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The Impact of the Recession on Northern City-Regions

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JOSEPH ROWNTREE FOUNDATION

About ippr north

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About the project

This paper was originally prepared as part of the evidence base for the ‘Making City Regions Work for Deprived Communities’ project, a major programme of work being undertaken by ippr north, with the Joseph Rowntree Foundation and the Northern Way. It aims to understand why, earlier in this decade, some areas within city-regions in the North of England remained deprived even when the surrounding economy was performing strongly; to explore how deprived areas can be better linked to areas of economic opportunity; to consider the roles of local, city-regional, regional and national bodies and to inform the next generation of policies targeted at deprived communities.

The views expressed in this paper are those of the author and not necessarily those of ippr north, the Joseph Rowntree Foundation or the Northern Way.

Executive summary

This paper looks at the geographical effect of the recession across the United Kingdom and, in particular, at how it has affected deprived communities in the city-regions in the North of England and the people who live in them. It also offers some thoughts about the challenges these communities will face in the next few years.

Unemployment data give the most up-to-date picture of the effect of the recession and also represent a reasonable shorthand measure of deprivation. Analysis of these data suggests that as a general rule unemployment has increased most since March 2008 in those areas where it was already the highest. This is true for local authorities across the UK and also for wards within the eight northern city-regions.

Although there are special factors at play in some cases, it appears that those areas where there has been the largest increase in unemployment have above-average reliance on employment in manufacturing, in particular in those low value-added manufacturing industries that are most vulnerable to competition from low-cost companies in emerging economies elsewhere in the world. Unemployment was already high in these areas because companies were closing and cutting costs as a result of this competition. The recession has accelerated the process.

Other analysis shows that housing-led regeneration efforts in northern city-regions have been adversely affected by the recession and that some city-regions are likely to be badly hit when the Government starts to cut public spending.

For deprived communities in the northern city-regions, this could, therefore, represent a 'triple whammy'. It is imperative that efforts are made to explore how deprived areas can be better linked to areas of economic opportunity, to consider the roles of local, city-regional, regional and national bodies and to start to develop the next generation of policies targeted at deprived communities.

The Impact of the Recession on Northern City-Regions

Introduction

This paper looks at the geographical effect of the recession across the United Kingdom and, in particular, at how it has affected deprived communities in the eight northern city-regions[1] and the people who live in them. It also offers some thoughts about challenges these communities will face in the next few years. Much of the analysis is based on unemployment data because they offer the most up-to-date picture of the effects of the recession. Worklessness is, in any case, a reasonable short-hand proxy for an area's level of economic deprivation.

The paper was written to inform ippr north's 'Making City Regions Work for Deprived Communities' project, which is examining why, earlier in this decade, some areas within northern city-regions remained deprived even when the surrounding economy was performing strongly. The aim is to develop the next generation of policies targeted at deprived communities[2]. It should, however, be of interest to anyone concerned with how the recession is affecting deprived communities in the cities of northern England.

The paper looks at how the current recession has developed and at early indications of its effect on the northern city-regions. It shows that, as a general rule, the greater the economic problems were in an area when the recession commenced, the bigger the effect of the recession has been. This is going to make the task of those charged with reviving deprived communities in these regions even harder than it already was.

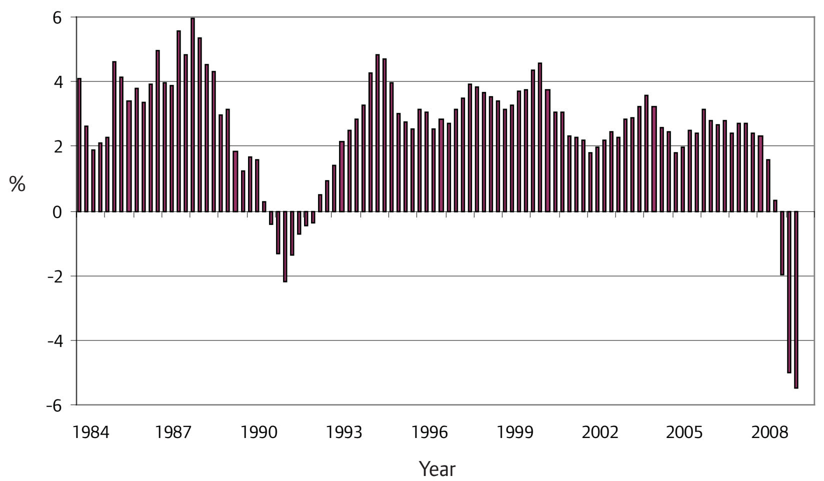
Background to the current recession

The current recession was caused, primarily, by a global credit crunch. Banks were forced to cut back their lending after making huge losses betting on financial instruments backed by the US mortgage market. As a result, credit-worthy companies were unable to borrow the funds they needed to make investments or remain solvent; workers were laid off; business and consumer confidence fell; spending was cut back and the global economy plunged into recession.[3]

In the UK, output began to contract in the second quarter of 2008. So far the recession has lasted five quarters and output (real GDP) is down 5.6 per cent from its peak. This is the fastest fall in output in the UK since the 1930s.

