forecast. **Consumer confidence** is the **lowest** since March 2003. The Index fell to **-10** in November, down from **-8** in October [Research group GfK/NOP]. (FT 01/12, 17/12, 22/12)

The **net rise in employment** is **forecast** to be **75,000** in **2008**, [only] a third of the rise forecast in 2006 and 2007 –Chartered Institute of Personnel and Development. Unemployment is expected to rise by around 150,000 to 1.8million (5.8% of the workforce). (BBC News, 28/12)

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:		2006		2007			Change	
		Q3	Q4	Q1	Q2	Q3	Quarterly	Annual
Gross Domestic Product: (chained volume indices at market prices)	(s.a.)	108.5	109.5	110.4	111.3	112.0	0.7%	3.3%
Household Final Consumption	(s.a.)	£186,828m	£188,728m	£190,114m	£191,491m	£193,591m	1.1%	3.6%
Retail Sales volume (2000=100)	(s.a.)	130.2	132.3	132.7	134.6	136.6	1.5%	4.9%
Output: production industries	(s.a.)	99.0	98.8	98.7	99.4	99.4	0.0%	0.3%
services	(s.a.)	111.1	112.4	113.6	114.5	115.4	0.8%	3.9%
New Orders:								
Engineering	(s.a.)	NA	NA	NA	NA	NA	NA	NA
Construction (2000=100)	(s.a.)	118.3	115.2	120.5	132.3	115.8	-12.5%	-2.1%
Fixed Capital Investment								
Manufacturing (at 1990 prices)	(s.a.)	NA	NA	NA	NA	NA	NA	NA
Business Investment:	(s.a.)	£33,418m	£34,927m	£34,750m	£34,941m	£35,639m	2.0%	6.6%
Balance of Payments								
current account	(s.a.)	-£13,244m	-£15,314m	-£16,552m	-£13,703m	-£20,048m	46.3%	51.4%
INFLATION INDICATORS:		Nov	Feb	May	Aug	Nov	Change	
Retail Prices Index (All Items) (Jan 1987 = 100)		201.1	203.1	206.2	207.3	209.7	Quarterly	Annual
							1.2%	4.3%
Average Earnings Index:	(s.a.)	Oct	Jan	Apr	Jul	Oct	Change	
(2000=100)		128.0	129.3	129.8	131.5	132.6	Quarterly	Annual
							0.8%	3.6%

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

2.3 Labour Market Indicators

LABOUR MARKET INDICATORS

EMPLOYEES IN EMPLOYMENT#

Not seasonally adjusted.

		2006 Sep	Dec	2007 Mar	June	Sep	Change	
							Quarterly	Annual
Total employees:	UK	26.892m	27.135m	26.881m	27.030m	27.105m	0.3%	0.8%
	North East	1.046m	1.059m	1.047m	1.050m	1.053m	0.3%	0.7%
Men employees:	UK	13.528m	13.633m	13.482m	13.547m	13.628m	0.6%	0.7%
	North East	520,000	530,000	524,000	521,000	525,000	0.8%	1.0%
Women employees:	UK	13.364m	13.502m	13.399m	13.483m	13.477m	0.0%	0.8%
	North East	527,000	528,000	524,000	528,000	528,000	0.0%	0.2%
Women full-time:	UK	6.950m	7.068m	7.009m	7.018m	7.022m	0.1%	1.0%
	North East	260,000	267,000	262,000	260,000	262,000	0.8%	0.8%
Women part-time:	UK	6.414m	6.434m	6.390m	6.465m	6.455m	-0.2%	0.6%
	North East	267,000	261,000	262,000	268,000	266,000	-0.7%	-0.4%
Production employees (C-E):	UK	3.114m	3.096m	3.084m	3.084m	3.085m	0.0%	-0.9%
	North East	140,000	140,000	140,000	139,000	139,000	0.0%	-0.7%
Construction employees:	UK	1.299m	1.305m	1.250m	1.264m	1.308m	3.5%	0.7%
	North East	60,000	63,000	64,000	63,000	68,000	7.9%	13.3%
Service employees: (G-Q)	UK	22.237m	22.479m	22.307m	22.443m	22.472m	0.1%	1.1%
	North East	835,000	843,000	832,000	836,000	836,000	0.0%	0.1%
Not seasonally adjusted		2006 Autumn	2006 Winter	2007 Spring	2007 Summer	2007 Autumn	Change	
Self-employment:*	UK	3.731m	3.827m	3.847m	3.796m	3.850m	54,000	119,000
	North East	117,000	113,000	115,000	122,000	117,000	-5,000	0,000

CLAIMANT COUNT

(Not seasonally adjusted).

		2006 Dec	2007 Mar	2007 June	2007 Sep	2007 Dec	Change	
							Quarterly	Annual
United Kingdom		.923m	.956m	.856m	.828m	.790m	-38,000	-133,000
Great Britain		.898m	.930m	.832m	.804m	.768m	-36,000	-130,000
North East Region		51,285	53,824	48,404	46,725	46,734	9	-4,551
Tyne & Wear		23,427	24,520	22,546	21,591	21,219	-372	-2,208
Claimant Count Rates (workforce rates) %:							Change in rates:	
							Quarterly	Annual
United Kingdom		2.9	3.0	2.6	2.6	2.4	-0.2	-0.5
Great Britain		2.9	3.0	2.6	2.6	2.4	-0.2	-0.5
North East Region		4.3	4.6	3.9	3.8	3.8	0.0	-0.5
Tyne & Wear+		4.9	5.1	4.7	4.5	4.4	-0.1	-0.5

REDUNDANCIES

(from the Labour Force Survey).

		2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	Change	
							Quarterly	Annual
Numbers (thousands):	GB	x	x	x	x	x	n.a	n.a
	North East	x	x	x	x	x	n.a	n.a
Rates (per 1,000 employees):							Change in rates:	
							Quarterly	Annual
	GB	5.5	5.3	6.1	4.7	5.2	0.5	-0.3
	North East	*	*	*	*	*	n.a	n.a

Sources: ONS's Economy & Labour Market Review (February 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 (2digit 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

(+ 1,702 announced in the press October 1st – December 31st 2007)

* means new opening

+300 (from summer 2008)	South Tyneside Council , South Tyneside (Local authority. Jobs created and a further 600 to be privatised in a Strategic Service Partnership. It is in the final stages of a procurement to deliver a Strategic Partner. Short-listed bidders, BT and Spirit Partnership, are expected to submit final tenders for the partnership in early 2008, with the contract due to start in the summer. Job creation is a key aim of the partnership and bidders will be required to deliver a minimum of 300 sustainable jobs per year over the ten-year lifespan of the contract.)	(Shields Gazette 20/10 & South Tyneside Council)
+ 250	Fabricom , North Tyneside (Oil & gas services. The Belgian firm has signed a lease agreement for the former NIM Engineering site. It plans to spend £2m redeveloping the site as a base for design and detailed engineering, maintenance and modification work to terminals, platforms and field decommissioning work in the North Sea.)	(J 06/12)
+190	Moneygate , Boldon, South Tyneside (Mortgage search company. It aims to appoint 40 staff [shortly] as part of its expansion with another 150 financial advisor posts within the next year. New posts include mortgage advisors, plus contact centre and underwriter jobs. It currently employs 30 staff at its Boldon base and another 60 around the country.)	(Shields Gazette 29/05)
+150	Shepherd Offshore , Offshore Technology Park, Walker, Newcastle (Oil and gas services company. It is planning a major expansion and has a full order book.)	(J 27/11)
+150	Gateshead College , Baltic Campus, Gateshead (Education College. It is relocating to a new £39m Baltic Campus in January/February with an intake capacity of 7,000 students per term.)	(NE Vision, Winter 2007)
+150 (in 2008)	Twenty4help , Gateshead (Technical & I.T support. It aims to create 150 [call centre] jobs in a drive for growth. It has been acquired by French company Teleperformance.)	(J 18/12)
+120	Spark Response , Gateshead (Call centre. New jobs as its business expands over Christmas. It secured a number of contracts that could help turnover rise 15% to £12m this year.)	(J 22/11)
+100 (over next 12	Litter Boss , Newcastle (Exterior cleaner. It has taken over interior cleaner Bettakleen of North	(J 06/11)

months)	Shields and expects to increase turnover from £10.7m to £15m by next year. Together they employ 600.)	
+90 (in 2008)	Eaga Partnership , Newcastle (Energy Efficiency Specialist. It produces Energy Performance Certificates for Home Information Packs (HIPs).)	(J 18/12)
+40 (within 2 years)	Whelan , Newcastle (Construction Company. It expects turnover to rise 56% to £50m by 2009.)	(J 20/12)
+30	IDS , Boldon Business Park, Sunderland (Medical testing kit manufacturer. Immunodiagnostic Systems Holdings. It plans to extend into Chinese, Japanese and Australian markets.)	(J 11/12)
+20	Merit Process Engineering , North Shields, North Tyneside (Engineering firm. It won a contract to dismantle the high-tech equipment at the Atmel semiconductor factory, after the announcement of its closure.)	(J 19/12)
+20	Statebourne Cryogenics , Washington, Sunderland (Cryogenic vessel maker. New jobs making cryogenic vessels used to store biological material or gases at very low temperature.)	(J 19/10)
+16* (est)	Pura , Sunderland (Smoothie bar. The newly launched chain is creating about 50 jobs. The first store opened in Sunderland in October. Stores in Newcastle and Durham will follow in the next 18 months.)	(J 18/10)
+16* (est in next 18 mths)	Pura , Newcastle (Smoothie bar. The newly launched chain is creating about 50 jobs. The first store opened in Sunderland in October. The Newcastle store and a store in Durham will open in the next 18 months.)	(J 18/10)
+15	Carcraft , Birtley, Gateshead (Car supermarket. Recruitment following strong performance at the 14-acre site, where it hopes to employ 200.)	(J 08/11)
+13 (over 18 months)	Nano-porous solutions ltd (N-psl) , Gateshead (Nano Filtration Technology. It won £300,000 in grants and is in negotiations for premises on Team Valley, Gateshead.)	(J 15/12)
+12	Microcomputing , Sunderland (I.T. support, training and software solutions. It is based in Boldon Business Park, Sunderland)	(J 20/12)
+10	Spark , Gateshead (On-line distribution centre. It has won a contract to distribute US Grand Canyon's candle products in the UK.)	(J 10/10)
+10 (in the next year)	AAP Metal Fabrication , Bede Industrial Estate, Gateshead (Metal fabrication. New jobs for company.)	(J 18/10)

Outside Tyne & Wear

+2,500 (in 2009)	Sonhoe , Tees Valley (Designs and develops oil related and energy infrastructure solutions. Plans to invest £2bn in the first major UK oil processing facility for 20 years. Up to 2,500 jobs could be created in the three-to-four year construction period, hoped to begin in 2009.)	(NE Vision, Winter 2007)
+450 (expected 2012-2013)	Sonhoe , Tees Valley (See above. A further 450 jobs could be created to run the plant once it is complete and 1,600 jobs in support and service industries.)	(NE Vision, Winter 2007)
+600 (over	Fusion Contact Centre Services (part of BGL Group), Peterlee, Co.	(Northern

next 3 years)	Durham (Contact centre. New jobs following the re-use of the former Orange premises in March.)	Echo 07/11)
+100	RF Micro Devices , Newton Aycliffe, Co. Durham (Wireless technology and radio frequency components supplier. It is creating 100 jobs and safeguarding a further 200 after acquiring the Filtronic factory, Newton Aycliffe.)	(J 24/12)

Additions to Q3 2007		
+30 (from May 2008)	Dunes , South Shields, South Tyneside (Amusement arcade. Jobs for a £1.8m expansion.)	(Shields Gazette 28/08)
+25	New Logic , Boldon Business Park, South Tyneside (Call centre. It planned to add another 50 recruits ‘in the next few weeks’.)	(Shields Gazette 08/06)
+25	Travelling Man , West Boldon, South Tyneside (Pub. New jobs following a £400,000 revamp.)	(Shields Gazette 14/06)
+23	South Tyneside District Hospital , South Tyneside (Hospital. It has opened a new £2m psychiatric intensive care unit.)	(Shields Gazette 03/07)
+15*	Netto , Pennywell, Sunderland (Supermarket. Jobs for new store.)	(Sunderland Echo 29/08)

3.2 Job Losses

(-1,450 announced in the press October 1st – December 31st 2007)

* means closure

-600*	Atmel , North Tyneside (Microchip factory. It is cutting all jobs and closing the site. It has sold the site to property company High-Bridge Business Park and the eight-inch wafer fabrication equipment to Taiwan Semiconductor Manufacturing Company for a combined total of £61m. It is switching production to its factories in the US (Colorado) and France.)	(J 09/10 & FT 10/10)
-500*	Revenue & Customs , North East (Revenue & Customs offices. The Government is closing 14 Revenue & Customs offices in the North East. Up to 1,700 staff will be moved from their current offices to some of the nine locations due to remain. 5 Newcastle offices and 4 Sunderland offices will close from early 2008.) (See also Public Services.)	(HMRC website)
-180	British Engine Ltd (BEL) , Walker, Newcastle (Engineering. It is moving its ‘cable glands’ division CMP to the former Shur Flexible factory on the Nelson Industrial Estate in Cramlington, Northumberland. It currently employs 850 people in Newcastle.)	(J 23/11)
-150	Littlewoods , Sunderland (Financial services. Job cuts as part of an on-going review of the ‘cost and efficiency’ of its business.)	(Liverpool Daily Post 09/10)
-20	Lakeland Timber Framed Homes , Earsdon, North Tyneside (Timber frame house builder. It is relocating to a purpose-built facility on the Nelson Industrial Estate in Cramlington, Northumberland to meet increased demand from its customers.)	(J 09/10)

Outside Tyne & Wear		
-500*	Electrolux , Spennymoor, Wear Valley, Co. Durham (Domestic appliance manufacturer. It is to close its Spennymoor plant at the end of 2008. It is transferring production to Swidnica, Poland.)	(J 15/12)
-300*	Stadium Plastics , Hartlepool, Tees Valley (Plastic moulding manufacturer. It is to close its plant in January 2008. It failed to find a buyer, after going into receivership in October.)	(J 13/12)
-160	RPC Beaute , Thornaby, Middlesbrough, Tees Valley (Cosmetic packaging company. The French company wants to consolidate its business in Germany, Italy and Turkey.)	(J 05/10)
-81 (-181 inc. self-employed)	Budget Windows , Stockton, Tees Valley (Double-glazing, doors and conservatory company. It went into administration. 100 sales staff who work on a self-employed basis have also been affected. Five staff were maintained to assist administrators).	(J 22/12)
-70	Nicholas Piramal India Ltd , Morpeth, Northumberland (Pharmaceutical plant (former Pfizer plant). The cuts would provide financial savings to underpin future competitiveness. It currently employs 400.)	(J 10/11)

3.3 New Orders and Contracts to Local Firms

(At least £77.5m to local firms, plus unspecified construction contracts)

£4.5m	Tanfield , Washington, Sunderland (Electric vehicles maker. Contract to supply 100 vehicles to an Irish logistics firm.)	(J 19/12)
£40m	Wellstream , Walker, Newcastle (Pipeline manufacturer. Contract to supply pipelines to Brazil's Petrobras oil company in 2008. It is also investing £35m expanding the capacity at its factories in Walker. It employs 500.)	(J15/11, 21/11)
£33m	SMD Hydrovision , Newcastle & North Tyneside (Makers of sub-sea vehicles. Contract from undersea mining company Nautilus Minerals to build the world's first mining machine designed for use on the sea bed. Its HQ is in Newcastle and has a construction yard at Wallsend, North Tyneside. It employs 120.)	(J 20/12)

4.0 FEATURES

4.1: The Credit Crunch

The ‘Credit Crunch’ has **four strands**, each of which seems set to create major losses for the banks: The **losses** for banks **could** very well be **treble** the amounts reported so far, thus **equating to 2 or 3% of US GDP**. This is enough to trigger a recession in the US, but the reduced lending is hitting the UK too. A loss, by shrinking the capital of a bank, in turn limits its ability to lend. This is how the ‘credit crunch’ operates.

1. The credit crunch has three major strands besides Sub-Prime Mortgages (SPM) which have already led banks (worldwide) to report losses of over \$100bn⁶. There could be more from SPM; the banks’ ‘worldwide remaining exposure to subprime loans (excluding off balance-sheet vehicles) is put at \$380bn’ (EcN 12/1)

Banks’ losses (not just from SPM), before the end of 2008, could be \$300bn, TWRI suggests - equivalent to about 2-3% of US GDP. This money will be largely raised from the customers of banks – acting like a tax, without new spending to match; this acts as a brake on economic growth.

i) **bond-insurance on CDSs**; firms, known as ‘monolines’, have insured trillions of dollars of Credit Default Swaps (CDSs) against the default of the bond issuers (the risk of which has risen). The CDS-related losses are being estimated at present; a middle-range net estimate is \$32-158bn.⁷ The major monolines are facing credit downgrades; this raised the spectre that CDS insurance could become more expensive, causing a widespread lowering of the value of bonds.

ii) **Leveraged loans** (mostly related to LBO⁸s); these involve big bank loans (typically to private equity firms) to acquire companies. If the issuing banks are unable to sell on these loans as bonds, then they remain on their books. ‘The \$250bn in unsold debt on banks’ books remains a big headache’ (EcN 12/1).

iii) **UK commercial property**; this has lost value (as it does) much more rapidly⁹ than housing. Moreover the UK banks have lent a record proportion of their loans to property companies (about 9%).

2. In Britain, access to credit has been tightened sharply for both companies and households. The banks are doing this because of difficulties in raising funds from the wholesale money markets and because of the housing market slowdown – Bank of England (BoE) (FT 4/1).

The BoE’s Credit Conditions Survey for Q4 (see Table) shows how sharply credit has been tightened and that this is being widened from households, to commercial real estate.