Figure 1. UK real GDP growth (% change on year)

Source: Office for National Statistics, www.statistics.gov.uk/instantfigures.asp



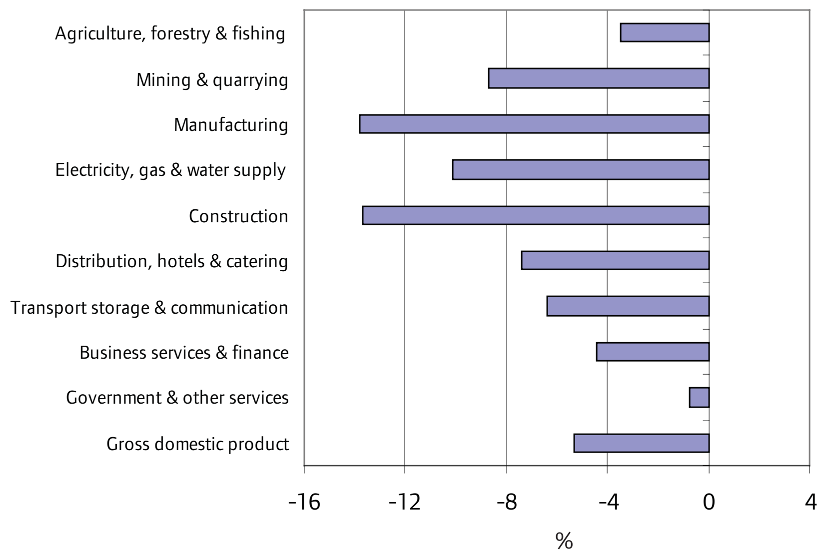
1. These are Central Lancashire, Hull and Humber Ports, Leeds, Liverpool, Greater Manchester, Sheffield, Tees Valley and Tyne and Wear. For the full structure of the city regions see Appendix 1, p19.
2. For more details on Making City-Regions Work for Deprived Communities, visit ippr north's website: www.ippr.org/ipprnorth
3. Appendix 2 contains a more detailed discussion of the nature of this recession and how the economy might recover (p21).

Because the recession was caused by a credit crunch, rather than by a general tightening of economic policy in order to reduce inflation, many commentators suggested that it would be different from other recessions experienced in the UK since the Second World War. In particular, the origins of the recession in the financial sector, and especially in the City of London, led many to predict that it would be a 'white collar' recession and that its biggest effect would be in the South of the country.

This is not turning out to be the case. All parts of the economy have been affected by the downturn, with the construction and manufacturing sectors experiencing the biggest falls in output (14 per cent, compared with an almost 6 per cent drop in aggregate output).

Figure 2. Change in output by sector, 2008 Q1 to 2009 Q2 (%)

Source: Office for National Statistics



Recent data releases show some signs of stabilisation in consumer and business confidence and the vast majority of forecasters think that the worst of the recession is behind us. However, the path of any recovery is extremely difficult to predict. Historical analysis suggests that recessions caused by credit crunches tend to be followed by relatively weak recoveries and this could well turn out to be the case. Household balance sheets have been weakened by falling house prices, so people are saving more and spending less. Bank balance sheets are in need of further repair, so lending will be slow to return to former levels. And, after 2010, departmental public spending is likely to be cut in real terms as the Government looks to reduce its huge fiscal deficit. The most likely outcome for the next few years, therefore, appears to be a return to economic growth, but at a disappointing rate.

The impact of the recession on the labour market

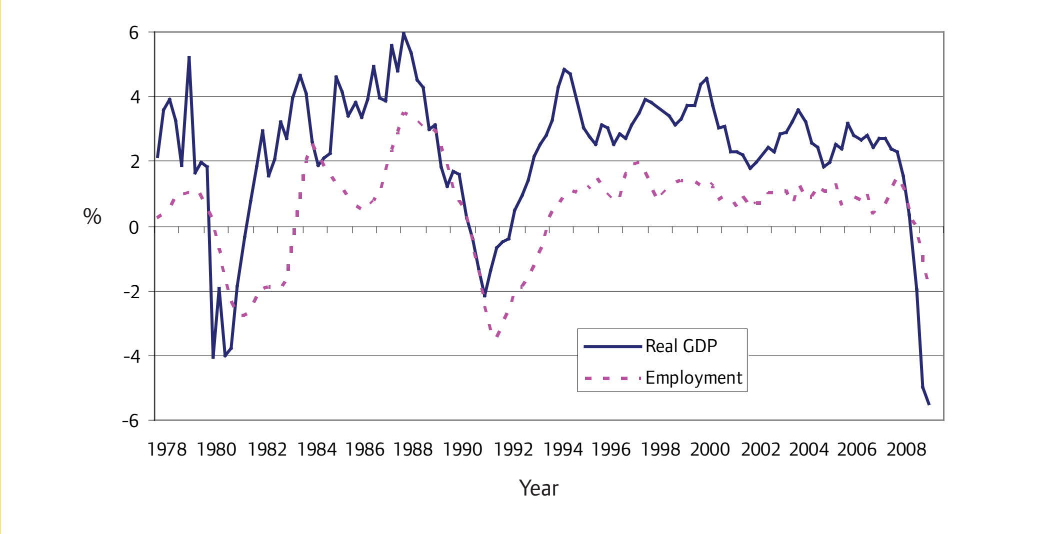
At this stage, the data that provide the best information about the impact of the recession are labour market data. These offer evidence of the recession's scale and effect geographically and on different groups, for example according to occupation or skill level. And for most people, employment is what really matters.

So far, the fall in output seen over the last year has not led to as big a fall in employment as might have been feared. Total employment in the UK peaked at 29,541,000 in the three months March to May 2008[4]. Fifteen months later, in June to August 2009, it had dropped

4. The Office for National Statistics reports employment data sourced from the Labour Force Survey as three month averages because of volatility in the monthly numbers.

Figure 3. UK real GDP and employment growth (% change on year)

Source: Office for National Statistics



by 589,000, or 2 per cent, to 28,952,000. While this is a big fall, output contracted by more than 5.5 per cent over the same period, so it could have been much worse.