		June 07	Sept 07	Dec 07
To the corporate sector	Past 3 months	2%	-20%	-52%
	Next 3 months	0%	-49%	-36%
<i>Of which:</i> commercial real estate sector	Past 3 months	1%	-15%	-37%
	Next 3 months	-3%	-30%	-46%
To households (secured)	Past 3 months	-3%	0%	-31%
	Next 3 months	13%	6%	-25%

The results are analysed by calculating ‘net % balances’ – the difference between lenders reporting terms and conditions were tighter/looser. Source: BoE, compiled by TWRI.

Companies felt this credit squeeze first; in the 3 months to September a balance of -20% of lenders tightened credit for companies. This tightened to -52% in the 3 months to December. Moreover, lenders forecast they will tighten further (-36%) for the 3 months from December.

⁶ E.g. Citibank reported losses of \$22bn in the fourth quarter of 2007. UBS, a Swiss bank, reported losses of around \$10bn.

⁷ Attributed to Mr. Andrea Cicione of BNP Paribas. EcN 2 Feb. p83. (EcN is the Economist Newspaper)

⁸ LBOs are Leveraged Buyouts.

⁹ UK commercial property values fell 10% in 2007 – IPD (Investment Property Databank).

The development of commercial real estate is heading for a marked slowdown [in TWRI's judgment]; lending to this sector is expected to be tightened even more (-46%) than corporate lending in total.

The tightening for households' secured lending [i.e. mainly mortgages] has come somewhat later, with no tightening before September. In the 3 months to December, however, a balance of -31% tightened this credit, and a further -25% expect more tightening.

The Bank of England's Governor warned, in a speech in Bristol, that interest rate cuts alone will not help solve the problem (of imbalances which threaten the stability of the economy) and an increase in the national saving rate is necessary. He said the UK is "probably facing a period of above-target inflation and a marked slowdown in growth." (FT 23/1).

3. **Risky mortgage lending** had become common place in 2007: **A fifth** of new mortgages written in 2007 was either "subprime" or made to a buyer who offered no proof of income - the Intermediary Mortgages Lenders Association. (FT 12/1)

1.4m mortgages are 'risky' [about 1 in 10] – Financial Services Authority (FSA). 840,000 mortgages taken out between Q2 2005 and Q3 2007 contained at least two riskier elements. 150,000 have all three. Lending characteristics are considered risky if showing:

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

[Bank of England data shows that there were about 3.3m approvals for purchase during the period – Ed.] (J 30/1)

4. Tighter Mortgage lending is **under-mining volumes of house sales**:

Lending to Value has been reduced to 75-90% [of the value of a home]– moneyfacts.co.uk.. It has previously reached 130% (FT 15/1).

Gross mortgage lending fell 21% year-on-year in December to £22.6bn, - [comprehensive data from] the Council of Mortgage Lenders. (FT 22/1). New mortgage approvals *by banks* for house purchases fell 40% in December 2006 (compared with a year ago) to the lowest figure for 10 years – British Bankers' Association (FT 25/1).

The **volume** of house sales **fell most in the lower price ranges**; down 20% for homes sold for under £200,000 in October, compared with a year earlier - **Land Registry** data. Lenders requiring bigger deposits for a house purchase are squeezing first-time buyers (FTBs) – the Royal Institution of Chartered Surveyors. FTBs now have to save 104% of their [annual] net pay, up from 100% in the third quarter (and 23% in 1996). (FT 30/1).

5. **Prices** are under **downward pressure**: Asking prices fell 0.8% in December to £230,000, taking the annual rate of increase to 3.4% - the lowest since 2005 - Rightmove. (FT 21/1) [Rightmove uses data from agents]

6. **Consumer credit** is also **being tightened**: The number of refusals for [consumer] credit increased in 2007, to 67% from 54% in 2006– according to Equifax, the credit information firm (J 05/1).

7. **Company insolvencies** are also forecast **to rise 8.3%** to 13,500 in 2008 – Euler Hermes. (FT 02/1)

8. Mortgage lenders are urging the Bank of England and the Treasury to help them raise funds for a potential one-third (£30bn) shortfall in 2008 (for net lending). On current trends, the outstanding values of mortgages in the UK will rise by £90bn in 2008, but new deposits from retail and institutional customers might only reach £60bn. Securitisation [i.e. selling on bundles of mortgages as bonds] had become a crucial funding source for mortgage lenders, but "since August no bank has managed to sell any retail mortgage-backed securities in Europe in a public offering ..." (FT 21/1).

4.2: Strong Economic Growth (GVA) in Tyne & Wear

ONS issued its estimates of Gross Value Added (GVA)¹⁰ for 2005 in December for ‘NUTS 3’ areas, including Tyneside and Sunderland.

The estimates show that Tyne & Wear has had five consecutive years (2001-05) of GVA growth faster than in the UK (Table 1).

Note that the GVA data are not deflated to remove the effects of different price levels in different areas and through time.

Table 4.1: Gross Value Added (GVA) (£billions) and percentage growth, 1997 – 2005.

	1997	2000	2001	2002	2003	2004	2005
UK	725	847	889	937	994	1 052	1 097
North East	26	28	30	31	33	35	37
Tyne & Wear	12	13	14	15	16	17	18
% growth UK	5.8	5.0	5.0	5.4	6.0	5.9	4.2
% growth T&W	5.6	4.5	6.2	5.9	6.5	6.5	4.9

Source: ONS, TWRI has aggregated Tyneside and Sunderland data to calculate TW figures. The 2005 figures are provisional.

GVA per head in Tyne & Wear has grown relative to the UK by (a big) 6 percentage points over the eight years from 1997 (where UK = 100, from 86% of the UK average to 92%) (Table 2). The growth has been somewhat faster in Tyneside (up 7pp) than in Sunderland (up 5pp).

Table 4.2: GVA per head (£)

	1997	2000	2001	2002	2003	2004	2005
UK GVA (£)	12 438	14 378	15 040	15 800	16 682	17 577	18 205
TW GVA (£)	10,459	12,283	13,070	13,838	14,764	15,760	16,490
TW Index	86	88	89	90	90	91	92
Tyneside	88	90	91	92	93	94	95
Sunderland	81	81	83	83	84	85	86

Source: ONS, Compiled by TWRI. The 2005 figures are provisional

It is not known what balance of processes have driven this fast growth. It appears to be part of the international pattern of larger cities tending to have faster economic growth (than other places). This is known as ‘agglomeration’.

TWRI comment: In Tyne & Wear’s case it appears¹¹ that public sector expansion (in health and education especially) has played an important, and possibly dominant, role. The late arrival of the property boom from about 2002 also played a part.

¹⁰ GVA effectively measures the economic output of an area.

¹¹ From other sources such as ABI and LFS (for employment) and VAT (for growth of the business base),

5.0 INVESTMENTS & DEVELOPMENTS

5.1 Investment & Development Trends

UK **commercial property values fell 10%** in 2007 –Investment Property Databank (BBC Radio 4: Money Box, 19/1). From their peak in mid-2007, they have fallen by 12%.

Commercial property transactions in the UK have been **stalling** after prices began to fall in mid-2007. JPMorgan lowered its forecasts, estimating that valuations could drop between 12% and 15% in the next 12 months. A JPMorgan analyst said “It is not whether the markets are coming down, it’s whether the drop will be 10% or 20%”. (FT 26/10) [The answer, above, is 12% in just 6 months –Ed]

UK **commercial property funds** saw their **first fall in total returns** in 15 years in September, with many seeing a drop of up to 4%. Lending on commercial property had jumped 19.5% in 2006 to £85.7bn –report by De Montford University. About £16bn of investors’ money is in UK property funds. Typical maximum loan-to-value ceilings have dropped from more than 80%, in August, to about 70% in October. (FT 26/10)

A move at the end of the boom: In **Newcastle**, on **Fenkle Street**, the 51,000sq ft Zurich insurance building has been **bought** by Benmore Developments for around **£11m** (reaching a high prices of over £200/sq ft). It went up for sale at £7.2m. (J 24/10)

5.2 Investment & Development News

Office Developments

In **Gallowgate, Newcastle**, details of the **£60m** scheme to replace [the now demolished] Wellbar House have been **revealed** by architects Lister Associates. The new nine-storey building provides **120,000sq ft** office space and is set to be complete in December 2009. [The developer is Moonglade Holdings Ltd] (J 14/11)

On **Gateshead Quayside**, **work has started** on speculative development **Baltimore House**. It will provide 24,000sq ft office space. When complete, Baltic Business Quarter will offer a self contained environment based around linked urban spaces, wide boulevards and avenues of trees (J 28/11)

Late News: In **Newcastle**, at the **West One** scheme, Mandale Commercial is **seeking tenants** for its latest office development. It will provide 44,500sq ft office space over four floors. (J 16/01)

In **Gallowgate, Newcastle**, the new building for law firm **Robert Muckle** has been topped out.

Business Developments

In **Sunderland**, south of the Nissan site, Barmston Developments has been **granted planning permission** to develop a **new business park**. The **£70m** scheme on the 55-acre site will begin in January, with units ready for occupation in November 2008. (J 12/12)

In **Newcastle**, at the **former Tyne Brewery site**, **proposals** for the **new science park** have been **revealed** by City Council planners. The **£500m** project is set to create up to 5,000 jobs by 2010. The plans were subject to a three-day-public consultation on the best lay-out for the 10-acre site. (J 14/11)

Industrial Developments

The **NEMC** (North East Mailing Centre) **Group** has become one of the region's largest mail distribution centres after **investing £500,000** in new equipment. It is one of only a few UK direct mailing houses to install a continuous laser printer, capable of handling print runs in excess of four million A4 images. (J 12/12)

In **Birtley, Gateshead**, **work has begun** on the Co-operative Group's new **regional distribution centre** (RDC). The **£12m**, 270,000sq ft multi-temperature facility is on the Drum Road Industrial Estate. It is expected to be fully operational by the first half of 2009. [The Co-operative Group employs 240 in Birtley and 234 in Blaydon] (J 12/12)

At Eastern Avenue in **Team Valley, Gateshead**, a three-acre site is being **re-developed**. It includes nine industrial units totalling 24,000sq ft and a 20,200sq ft stand-alone unit. (J 21/11)

Mixed Developments

In **Sunderland**, [Urban Regeneration Company] Sunderland arc made a **cash bid** to Tesco for the former **Vaux Brewery** site. It wants to create 1,000 homes, offices, two hotels, leisure facilities, shops, bars and restaurants on the site. Owners of the site Tesco's plans to build a superstore were dented when a Government inspector ruled the site could only be used for a mixed use development. Sunderland arc have secured the option of using a Compulsory Purchase Order if Tesco continues to delay the sale. (J 6/11, 4/12)

In **Team Valley, Gateshead**, a **£75m** development scheme is **to go ahead** at the former Dunlop premises. The **Queens Court Development** will create four large industrial units ranging from 14,673sq ft to 29,246sq ft and six 'hybrid' units of around 3,300sq ft for office and workshop accommodation/storage. A second phase of development will provide a further four 'hybrid' units. The completed development is expected to include 400 jobs. (J 31/10)

In **Newcastle**, at the bottom of the **Ouseburn Valley**, **work is set to start** on the **£24m Tyne Square** residential and leisure development. It includes ten and six-storey buildings, with 112 riverside apartments, 3,000sq ft retail space and 7,500sq ft leisure space. It is due to be complete in 2009. (J 03/10)

In **Newcastle**, at Denton Park Shopping Centre, **work has started** on a **£23m** mixed-use re-development scheme. It includes a **75,000sq ft Morrisons store**, 10,000sq ft of new shops and a health centre. (J 10/10)

Plans

In **Newcastle**, at **Westgate House**, **plans have been submitted** for a new **£30m** office block by developer Centreland. They include 65,000sq ft offices and 4,200sq ft shop or restaurant space. Work is expected to start by the end of 2008. (J 19/12)

In **Elswick, Newcastle**, Mosedale Gillatt Architects (MGA) have developed more **detailed plans** for the 5.5ha site west of the Cruddas Park area. It will include 15,000sq ft commercial property and 150 homes. (J 5/12)

In **Newcastle**, behind the Central Station, developer Silverlink **unveiled plans** for a **£150m** scheme at the **Stephenson Quarter**. Plans for the 8-acre site include a 250-bed four star hotel, offices, apartments, a major art gallery and exhibition centre, townhouses and restaurants. (J 17/10)

In **Newcastle** city centre, on **Pilgrim Street**, work on a major development **could be underway by 2010**, subject to planning permission. The **33-acre site**, owned by Multiplex, would include 75,000sq

ft of retail space, 200,000sq ft of office space, leisure outlets, hotels and student housing. Plans also include a flagship department store. Work is scheduled to be complete by 2015. (J 12/10)

In **Newcastle** city centre, the bottom of **Westgate Road** is to be **refurbished**. 15 Railway arches, owned by Network Rail, will be converted into office, retail and leisure units by Network Rail's property company Spacia. An old warehouse structure is also to be replaced by a **£5m hotel** build by Suffolk company Sleeperz; while grade-1 listed building Coopers Auction Mart will be redeveloped into office space for up to 115. (J 31/10)

In **Gateshead**, at the town centre surrounding Trinity Square, Building Design Partnership has been appointed to lead an **advisory team** on a 15-year regeneration project. (Planning 28/9)

See also Retail Developments for non-Retail elements of potential plans in Sunderland to expand Bridges Shopping Centre.

Housing Developments

In **Scotswood, Newcastle**, plans to build **1,800 homes** were **approved**. The first phase will see the UK's first housing exhibition of up to 350 homes. A further 1,450 homes will follow, with the intention that 75% will be suitable for families. (Planning 28/9)

In **North Tyneside**, the **£100m** 'Old People's Homes for the Future' scheme has **been submitted to the council**. It will help deliver 943 sheltered homes for the North Tyneside's older population, which is expected to increase by 42% by 2026. (J 15/12)

In **Low Fell, Gateshead**, Newcastle-based **Grainger Homes** has **bought Gateshead College's** current site on Durham Road. It plans to build up to 300 homes and apartments. (North East Vision, Winter 2007) [Gateshead College relocated to a new campus just south of the BALTIC art centre in January 2008, see Education Developments]

In **Felling, Gateshead**, at St. James' Village, **Live Smart @ Home**, commercial subsidiary of **affordable housing** provider Home, is to build **83 Boklok homes**. The houses are aimed at those earning between £15,000 and £35,000 per year, who are not already homeowners. Those interested in the properties were invited to apply at Ikea, Gateshead, in October. The first homes are due to be complete in January. (FT 06/10, see also <http://www.boklok.com/>)

Retail Developments

In **Sunderland, Bridges Shopping Centre** could be set to **expand** its **floor space** by **40%**. Owner Land Securities has been asked by Sunderland Council to look at extending onto the [adjacent] Crowtree Leisure Centre site. The proposed 215,000sq ft scheme would include leisure, catering, retail and residential space. (J 21/11)

In **Newcastle**, the site of the **Eldon Square Shopping Centre** re-development has now **been cleared**. It was the former site of Newcastle's green market and the Percy Street multi-storey car park. Department store Debenhams is set to open a new store in Eldon Square, once the third stage of development, demolishing and re-building the Eldon Square Green Market is complete, in 2010.

Leisure Developments

On **Gateshead's Quayside**, Irish developer McAleer and Rushe bought a development site from Opus Land for **£5m**. The 1.7-acre site has outline planning permission for a **200-bed hotel**, although McAleer and Rushe are considering alternative options. (J 12/12)

In **Whitley Bay, North Tyneside**, the **Spanish City** island regeneration scheme is to received a £2.2m [grant] from **One Northeast**. Investment in the project by One NE has now totalled **£4.6m**. The value of the scheme is estimated at £60m. It is expected to create 80 jobs and safeguard a further 27. (J 23/11)

In **South Shields**, at the **Dunes amusement arcade**, planning permission has been **granted** for a 16,000sq ft extension. It will cost **£1.8m** and is expected to open in May 2008. (Shields Gazette 28/8)

In **Gateshead, St. Mary's Church** [near the Sage Gateshead] has **closed** to the public as part of a **£1.2m** plan to transform the Grade-1 listed building into a **heritage centre**. (J 20/12)

Infrastructure Developments

In **Tyneside**, contracts for the **£260m** second **Tyne Tunnel** were signed by Tyne Tunnel Passenger Transport Authority (PTA) and concessionaire Bouygues consortium [Paris-based construction and civil engineering firm –Ed]. Up to 400 construction jobs will be created by the project. It is due to open in 2010 and be fully operational by late 2011. (Shields Gazette, 30/11)

Education Developments

In Gateshead, **Gateshead College's** new **£39m Baltic campus** is set to **open in February 2008**. It will have an intake capacity of 7,000 students per term and will create more than 150 jobs. It is part of a **£60m** investment programme on an additional campus at Team Valley Industrial Estate. (North East Vision, Winter 2007) (*See also Housing Developments*)

At **South Tyneside College**, a **£95m development plan** has been **revealed** to provide new learning facilities for up to 22,000 students. The main site at Westoe, South Shields, will include 230,000sq ft of teaching space and specialist facilities. The Hebburn campus will be redeveloped to provide 155,000sq ft of teaching space, laboratories and workshops, a resource centre and a lecture theatre. (J 12/12)

In **Sunderland**, plans have been **unveiled** for **six new schools** as part of the **£120m** Buildings Schools for the Future (BSF) programme. They involve up to £100m worth of buildings and include three academies. (J 12/12)

Health Developments

In **Newcastle**, plans have been **submitted** to transform Newcastle General Hospital into a campus for **Ageing and Vitality**. The **£100m** project would include a walk-in medical centre, specialist care for older people, and a Tesco supermarket, which would create 350 jobs. (J 20/12)

Other Developments

In **Tees Valley**, Sonhoe plans to invest **£2bn** in the **first major UK oil processing facility** for 20 years, with a capacity to process 10 million tonnes of oil per year. Engineering and design work is underway and it hopes construction will start in 2009. Up to 2,500 jobs could be created in the three-to-four year construction, as well as 450 jobs to run the plant and 1,600 jobs in support and service industries. [It will process heavy, sour and/or acidic crude oils and residues producing diesel, naphtha and kerosene. It will not produce gasoline] (North East Vision, Winter, 2007)

5.3 Economic Development Aid & Finance

The NE has been allocated **£250m** from the **European Regional Development Fund (ERDF)** between 2007 and 2013 through One NorthEast. The investment will be used to support business innovation. (J 10/10) [This programme to 2013 is expected to be last for the NE from EU Regional Funds –Ed]

Table 4.1: Summary of Take-Overs 1 October -31 December

Acquirer	Value	Target	Business
Akzo Nobel	£8bn	ICI	Paints
Heineken & Carlsberg	£7.8bn	Scottish & Newcastle	Breweries
Renault	u.a. (strategic partner)	Autovaz [Lada]	Car-makers
Nike	£285m	Umbro	Sportswear
Sage	£20m	KCS Global [in US]	HR & Payroll Software
Paramount Comms	£13.3m	AEI Cables	Cable-makers
Benson Group		Integrated Packaging	Paper packaging
Entek (in MBO)		n/a	Battery Components
Arnold Clark Automobiles		Patterson Motor Group	Motor Retailing
Teleperformance		Twenty4help	Contact Call Centres
Imprint Creative Print Solutions		Perfect Screen Print	Printing

MBO means a Management Buyout.