There are two possible explanations for the relatively modest decline in employment over the last year or so:

1. The optimistic view is that the UK's labour market is now more flexible than it was, enabling companies to cope with the downturn in ways that do not involve making redundancies. There is plenty of anecdotal evidence to support this view. According to a survey of over 1,600 workers for the independent Keep Britain Working campaign, more than half of all UK workers have experienced a cut in pay, a reduction in hours or a loss of benefits since the recession began (Keep Britain Working 2009).
2. The pessimistic view is that the downturn has been so quick and so severe that it has taken companies by surprise. They have been slow to react so far but employment will be cut further in the rest of 2009 and in 2010, even if output begins to stabilise. This is what happened during the recession of the early 1980s – the only one experienced by the UK in the last 70 years that was on a comparable scale to the current recession.

Meanwhile, within the labour market, a number of trends are apparent:

- The recession is hitting men harder than women. Male employment was down by 2.5 per cent over the year to June–August 2009, compared with a drop of 0.5 per cent in female employment.
- The recession is hitting the young hardest. Over the last year, the number of 16 to 24 year olds in employment has fallen by 7.6 per cent and youth unemployment is at its highest level for 15 years.
- Job losses have been concentrated in three broad sectors of the economy: manufacturing (269,000 jobs lost since March 2008, representing a decline of 8.5 per cent), finance and business services (260,000, 3.9 per cent) and distribution, hotels and restaurants (237,000, 3.4 per cent). Meanwhile, the number of jobs in education, health and public administration (which covers both the public and private sectors) has increased by 216,000 (2.7 per cent).

In all these respects, this recession is turning out to be similar to previous ones, even though it has a different cause.

The regional and local impact of the recession

At this stage, the most comprehensive and up-to-date data on the effect of the recession at a regional and local level relate to the labour market. These show that since March 2008 (the most recent low point for unemployment in the UK) the unemployment rate – based on numbers claiming Jobseeker's Allowance (JSA) – has increased most in Northern Ireland, the North East, the West Midlands and Yorkshire and the Humber.[5]

Table 1: Regional unemployment rates (based on JSA claimants)

Region	Unemployment rate (%)		Change (pp*)
	March 2008	Sept 2009	
Northern Ireland	2.7	6.2	3.5
North East	3.9	7.3	3.4
West Midlands	3.4	6.7	3.3
Yorkshire & Humber	2.9	6.0	3.1
Wales	2.8	5.8	3.0
North West	3.0	5.8	2.8
East Midlands	2.4	5.1	2.7
East	1.9	4.3	2.4
Scotland	2.5	4.7	2.2
South West	1.3	3.5	2.2
South East	1.4	3.5	2.1
London	2.6	4.7	2.1

Source: Office for National Statistics
*pp = percentage point
Note: The rates are based on the number of JSA claimants as a proportion of the workforce – the standard way of presenting unemployment rates. Data by local authority and at NUTS Level 2 and 3 are derived from the Office for National Statistics' nomis database, which calculates unemployment rates using the population of working age as the denominator (so giving lower unemployment rates).

At a local level, there has been substantial variation in developments in the labour market. In 22 local authority districts unemployment has increased by 3 percentage points or more, while in 21 others it has increased by less than 1 percentage point, and in one instance it has fallen. (See Table 2, next page.)

Data at NUTS[6] Level 2 show that the biggest increases in unemployment rates have been in the West Midlands, Northern Ireland, South and West Yorkshire, the East Riding and North Lincolnshire, Greater Manchester, the Tees Valley and Merseyside. The smallest increases in unemployment rates have been in rural areas, particularly in Cumbria, North Yorkshire, East Anglia and the West Country.

5. Most of the analysis in this paper is based on unemployment as measured by the claimant count because it provides the most up-to-date and detailed information on the geographical effect of the recession. However, this does mean that the analysis is only partial, in the sense that it excludes those on other out-of-work benefits, or who are looking for a job but not claiming benefit. More comprehensive figures on economic inactivity, when they are available, may tell a slightly different story.
6. NUTS is the acronym for Nomenclature of Territorial Units for Statistics – the standard geographical units into which the UK is divided for statistical analysis. There are 37 counties or groups of counties at NUTS Level 2 and 133 upper-tier authorities and groups of lower-tier authorities at NUTS Level 3 in the UK.

Table 2: Largest and smallest changes in unemployment, March 2008 to August 2009, local authority districts

Largest changes	pp	Smallest changes	pp
Limavady	3.8	Westminster	1.0
Sandwell	3.8	Aberdeen City	0.9
Cookstown	3.8	Ribble Valley	0.9
Walsall	3.7	Cambridge	0.9
Merthyr Tydfil	3.6	Eilean Siar	0.8
Dungannon	3.5	Highland	0.8
Swindon	3.4	East Lindsey	0.8
Blaenau Gwent	3.4	West Dorset	0.8
Newry and Mourne	3.3	North Devon	0.8
Kingston upon Hull	3.3	Copeland	0.8
Rotherham	3.2	West Somerset	0.8
Redditch	3.1	Argyll and Bute	0.7
Magherafelt	3.1	Eden	0.7
Cannock Chase	3.1	Aberdeenshire	0.6
Derry	3.1	South Lakeland	0.6
Corby	3.1	City of London	0.6
Dudley	3.1	Gwynedd	0.6
Wolverhampton	3.1	Ceredigion	0.5
Moyle	3.1	Shetland Islands	0.4
Leicester	3.0	Moray	0.2
Craigavon	3.0	Isles of Scilly	0.0
Rochdale	3.0	Orkney Islands	-0.1