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

Table 4.2: SFI in England: offers of £75,000 or more (1 October- 31 December 2007¹)

Company	District	£
Vantec Europe Limited	Sunderland	245,000
Chemviron Carbon Ltd ta Charcoal Cloth International	Sunderland	200,000
Parmley Technologies Limited	North Tyneside	153,000
North East Total		3,357,500

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

¹Date 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.

'ta' means 'trading as'

6.0 INDUSTRIES AND FIRMS

6.1 Business Overview

The number of **VAT-registered firms** in the **UK rose 2%** (39,000) to 1.96m in 2006 – ONS. (FT 15/11) The number of VAT-registered firms continued to grow more strongly in **Tyne & Wear up 2.5%** in 2006. This is the **fifth consecutive year** when numbers rose **faster** than in the **UK**. In **Tyne & Wear City Region**, the same indicator **rose 2.7%**, well above the UK. [TWRI –from D BERR.]

Company bankruptcies in Q4 2007, were **down 20%** from a year ago to 4,674 –Experian. The number of bankruptcies in the **NE fell 12%** in Q3 2007, compared with Q2. Nationally, it fell 5%, with the average [bankrupt] person having debts of almost £51,000. (J 29/12, Northern Echo, 13/11)

The **NE** has **30,000 fewer businesses** than it should have [TWRI report for NE Regional Skills Partnership]. There are **46,000** businesses in the NE, compared to **70,000 expected** for a region of its size. The number of businesses in relation to population is around 40% below the UK average (J 7/11)

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

6.2 Energy & Water

Newcastle's **bid** to host the £1bn **Energy Technologies Institute (ETI) failed** largely due to its **building facilities** and **reputation** and **culture** [according to Mr Clark and Ms Wall of ETI]. The latter were the two key factors according to evidence given to the Scottish Parliament's energy committee hearing. (J 22/11) [The ETI was won by Loughborough –Ed]

6.3 Biotechnology & Chemicals

Akzo Nobel's shareholders approved its **£8bn takeover** of **ICI**. Akzo employs 900 at its International Paints plant in Felling, Gateshead. (J 9/10, FT 6/11)

Nano-porous solutions ltd (n-psl) won **£300,000** in **grants**. It plans to almost triple its current workforce of 7 and is in negotiations for premises on Team Valley, Gateshead. (J 15/12)

IDS's (Immunodiagnostic Systems Holdings) **turnover rose** [49%] to **£6.77m** in the six months to September, up from £4.53m last year. **Pre-tax profits rose 81%** to £1.34m. It plans to extend into Chinese, Japanese and Australian markets. [IDS is based on Boldon Business Park, where it plans to create up to 30 jobs] (J 11/12)

Newcastle-based **E-Therapeutics'** software can **model** the **effect of drugs** on the body in just **two weeks** instead of two years of clinical trials. It joined the Aim market in October in preparation for expansion. [This is potentially very valuable for pharmaceutical companies] (FT 8/10, EcN 25/10)

Goes on Green has submitted a '**scoping**' **proposal** to outline plans for a **bio-diesel production plant** in **North Tyneside**. A full planning application for the land close to the Port of Tyne's ferry terminal has not yet been submitted. The development would require 25-30 staff to operate. [Goes on Green was formed by Tariq Malik and Giuseppe Simeone and has backing from venture capitalists] (J 28/11)

UK Biometrics plans to allocate a **new UK franchise every month** for the next 18 months. The North Tyneside company aims to grow turnover to £100m by 2010. It is to create 20 jobs in the NE and 25 across the UK. (J 14/11) [It provides fingerprint access control systems –Ed]

6.4 Mechanical Engineering

Rolls Royce plans to cut up to 2,300 jobs across the UK, Europe and the US. The cuts will focus on overhead and support functions in the UK, Germany and the US but details of where the job losses will take place have not been confirmed. [It employs 23,300 staff across the UK, including 400 in Sunderland –Ed] [Half-year results in July] It spent £40m in additional costs after the declining strength of the US dollar (although it still announced a 17% rise in profits to £380m). (J 12/01)

Rolls Royce won a contract worth up to **£1bn** from Saudi Arabia in an order for 72 Eurofighter Typhoon aircraft. It has a **36%** share of the production work for the EJ2000 engines which powers the fighter aircraft. Major parts of the engine are made at Sunderland, Coventry, Derby and Nottinghamshire. (FT 7/12)

In addition, **Rolls-Royce** is to assemble some of its jet engines in Singapore and the UK. It is investing **£150m** over five years to **increase its global manufacturing capacity** and cut exposure to the weak US dollar. It plans to assemble part of the Trent family of large jet engines in Singapore and is locating a new plant for a new range of business jet engine in Virginia, USA. [Rolls-Royce employs around 400 in Sunderland, where it makes parts for Trent engines –Ed] (FT 21/11)

Meanwhile, **BAE Systems** also expanded into the US with the **acquisition** of military support services firm **MTC Technologies** for **£226m**. (FT 24/12) Ohio-based MTC Technologies provides technical and professional service for the US Department of Defence and intelligence agencies, including equipment integration and modernisation. BAE Systems had hoped to secure a contract from the Army to manufacture 3,000 FRES (Future Rapid Effects System), but the MoD postponed its decision following ongoing unexpected problems which require further work. (The Times 29/11) [BAE has invested £20m at its factory in Scotswood, Newcastle.]

Royston Power Generation aims to **double its turnover to £16m** over four years. It plans to expand beyond its two sites in Newcastle and Grantham and increase its workforce of 80. [It installs, maintains and repairs diesel engines for clients in the defence sector] (J 16/10)

6.5 Offshore, Shipbuilding & Ship Repair

Wellstream is to **invest £35m** expanding the capacity at its factories in Walker, Newcastle. The flexible pipeline manufacturer aims to produce 30% more pipelines in response to growing demand worldwide. It unveiled a £40m contract to supply pipelines to Brazil's Petrobras oil company in 2008. [It currently employs 500 people] (J 15/11, 21/11)

A&P Group is the **preferred bidder** for a significant share of a **£200m** Royal Navy contract. The deal involves essential maintenance work on a fleet of 17 ships. It plans to invest over £10m over three years to upgrade facilities. [A&P Tyne in Hebburn, South Shields, employs 230 staff] (J 12/12)

Meanwhile, **A&P Tyne, Hebburn**, has **finished converting** the Normand Seven offshore support ship into a pipe-laying vessel for Subsea 7 in South Tyneside. The £130m ship will be used to lay flexible pipelines to a depth of 2,000m. (South Shields Gazette, 26/11)

6.6 Motor

Nissan sold 472,117 units in Europe in the ten months to October 2007, **up 5.4%** from last year, with October's sales up 22% year-on-year. It expects to save £1m a year by investing in two more wind turbines at its Sunderland plant to help offset rising energy costs. (J 10/11, Northern Echo, 9/11)

Late news: Nissan is to create **800 jobs** at its Sunderland plant owing to the success of the *Qashqai*. It has sold more than 130,000 of the small 4x4 vehicles since their launch in March 2007. 850 are currently produced every day and the firm is introducing a third shift. Half the staff will be

full-time and the remaining half will be on temporary contracts. In addition to the new jobs, 480 staff on temporary contracts will be offered permanent positions. (J 01/02) [It currently employs 4,200 at its Sunderland plant]

Renault is to become **Avtovaz** [Lada] 's **strategic partner** with a blocking stake in the company, beating rival bids from General Motors and Fiat. Renault and its alliance partner Nissan, aim to add capacity in emerging markets to offset slumping markets in western Europe and the US. Avtovaz, Russia's largest carmaker, maker of the Lada, had been struggling to compete against foreign rivals. (FT 08/12)

See also Motor Retailers for 2.5% growth in 2007.

6.7 Electronics & Electrical Engineering

Tanfield won a **£4.5m contract** to supply 100 vehicles to an Irish logistics firms. The Sunderland electric vehicle maker is creating 300 jobs at its Washington, Sunderland, plant in 2008, after rapid expansion in 2007. A further 200 jobs could be created in 2009. It acquired a factory in California in December and aims to produce **10,000 units a year** in the **US by 2010**. (J 05/12, 19/12)

Entek has been **bought** out by its **management**. [The specialist battery-component maker employs 135 in Killingworth] (J 9/11)

AEI Cables in Birtley, Gateshead, has been **sold** by TT Electronics to Indian cable maker **Paramount Communications** for **£13.3m** –around £13m less than the [presumably book-] value of its assets. Paramount plans to keep the 314 staff at the plant but this will be reviewed regularly. (J 23/10)

Zytronic's turnover fell to **£11.4m** for the six months to September, down 7% from 2006. **Pre-tax profits halved** to **£0.64m** (from £1.27m in 2006). The touch-screen manufacturer largely blames low demand in the ATM sector, but expects the market to improve. [It employs 190 at its Blaydon HQ, Gateshead, where it is investing £4m in a new manufacturing site] (J 12/12)

6.8 Food & Drink

Brewer **Scottish & Newcastle** had been **taken over** by Heineken and Carlsberg for **£7.8bn**, after rejecting three previous proposal bids. [S&N employs 80 at the Federation Brewery in Dunston, Gateshead]. Heineken will acquire S&N's British operations. Carlsberg will gain full ownership of Russian beer business Baltic Beverages Holding. The deal requires approval by the European Commission and is set to be complete by Q2 2008. (BBC News 17/10, 25/01)

Greggs' sales rose 5.9% in the 16 weeks to October, compared to 2006. It plans to open **13 additional stores**, creating 200 jobs by 2008 (although these are 'unlikely' to be in the NE). [Greggs Bakery chain has 1,335 outlets in the UK] (J 10/10)

6.9 Printing & Packaging

Integrated Packaging has been **acquired** by the **Benson Group** from Leicestershire. Gateshead-based Integrated Packaging aims to double turnover to £35m within 5 years and invest £6-7m in new technology. (J 13/12)

Imprint Creative Print Solutions (ICPS) has **acquired Perfect Screen Print**, doubling its workforce in Gateshead to 70. (J 19/10)

6.10 Other Manufacturing

[State-owned] **Remploy** now plans to **close or merge 43 plants** with the **loss of 2,300 jobs**. It plans to invest in creating work in ‘mainstream’ employment. It is currently Britain’s largest employer of people with disabilities. [It employs 280 at seven sites in the NE, including Gateshead and Newcastle] (J 12/11)

6.11 Construction (including Housing)

Stockton-based **Budget Windows** has gone **into administration**. The double-glazing, doors and conservatory company suffered from significant losses as the credit crunch continued. 81 staff were made redundant with immediate effect, and a further 100 ‘self-employed’ sales staff were also affected. (J 22/12)

[Late news: Newcastle-based **Pennine Windows** has also gone into administration. 126 of the firm’s 143 staff have been made redundant. It has five show villages across the NE and a head office in Whitley road, Newcastle. [The Journal said Pennine was hit by the credit crunch. This could have occurred if banks refused to renew its credit scheme(s) to customers] (J04/01)]

Growth in **construction output** is forecast to **slow** to just over 1% in 2008, compared to 2.6% in 2007 –Construction Products Association. Growth is expected to remain at 1% until 2012. Key elements of the forecast from the CPA include:

- **Housing starts** are expected to **fall** to **205,000** in 2008, but **recover** to 235,000 by 2012.
- Output on **public sector projects** is expected to **grow 2.8%** pa over five years. Private sector growth is expected to be [just] 0.3% pa.
- Output on **commercial projects** is expected to reach **£17.3bn** in 2009, but fall to £15.5bn by 2012.
- Output on **infrastructure projects** is expected to **increase** by over **25%** over five years, from £5bn in 2007 to £6.5bn in 2012.

(<http://www.builderandengineer.co.uk/news/>, 21/01)

Late news: **Barratt’s volumes** in the **six months to December** were down 15% on a like-for-like basis. Its order book is worth 6% less than a year ago, at £1.26bn. It described the figures as ‘encouraging’. [This is more positive than rival builders –Ed] (J 18/01)

Commercial and residential property developer **Eatonfield Group** has **opened** an office in **Newcastle** as it looks to expand across the North and Scotland. (J 5/12)

Seven in ten NE builders find it **difficult to fill jobs**, the second-highest figures behind Scotland – FMB. Luke Nixon (consultant at recruitment firm Protech) said the rate of growth is faster than in skilled workers in the sector and most construction workers prefer to leave for the south. (J 23/11)

6.12 Retailing

SCS Upholstery’s like-for-like sales **orders fell 16%** since July [17 weeks]. **Sales** at the Sunderland company **fell 7%** since 2006, compared with a year earlier. It blamed the high interest rates and a fall in consumer spending. (J 4/12) [In 2006, Sunderland-based DP Furniture and Stag furniture collapsed due to a downturn in consumer spending – Ed.]

Nike is to **buy** football kit firm **Umbro** in a deal worth **£285m**. It has agreed to keep Umbro’s headquarters in the UK and to continuing trading under the Umbro name. [Nike’s head office in Sunderland employs over 80] (J 24/10, 31/10) [The takeover is backed by Sports Direct, which sold two-thirds of its Umbro shares to Nike for £56m in December. It had increased its stake in Umbro in October, raising fears Nike might not be able to win enough support for its takeover]]

Sunderland-based **Lloyds Furniture**, a small chain of furniture retailers, has gone into **administration**. (30/11)

Milligans is to be **re-branded** as Nichols following its acquisition by Newburn-based North East Bakery as part of rapid expansion plans. NE Bakery expects turnover to rise from £2.5m to £4m by the end of the current financial year and to £8m in three years. [Milligans has 19 stores in the region] (J 24/10)

See Other Services for Newcastle City Centre's proposed Business Improvement District (BID).

Motor Retailers:

UK new car registrations in Q4 2007 **rose** at the **strongest rate** since Q1 2004 but the industry **remains cautious** for 2008 –Society of Motor Manufacturers and Traders. New car registrations in the three months to December were **up 4.6%** year-on-year at 463,492. New car registrations rose 2.5% over the full year to over 2.4 million units, but are expected to drop [over 2.5%] in 2008 to 2.34 million units. (<http://www.smmmt.co.uk/news/>, 7/01)

Vertu has grown in one year to be the **10th largest car dealer in the UK**. The Newcastle-based retailer announced **sales of £290m** to August 2007 since its establishment in November 2006. It expects annual revenue to rise to £700m and pre-tax profits of £5.9m within two years. (J 08/11)

Washington-based **Springfield Motor Group** aims to **raise turnover** by 50% to **£120m** by 2012. It currently has six dealerships and a body shop in the region. Work is underway on a new showroom for its Fiat franchise in Gateshead. (J 26/11)

Patterson Motor Group has been **sold** to **Arnold Clark Automobiles** for an undisclosed fee. Patterson Group employs 370 people across sites in Newcastle, Shiremoor (North Tyneside) and [in Northumberland] Corbridge and Hexham. (J 2/11)

6.13 Tourism & Hotels

The NE has been named a '**must see**' **destination** for 2008 by the **Lonely Planet Bluelist 2008** guide. It is the only part of the UK included in the list of 30 destinations. Locations recommended include Hadrian's Wall, Gateshead's Baltic Centre and Middlesbrough's new MIMA art gallery. Tourism accounts for 4.6% of NE GVA. (FT 18/10)

Visitor numbers to **Hadrian's Wall** facilities have **fallen** (-8%) from 579,000 in 2004 to 532,000 in 2006. Hadrian's Wall Heritage plans to increase Hadrian's Wall's annual contribution to the NE economy by £200m to £1.3bn and help create 2,000 jobs by 2012. (J31/10) [The figures given are too high by a factor of approximately 50 to 100 in the judgement of TWRI]

Thomas Cook expects **profits** from the year to October to rise 26% to **£269.5m**. It is on target to achieve £444.6m operating profits in 2009/2010. In November is raised its expected cost savings from its £8bn merger with MyTravel to at least £143m, up £43m. It plans to cut 2,800 jobs by mid-2008, with the closure of six offices and 150 stores. [MyTravel has a call centre in North Tyneside –Ed] (J 22/11, 12/12)

6.14 Culture & Leisure

(There were no Culture & Leisure announcements)

6.15 Transport & Communications

New passenger transport authorities will be established by Tyne & Wear Councils continue to work towards creating a City Region. Government reforms will allow cities to regulate transport and force bus operators to run specific routes. Transport improvements will be a priority in the first few years as the City Region works on Multi-Area Agreements. An **interim transport body** to act as a [sub-] regional authority has been **established**, headed by **North Tyneside mayor** John Harrison. (J 13/11, 27/11)

Road pricing and an **improved rail network** have been highlighted as the key to **breaking congestion** in the North by Prof. David Begg at the Northern Way conference [Nov 27, The Sage, Gateshead]. He also renewed calls for a high-speed rail link in the North. (Liv. Daily Post, 28/11)