Source: Office for National Statistics

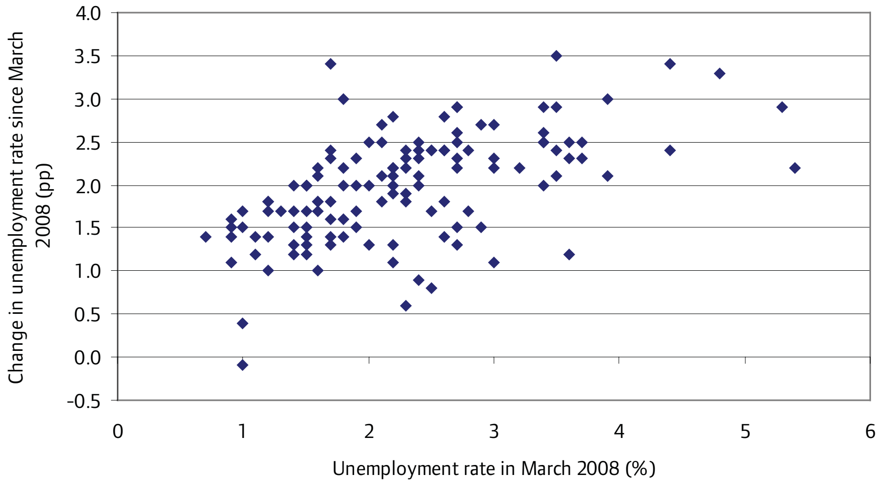
At NUTS Level 3 there are some areas outside the worst affected regions where there have been big increases in unemployment. Indeed, one of the largest increases in unemployment since March 2008 is in Swindon, where it is up from 1.7 to 5.1 per cent. This reflects the importance for employment of the Honda factory and a major Woolworths distribution centre; redundancies were made at Honda, which shut temporarily, while Woolworths has now closed. However, the vast majority of areas with the biggest increases in the unemployment rate are in the West Midlands and Yorkshire, including Walsall, Wolverhampton, Dudley and Sandwell in the former and Kingston upon Hull, Barnsley, Doncaster and Rotherham in the latter.

What this means is that the largest increases in the unemployment rate have tended to be in those areas where unemployment was already relatively high in March 2008. So those areas with the weakest labour markets have been hit hardest by the recession.[7]

7. This analysis supports Deloitte's (2009) findings that areas of high unemployment tend to experience proportionately large increases in unemployment during recessions. That paper also argues that earnings, output and other indicators converge in times of recession.

Figure 4. Unemployment rate in the UK in March 2008, and change to Sept 2009, at the level of NUTS 3

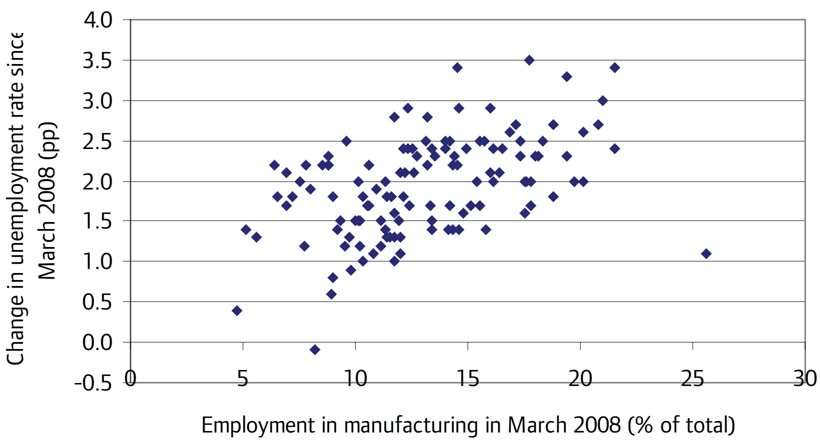
Source: Office for National Statistics



Given the big drops in manufacturing and construction output since the recession began (see Figure 2 above), this pattern might be expected to reflect the relative importance of manufacturing and construction activity in these regions. On the face of it, this is indeed the case. In March 2008, just before the recession commenced, in the West Midlands and Yorkshire and the Humber 14 per cent of jobs were in the manufacturing sector, compared with a national average of 10 per cent, and 19 per cent were in manufacturing and construction combined, for which the national average is 15 per cent. However, statistical analysis suggests there is no correlation between employment in construction and the rise in unemployment over the last 16 months – perhaps the commonly held view that the marginal workers (casual and part-time, for example) in the construction sector are Eastern European, and so not eligible for Jobseeker's Allowance, is right. Meanwhile, there is a strong correlation between employment in manufacturing and higher unemployment.

Figure 5. Increase in unemployment and employment in manufacturing in the UK at the level of NUTS 3, March 2008 – Sept 2009

Source: Office for National Statistics



The outlier in Figure 5 is West Cumbria, which at 26 per cent had a higher proportion of its workforce in manufacturing in March 2008 than any other NUTS Level 3 area, yet has experienced a relatively small increase in unemployment. This may be because the nuclear industry and BAE Systems, which are important employers in the region, have so far weathered the downturn better than most.

However, the share of manufacturing in total employment is not the whole story.

Employment data available to June 2009 show there has also been a bigger proportionate fall in jobs in manufacturing in the West Midlands and Yorkshire and the Humber than in other regions. This is particularly true in the West Midlands, where there was a fall of 12.5 per cent in employment in manufacturing between March 2008 and June 2009 (compared with an 8 per cent fall across Great Britain). The West Midlands also saw the biggest proportionate drop in employment in services, at 2.5 per cent, over this period. In part, this will have been due to lost employment in companies servicing manufacturing (such as canteen staff, cleaners and accountants). It will also reflect the effect on the local economy, especially retailing, of big job losses in manufacturing.

It is too early to be sure but it seems these regions are suffering because their manufacturing capacity was concentrated at the start of the recession in one of two areas: either low value-added areas, and so exposed to external competition from low-wage, emerging economies, or in areas that have seen a significant drop in demand because their products are judged to be non-essential in tough times. Manufacturing companies in the first group were already under pressure and laying off workers (or closing down completely). As a result, frictional unemployment – caused by people moving jobs through choice or otherwise – was relatively high in these regions, even when the economy was operating at close to full capacity, as it undoubtedly was in 2007. The credit crunch and recession have served to accelerate this process. Companies have closed, or cut back their production levels and laid off workers even more rapidly, either because demand has fallen, or because they could not borrow the funds they needed to survive – or both. As a result, frictional unemployment in these regions has gone up faster.

A recent paper from the Work Foundation also notes that a key determinant of how well local areas are performing in the recession – again based on the unemployment data – is the skills profile of the area (though this claim is actually based on information about qualifications rather than skills). It claims 'there is a clear relationship between low skills in a Local Authority and Travel to Work area and in increases in unemployment' (Lee *et al* 2009: 21). In part, this will simply be because those with low skills are found in proportionately greater numbers in those industries that have lost the most jobs, such as manufacturing and retailing. However, it is likely that firms are also choosing to retain skilled workers during the downturn because they will be harder to recruit when the economy recovers.

There may, however, be better news in the near future. If the fortunes of the manufacturing industry are the main driver of regional trends in unemployment, there is a possibility that the fortunes of the areas hit most badly so far in the recession will improve – at least in relative terms. Manufacturing output fell sharply in the second half of 2008 and the early part of 2009 because companies were anxious to reduce inventory levels (the amount of finished but unsold goods manufacturers or retailers have). Survey evidence suggests these are now exceptionally low, which has led to a stabilisation of output in recent months. Consequently, any revival in demand could be accompanied by an immediate increase in output and possibly employment too.

The most recent Chartered Institute of Personnel and Development/KPMG survey of the jobs outlook found a modest improvement in recruitment intentions in the private sector (CIPD 2009). Interestingly, the regions most likely to recruit staff in the next three months (across all sectors) are in the North of England. 72 per cent of employers in the North of England – and 82 per cent in the North East – are planning to recruit, the highest figures since last summer.

Table 3: Recruitment intentions by region (Summer 2009)	
Region	Percentage of companies planning to recruit
North	72
Wales	69
South	66
Scotland	62
Midlands	54
Source: Chartered Institute of Personnel and Development (2009)	

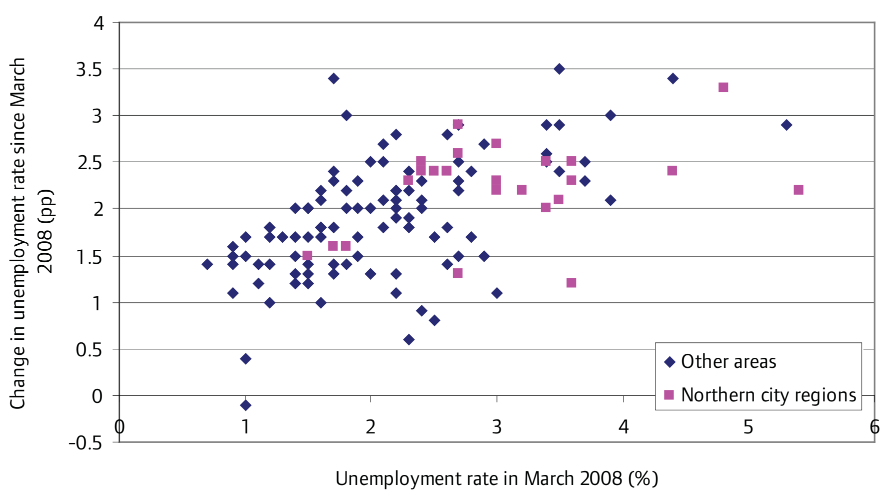
So, while forecasts that the recession would hit the South relatively hard have proved wide of the mark, it is also too simplistic to suggest the North as a whole has suffered badly while the South has escaped unscathed. Some of the biggest increases in unemployment have been outside the northern industrial regions, in places like Swindon and Corby, while parts of the North, in particular Cumbria, are faring relatively well. The South, particularly London and its commuter belt, has seen the biggest increases in unemployment rates for managers and professionals. But more jobs in aggregate have been lost in elementary occupations and skilled trades and since these account for a larger proportion of the workforce in the West Midlands and parts of the North, it is these geographical areas that have generally seen the biggest increases in unemployment (see Local Government Association 2009).

The impact of the recession on the northern city-regions

Outside of the West Midlands and areas like Swindon where there are special factors, most of the areas that have seen the biggest increases in unemployment since March 2008 are found within the northern city-regions.

Figure 6. Level of unemployment in northern city-regions compared with other areas in March 2008 and increase to Sept 2009, at level of NUTS 3

Source: Office for National Statistics



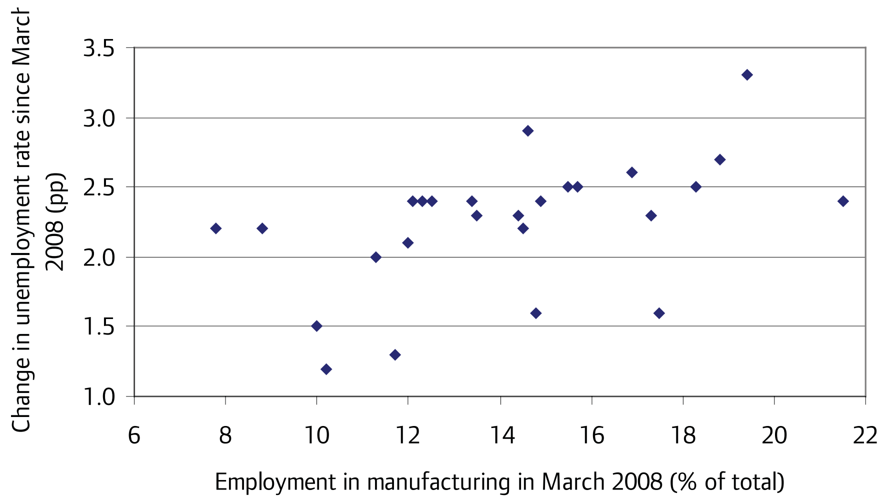
It has been unfashionable in recent years to talk about a North-South divide in the UK but, in England at least, that divide has never gone away. The northern city-regions comprise 26 of the 133 NUTS Level 3 areas that make up the UK. Of these, 23 had an unemployment rate over the national average of 2.2 per cent in March 2008 and 21 have seen a bigger increase in unemployment than the national average of 2 percentage points since then. The three areas with low unemployment (and relatively small increases in unemployment) are