The NE will *not* receive a **share** of the **Productivity Transport Innovation Fund** (TIF). The Government is expected to use the majority of the **£9bn** fund for the London Crossrail scheme. (J 6/11)

Air

EasyJet's underlying **profits** rose 48% to **£191m** in the year to September. **Passenger numbers** rose 13% to **37.2m**, filling around 84% of available seats. It forecasts a further rise of 20% next year. EastJet bought GB Airways, a franchise carrier of British Airways, for £103.5m cash. The acquisition will allow it to expand more rapidly at Gatwick, where it will rival the size of BA [EasyJet flies 17 routes from Newcastle Airport –Ed] (FT 21/11)

The **Newcastle Aviation Academy** is to **invest £3.2m** in expanding its training facility at **Newcastle Academy**. Work is due to start after it received £1.69m from One NE. (J 19/11)

Rail

Grand Central launched the **new rail route** from **Sunderland** to London. It currently runs a daily return service between Sunderland and London Kings Cross and a further daily return service between York and Kings Cross. (FT 19/12)

National Express Coast (subsidiary of National Express) is to **invest £750,000** in **Newcastle Central Station** as part of £43m investment in stations across its new East Coast Mainline route. It took over the franchise from GNER in December. (J 11/12)

The **NE and Strathclyde Partnership for Transport** (SPT) will consider the economic benefits of linking the two regions via a 300mph **Maglev train**. It has set aside **£250,000** to investigate establishing a rail link from Glasgow to Edinburgh then to Newcastle and Teesside. (J 20/11)

Public Transport

Nexus has received **£12.8m** government funding to **replace ticket-machines** and barriers at 13 key **Metro Stations** across Tyne & Wear. The funding is for phase one of its £600m bid to revamp the service. (Planning 31/08)

6.16 Financial Services

Growth in **UK financial services** could **halve** as a result of the credit squeeze- the Ernst and Young Item club. It predicts that more discerning lending practices and lower bonus payments could turn the London housing market's "soft landing" into a sharper correction. (FT 22/10)

Coutts Bank is to **treble** its **Newcastle operation** due to growing business. It will move into 9,000sq ft offices in Trinity Gardens, Newcastle Quayside in January. [No jobs gains were announced at this stage] (J 01/10)

Bids have been made for **Northern Rock (NR)** by **Virgin Money** and **Northern Rock management**. Private equity group Olivant declined to bid [on 4/02] due to terms included in the government's financial package for the bank. NR's **£25bn** loan from the Bank of England is to be **securitised** into **government-guaranteed bonds** in order speed up a private sale. If a private sale is not reached, NR will come under **temporary public ownership**. (FT J 2/11, 3/11, 26/11, 13/12, 24/12, 4/02) [Virgin Money plans to recapitalise NR using £500m equity from a consortium of investors and £500m raised from shareholders. NR management, who have the support for SRM and RAB Capital (NR's two largest shareholders) have secured around £500m worth of commitment from shareholders –Ed]

Late news: On 17th Feb., the Treasury announced that the Government will take Northern Rock into "temporary public ownership". Ron Sandler becomes the government's Executive Chairman at the Rock. This extends the taxpayers' commitment beyond the existing £55bn of guarantees effectively to the full £110bn mortgage book.

The **Northern Rock Foundation** said it will **cut spending** by **two-thirds** to £7m in 2008. The charity received 5% of Northern Rock's pre-tax profits and spent an average of £19m a year since its foundation in 1997. (J 29/11)

Late news: in respect of the Northern Rock Foundation, the new Executive Chairman "will commit to guaranteeing a minimum income of £15m per year in 2008, 2009 and 2010"- Chancellor's statement 17th Feb. 2008 (BBC website)

6.17 Business Services

Twenty4help has been **taken-over** by French company **Teleperformance**, which plans to expand its Gateshead base. Twenty4help aims to create 150 [call centre] jobs in a drive for growth. (J 18/12)

Executel plans to **double turnover** to **£15m** in three years. The Gateshead communication firm current employs 36 people. Its turnover rose 27% to £7.5m last year. (Northern Echo, 6/11)

Malcolm Hollis opened its **first office** in **Newcastle** in a bid to expand operations. The London-based **building consultancy** has doubled in size in four years. It employs 120 nationally. (J 19/10)

6.18 Software & Digital Industries

Sage's sales rose 30% to over **£1.1bn** in the year to September, with **pre-tax profits** up 14% to **£251m**. Its UK revenues rose 10% to £224m. It acquired KCS Global, a human resource and payroll software group, for £20m cash in October. [Sage employs 1,400 at its Newcastle HQ] (FT 30/10, J 29/11)

Computer scientists at **Newcastle University** have developed a software **program** that improves **security** for handheld devices by using pictures instead of letters and numbers. Initial tests indicated the **BDAS** (Background Draw a Secret) is **1,000 times more secure** than conventional passwords. (Northern Echo 6/11)

Th_nk is the **fastest growing** media and entertainment company in **Europe, the Middle East and Africa** (EMEA), covering 21 countries. The Newcastle company was ranked 27th in the Deloitte Technology Fast 500. (J 4/12)

Knowledge IT is to **open a second centre** for data and business recovery operation in **Washington, Sunderland** in summer 2008. It recently opened a **£1.3m** centre in **North Tyneside**. (J 24/12)

Komodo Design aims to **raise turnover** from £180,000 to **£250,000** after relocated from Gateshead International Business to the **Old Casino in Newcastle** in 2007. It plans to expand from five to eight staff in 2008. (J 10/12)

Perfiliate was ranked **ninth** on the *Sunday Times Tech Track 100* league table for fast growing technology companies. The Newcastle **marketing firm's** sales grew 254% to £13m in 2004-2006. (J 02/10)

6.19 Public Services

The government is **closing 14 HMRC offices** in the UK with the loss of 500 jobs and relocation of 1,700 staff. **Five offices** will be **closed** in **Newcastle** (Aidan House, All Saints Business Centre; Cale Cross House, 156 Pilgrim St.; Eagle Star House, Regent Centre; North Star House; Warwick House, Grantham Road) and a further **four in Sunderland** (Cheviot House, Washington; Weardale House, Washington; Gilbridge House, High St West; Shackleton House, Silksworth Road) from early 2008. (J 18/10)

The **private sector** supplies over **18%** (£44bn worth) of **public services** –Oxford Economics. This makes a larger contribution to the economy than pharmaceuticals, the automotive industry, or aerospace. It currently employs 700,000 and generates **£25bn** [about 2%] towards national income. (FT 5/12)

Education & Skills

The NE has the **highest rates** of **teenagers not in education, employment or training** (NEET) [- Fabian Society Report]. One-quarter of 17 year-olds in the NE are NEET, compared to the national average of 10%. (J 6/11)

Nursery schools in Tyne & Wear are to received **£3.8m** a year from 2008-11 to **extend free early education**. The extra funding will be used to extend educational entitlement for all three and four year-olds from 12.5 hours per week to 15 hours per week. It is part of £642m available nationally. (J 01/11)

Newcastle College acquired Training West Lancashire Ltd (TWL) for **£750,000**. TWL trains small businesses' workforces and works with the Government's New Deal. The deal means Newcastle College is now a **nationwide institution** with 28 sites. (J 7/12)

6.20 Other Services

The **Newcastle City Centre Partnership** (CCP) proposed to **launch** a **Business Improvement District** (BID) for city centre firms to contribute to a fund to optimise Newcastle as a centre for business. The scheme is to raise **£15m** to spend on street cleansing, security, more entertainment and marketing. (J 03/10)

7.0 PUBLICATIONS AND RESEARCH

7.1 Tyne & Wear Research and Information Publications

TWRI has three forthcoming reports, due in February, which have been extended to cover Tyne & Wear City Region (TWCR) and the Rest of the City Region (RoCR) in addition to Tyne & Wear (TW).

The format of the ‘Market Services Performance in TWCR’ and ‘Manufacturing Performance in TWCR’ mirror one another as the two reports form the latest edition to TWRI’s Manufacturing & Market Services series, which has been divided following the significant geographical expansion to TWCR. They cover output, employment, productivity, operating profit, net investment, establishment size and purchasing of services in the top ten ‘market services’ and top ten manufacturing industries in TWCR. Comparisons are made between a) TWCR, Leeds City Region (CR) and the UK, b) TW and the UK and c) RoCR and the UK.

Market Services Performance in the Tyne & Wear City Region: 2001-2005 (EP 08/1.1, 60pp. Published 02/08, £30)

The report demonstrates the strength of the market services sector in TWCR in 2001-2005. TWCR grew in all key performance indicators. Growth was faster than the UK average in the majority of indicators and was healthy in those remaining. Performance relative to Leeds CR was more mixed and remains a potential area for concern. In particular, Business Services output growth in TWCR was only about half as fast as in Leeds CR. Growth in RoCR was faster than TW in the majority of key indicators, although its contribution to the TWCR economy is much smaller

Manufacturing Performance in the Tyne & Wear City Region: 2001-2005 (EP 08/1.2, 60pp. Published 02/08, £30)

This report shows that TW out-performed all other areas on all four key performance indicators. Growth in TWCR, however, was consistently below Leeds CR and the UK in productivity and operating profit margins, owing to large falls in RoCR. In contrast, large rises in TW meant that falls in output and operating profits were slower in TWCR than its comparators.