York, the East Riding of Yorkshire and Lancashire County Council[8]. The three areas within the northern city-regions with the highest unemployment rates are Hull, Liverpool and South Teesside. Blackpool and Northumberland represent two 'anomalies', in that they had above-average unemployment in March 2008 but below-average increases in unemployment since then.

As at the national level, there is a positive correlation between employment in manufacturing in March 2008 in the northern city-regions and the increase in unemployment since then, though the relationship is a little less strong. This is largely due to Liverpool and Sefton, where unemployment has increased by a little more than the national average rise despite employment in manufacturing being well below the average (7.8 and 8.8 per cent respectively, compared with 12.7 per cent in March 2008). Unfortunately, the data we need to explain this anomaly are not yet available.

Figure 7. Increase in unemployment and employment in manufacturing in the northern city-regions compared with other areas, level of NUTS 3, March 2008–Sept 2009

Source: Office for National Statistics



The impact of the recession locally within the northern city-regions

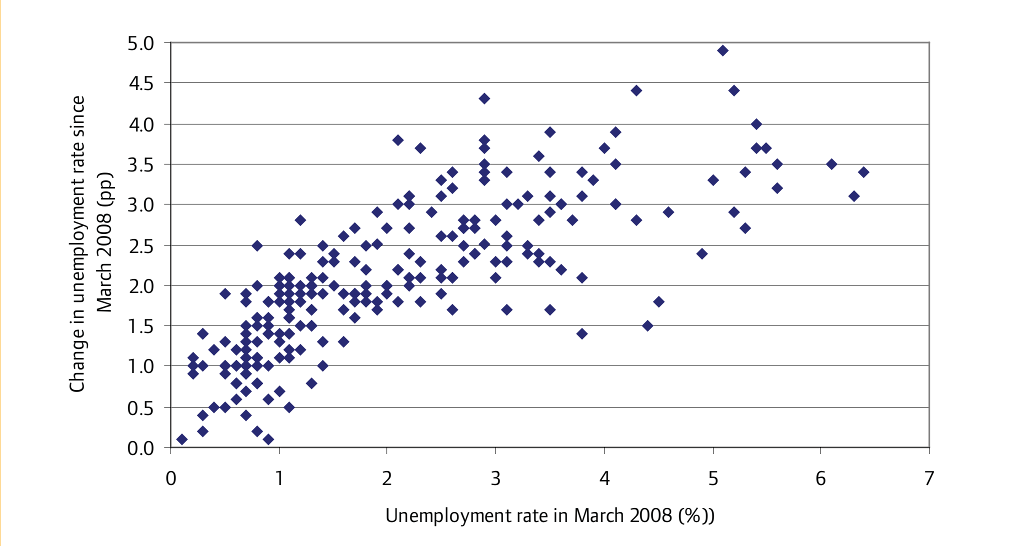
Interestingly, the pattern whereby those areas that had the highest unemployment rate in March 2008 have experienced the biggest increases in unemployment since then also emerges at a more local level within each of the northern city-regions.

In the Leeds city-region[9], for example, there are five Census Area Statistics (CAS) wards where unemployment has increased by 4 percentage points or more over the last year: Wombwell North, Hunslet, Selby South, Ovenden and Richmond Hill. Three had unemployment rates above 5 per cent in March 2008 and all had a rate above the average of 2.4 per cent for the city-region. At the other end of the scale, there are 25 wards (out of a total of 244) where unemployment has increased by less than 1 percentage point, and all bar two had an unemployment rate of less than 1 per cent.

8. North Yorkshire CC is part of the Leeds city-region and Northeast Derbyshire CC and Derbyshire CC are part of the Sheffield city-region but for the purposes of this analysis they are excluded from the city-regions because parts of them are rural in nature.
9. The analysis covers the wards within ten local authorities that comprise the Leeds city region; North Yorkshire CC is excluded.

Figure 8. Unemployment rate in March 2008 and increase to Sept 2009, Leeds city-region

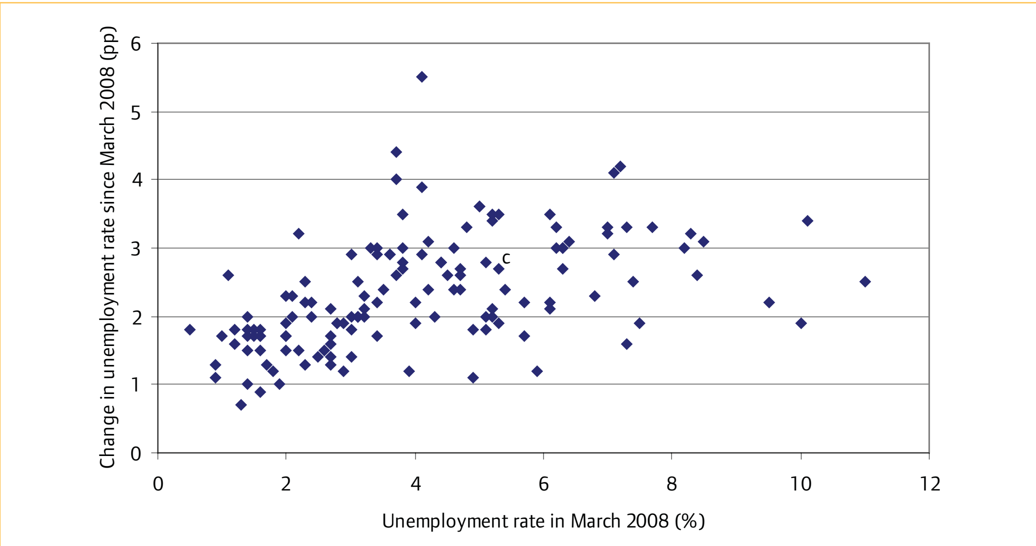
Source: Office for National Statistics



The same broad pattern is repeated in the Liverpool city-region, though the relationship between the change in unemployment and its level in March 2008 is a little less strong here because there are several wards with very high rates of unemployment that have seen only average increases over the last 16 months. Still, two of the five wards where unemployment has increased by 4 percentage points or more (Parr and Hardshaw and Longview) already had very high unemployment rates and the other three (Riverside, Appleton and Mersey) had above average rates for the city-region.

Figure 9. Unemployment rate in March 2008 and increase to Sept 2009, Liverpool city-region

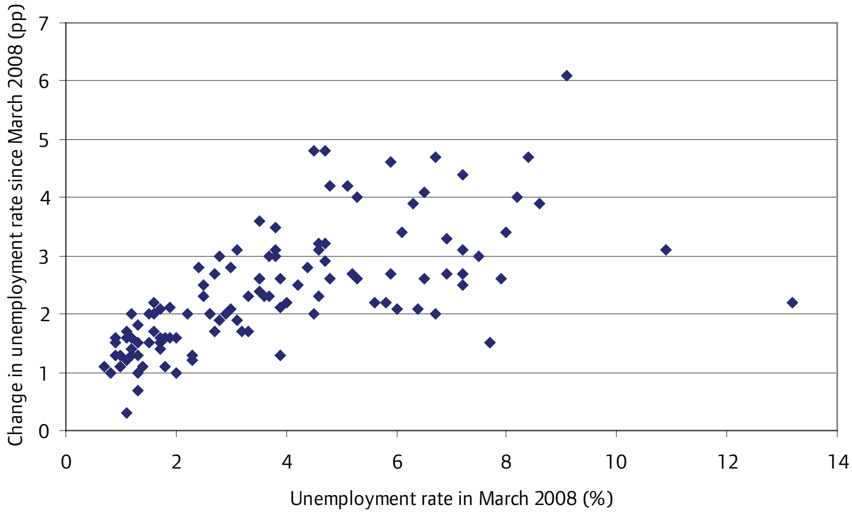
Source: Office for National Statistics



The same pattern is apparent in the Tees Valley city-region, which has eleven wards where unemployment has increased by more than 4 percentage points since the recession began. Unemployment rates in these wards ranged from 4.5 to 9.1 per cent in March 2008, compared with an average for the city-region of 3.8 per cent. Meanwhile, there are just five wards out of 116 where unemployment has increased by 1 percentage point or less. These had unemployment rates ranging from 0.8 to 2.0 per cent before the recession began. The outlier in this region is Middlehaven, where unemployment was 13.2 per cent in March 2008 but it has increased by 'only' 2.2 percentage points since then.

Figure 10. Unemployment rate in March 2008 and increase to Sept 2009, Tees Valley city-region

Source: Office for National Statistics



The pattern is the same in the other five northern city-regions (see Appendix 3, p24). The relationship is strongest in Hull and the Humber Ports and still clear although a little weaker in Central Lancashire and Tyne and Wear, where there are some areas that previously had low unemployment that have had big increases since March 2008. Statistical analysis shows the relationship is significant in all eight city-regions (see Appendix 4, p32).

Deprivation is best measured by a range of indicators, as in the Government's Index of Multiple Deprivation (IMD), which incorporates 37 indicators under seven sub-headings[10]. But it will be a few years before the data are available to calculate how the IMD for each city-region has been affected by the recession. In the mean time, if the deprivation of a Census Area Statistics ward is defined very narrowly by reference to the level of unemployment (or if broader measures of deprivation are closely correlated with unemployment), then these data suggest that the recession, so far, has had a bigger impact on relatively deprived communities within northern city-regions.

Implications for deprived communities in the northern city-regions

At this stage, it is only possible to draw tentative conclusions about the implications of the recession for deprived areas within the northern city-regions but it looks like they are being hit, or are about to be hit, by three unwelcome factors:

- First, areas where unemployment was already high are faring relatively badly.
- Second, regeneration work related to housing has been badly affected.
- Third, they could suffer relatively hard when public spending is cut.

Our analysis of the unemployment data demonstrates that deprived areas are suffering more than other areas as a result of the slowdown. It shows bigger increases in unemployment rates in areas where unemployment was already high (which might be expected to correlate with broader measures of deprivation). Higher unemployment is likely to be associated with lower incomes, lower spending and, therefore, increased pressures on local business.

In many cases, the relatively large increases in unemployment reflect the relative importance of low value-added manufacturing industries for jobs. Although the fall in sterling's exchange rate over the last two years might help in the short term, this will continue to be a

10. Income, employment, health and disability, education, skills and training, barriers to housing and services, and living environment and crime.

vulnerable point for many northern city-regions because competition from overseas manufacturers is likely to intensify. In effect, the recession has temporarily accelerated the decline in the UK's manufacturing industries.