Businesses Registered for VAT in the Tyne & Wear City Region: 2006 (EB 08/01, 25pp. Published 02/08)

This report shows that growth in TW’s business base exceeded UK growth for every year in 2002-06. In 2006, TW’s business growth was 2.5%; TWCR’s was a record 2.7%. The three long-term top performers (in 1994-2006) in terms of business growth [numbers registered for VAT] expanded their business base by over 25%; Gateshead, Blyth Valley and Durham City. The TWCR average was 17%. Business Services had the biggest numerical growth in the number of firms. However, in comparison with Leeds CR, in some years TWCR has been more dependent on Construction.

Unemployment in Tyne & Wear (Monthly, EU 08/02, Published 02/08, £5)

This report shows how claimant unemployment fell in the year to December 2007. Monthly unemployment indicators for TW districts, NE, GB and the UK (includes claimant count, incapacity benefit claimants and ILO measure of unemployment) with claimant count statistics for TW wards.

TWRI held its **annual conference** at the Town Hall in South Shields on 28th November 2007. ‘The City Region’ and ‘Migration’ were the two main themes covered. Speakers included Paul Rubinstein (NCC Assistant Chief Executive), Prof. Alan Townsend, Phil Wood (Comedia), Peter Goldblatt (ONS), Patrick Collier (Home Office) and Dr. Olga Mrinska (IPPR North). The presentations are available to download at www.twri.org.uk

Correction: The Economic Review –Autumn 2007 stated that the ‘New Deal Tables for February 2006’ had been published on the TWRI website. This should read ‘New Deal Tables –February 2007’.

7.2 Research News from Other Organisations

The **Northern Way** received **£3m** from the Government for **economic research**. It is set to develop a programme of research and policy analysis to come up with proposals to improve the performance of local economies. The £3m is matched by money already pledged by the three RDAs for 2008-11. (J 27/11) [The money was announced at the Northern Way Summit at the Sage Gateshead]

The **Northern Way** has published the results of a research programme by the Institute for Political and Economic Governance and the Centre for Urban Policy Studies at the University of Manchester, commissioned by the Northern Way in 2007. (available from www.thenorthernway.co.uk)

The main report, **The Northern Connection** (Published January 2008), summarises the key findings of the programme. The full details are available within three subsequent thematic reports

- **Roles and Economic Functions of a City Region**
- **Connecting the North: Interdependence & Barriers**
- **Northern Places in a National Urban Hierarchy** (all published January 2008)

The reports offer ‘important new insight into the economic links between cities and regions and about the continuing and increasing importance of the key urban centres in driving growth and development’. They also look ‘at the fit between the study findings and the emerging policy agenda and the implications that follow for the Northern Way and its principal stakeholders’. [www.thenorthernway.co.uk/page.asp?id=386]

TWRI Notes: The key conclusion of the research is that ‘**Agglomeration matters**’ –in Prof. Alan Harding’s two-word summary (from Manchester University’s IPEG). This is a familiar theme following work in the USA (particularly Prof. Florida’s rankings, 2002), the OECD’s work and the DCLG’s State of the English Cities Report (2006).

The third report on Northern Places includes ranking of all 30 NUTS 3 areas in the North (NW, YH and NE) over the decade to 2004. These show that both Tyneside and Sunderland (the TW NUTS 3 areas) performed significantly above the Northern average for both GVA growth and employment growth.

The third report also quotes some striking data on the South’s ability to draw in FDI¹² in services and R&D. The UK is the 4th most popular destination for inward investment projects, but this is increasingly skewed towards the London super-region. The North continues to out-perform the Greater South East (GSE) in terms of declining number of manufacturing investments (attracting 29% of all UK projects, compared to 18% in the GSE) but is hugely out-performed in R&D and services-based investments. GSE regions accounted for 24% of all UK R&D projects and 63% of all UK services-based projects, compared to just 15% in the North for both.

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

Entrepreneurship and innovation in the North: Paper 3 from the Northern Economic Agenda project (Michael Johnson and Howard Reed. 38pp. Published 21 January 2008)

Enterprise and innovation are two of the Government’s ‘five drivers’ of productivity in the UK along with skills, competition and investment. The paper examines the arguments for Government intervention to promote entrepreneurship and innovation, asking why there are fewer entrepreneurs in the North and considering whether entrepreneurs do encourage positive spillover effects into the rest of the economy.

¹² Foreign Direct Investment. R&D is Research & Development.

The aims of this paper are threefold. Firstly, it uses the latest economic theory and empirical evidence to examine the rationale for government intervention to promote entrepreneurship and innovation in the North, and elsewhere in the UK. Second, it assesses the performance of the northern regions in terms of the levels of entrepreneurship and innovation. Finally, it examines the effectiveness of existing policies to encourage entrepreneurship and innovation, particularly in the North.

The North in Numbers (Michael Johnson, Olga Mrinska and Howard Reed. 50pp. Published 26 November 2007)

This report presents recommendations for the three northern regions of England (the North East, North West and Yorkshire and the Humber) on:

- how to improve their economic performance; and
- how to narrow the gap in prosperity between these regions and more prosperous parts of England, while also delivering a socially just and environmentally sustainable northern economy.

It brings together recommendations on future economic policy for the North of England. The aim is to suggest reforms that will enable the northern regions to combine strong economic growth with a socially just distribution of the benefits from that growth, in a manner that is consistent with environmental sustainability and in particular the need to avert dangerous climate change over the twenty-first century.

The in-depth analysis of the northern regions, embracing a wide range of economic, social and environmental factors of development, shows that there is no *a priori* reason why the North cannot at least make up a large proportion of the output gap with the UK average over the next 10 to 20 years.

The Public Sector in the North: Driver or Intruder? (Olga Mrinska. 31pp. Published 14 November 2007)

This report focuses on the public sector's impact on the economy of the three northern English regions. Does the scale of the public sector in the North, and the nature of the public sector reforms, drive or undermine the economic growth and prosperity of the regions?

It is often said that the public sector in the North is too big. It argues that the public and private sectors are not mutually exclusive entities. It is true that after decades of economic decline, deprivation and substantial public spending, the private sector in the North East, North West and Yorkshire and the Humber is still not strong enough to provide services in the areas where private actors should be most effective. The reduction of the share of the public sector spending and employment should be implemented on the basis of expanding the private sector, not at the expense of public sector spending. The author believes that in this process the public sector has a new developmental role to play.

The Northern Economy in the Next Decade (Michael Johnson, Olga Mrinska and Howard Reed. 24pp. Published 14 November 2007)

This paper provides a background analysis of the economic, social and environmental aspects of the development of the three northern regions of England – the North East, North West and Yorkshire and the Humber. This crucial overview gives an opportunity to appreciate the strengths and weaknesses of the regions and considers how to increase the productivity of the economy and its performance.

There are positive factors and assets which are currently underestimated and thus not used effectively to close the productivity gap between the most prosperous regions of the South, and the least developed regions of the North of England. The in-depth analysis demonstrates that the three northern regions of England are lagging behind the Greater South East on many economic and social indicators, however they perform relatively well against the wider range of indicators.

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

Constructing Regional Advantage : Related Variety and Regional Innovation Policy (Prof. Ron Boschma, University of Utrecht. pp. 31. Published 04/February 2008)

Why some regions grow more than other regions is a key question in economic geography. Till the late 1980s, neo-classical approaches argued that technology is a key determinant of regional growth. However, they treated technology as an exogenous factor, leaving the geography of innovation unexplained. Inspired by Schumpeter, economic geographers took the lead in criticizing this view. Since the early 1980s, they focused attention on the explanation of the geography of innovation: some regions are more capable of developing and implementing innovations, and region-specific characteristics (including institutions) may be underlying forces. This led to the claim that regions are drivers of innovation and growth.

During the last decades, new concepts like industrial districts (Becattini, 1987), clusters (Porter, 1990), innovative milieux (Camagni, 1991), regional innovation systems (Cooke, 2001) and learning regions (Asheim, 1996) have been launched to incorporate this view. In this paper, Professor Ron Boschma of University of Utrecht pursues the concept of 'Related Variety', arguing that different companies in a region can benefit from each others' skills and experiences, if they are in some ways related.

Exports from the Region and Supplies to the Region (Michael Jackson, NERIP. 47pp. Published 08 January 2008)

Companies in the North East supply goods and services to the region, to the rest of the UK and to world markets. In order to produce those goods and services, they need to purchase supplies, and again those come from within the North East, the rest of the UK, and the rest of the world. This report looks at a range of industries, or sectors, and considers the impacts of the differing proportions of supplies and sales from different geographical areas. It discusses how these factors can contribute to improving the overall economy of the North East region. [Note: Data is taken from the North East Regional Accounts –Ed]

Quarterly Economic Summary (Rebecca Hulbert, NERIP. 12pp. Published 13 November 2007)

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, investment in R&D and so on. Data is extracted from ONS, CLG, the North East Business Barometer and the EEF Engineering Outlook.