Policymakers will therefore need to increase their efforts to find ways of getting people who lose their jobs in these industries back into the workforce. In the short term, the Work Foundation notes several areas in which city economies are acting to limit the scale of the downturn in their area (for example, by improving credit availability for local businesses), to minimise job losses and provide help to the unemployed, to make places more attractive and to prepare for the upturn (Lee *et al* 2009). Longer term, this will also require a vision of what the economic make-up of the city-regions might be like in 10 years' time. This should not involve a return to the pre-recession economy in the UK, since it was neither sustainable nor just. Instead, the next decade should be used as an opportunity to reshape the economy in fairer ways.

Meanwhile, construction activity – in particular residential construction – within northern cities has been badly hit by the recession and the credit crunch. It seems that some regions are likely to suffer disproportionately as a result of the downturn in the housing market associated with the recession. Building of private homes in Manchester has been 50 per cent higher (relative to population) than the UK national average in recent years, with Leeds not far behind (Parkinson *et al* 2009). A relatively high proportion of these homes were bought by buy-to-let investors or for purely speculative purposes but the credit crunch means potential buyers will find it harder to raise funds for the next few years. The likely result is a much lower rate of building not just for the duration of the recession but for several years.

There is also some evidence that the more deprived areas will suffer the most:

> *Residential-led regeneration schemes located in less prosperous/peripheral economies, particularly where the majority of potential buyers are those relying on gaining finance through the 'sub-prime' mortgage market have been hit [relatively hard]. These are now the least attractive schemes to developers.*
> (Parkinson *et al* 2009: 32-3)

The same authors report that many regeneration schemes led by house building have come to a standstill in the North East, which has led to redundancies. A sort of vicious circle might, thus, be developing as regeneration developments are delayed in areas with weakness in the local economy due to their dependence on declining manufacturing industries, leading to less employment, which in turn creates more economic weakness, and so on.

A significant worry is that housing-led regeneration activity will not rebound in 2010 or 2011, even if the economy emerges from recession. The period of abundant private-sector credit has come to an end and banks are likely to be reluctant to lend for what they see as marginal or risky projects for several years. This could be a severe blow to housing-led efforts aimed at regenerating deprived areas within northern cities unless an alternative source of funds can be found. Future policies targeted at deprived communities will need to treat this as one focus.

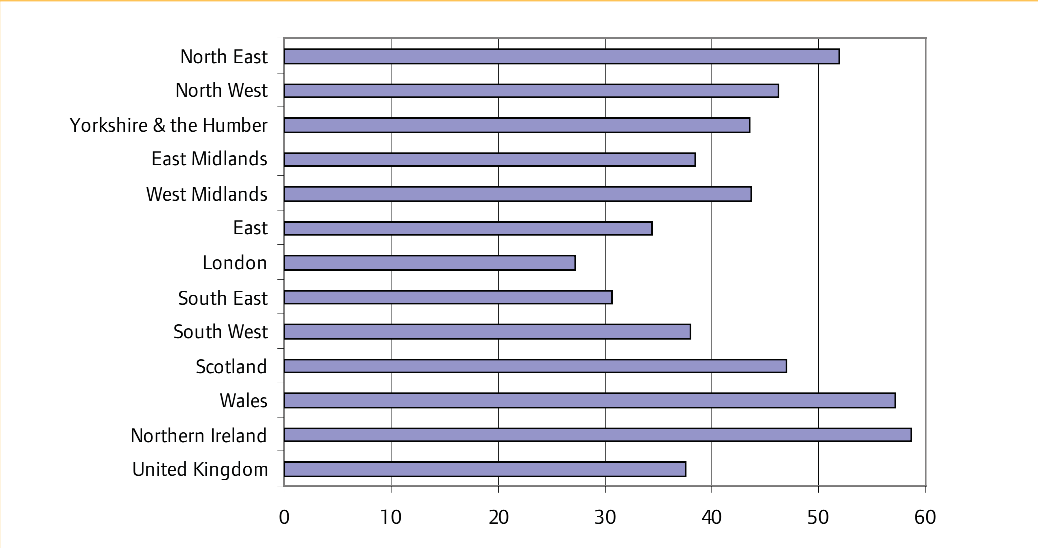
There is also evidence that smaller cities, such as Hull and Sunderland, and the periphery of larger cities are faring worse than large northern city centres. Catherine Glossop argues in a recent Smith Institute paper that it may be necessary to respond to this development by switching funds from the large city centres 'which have traditionally gleaned the lion's share of regeneration funds' to the worse hit areas (Hackett [ed] 2009: 62). In effect, this would mean abandoning the notion that spending in areas of opportunity will also boost poorer areas through some sort of trickle-down effect.

The forthcoming squeeze on public spending is also a concern because the North of England relies more heavily than other parts of the country on public spending. Cuts in public sector spending will have a direct effect on employment and incomes, but they will also have second-round effects as a result of reduced consumption and organisational spending, which will lead to further job losses in the affected areas.

In aggregate terms, the North East looks the most vulnerable region in England. According to the latest figures, public spending is equivalent to 52 per cent of gross value added in the region, compared with a national average of 38 per cent[11]. The North West (47 per cent) and Yorkshire and the Humber (44 per cent) are also above average.

Figure 11. Public spending as a share of gross value added, 2007/08 (%)

Source: Office for National Statistics



Initially at least, the focus is likely to be on 'efficiency savings' and cuts in administration costs, rather than on frontline services. If the Conservatives win the next general election, they have said that they will seek significant cuts in spending on quangos. The cities that will be vulnerable, therefore, are not necessarily those with the highest proportion of public sector employees (Oxford and Cambridge) but those with the wrong sort of public sector employment – in auxiliary central government functions and quangos. Where there is a cluster of government offices or quangos, cuts could lead to large-scale redundancies in a particular geographical area.

A recent report from the Centre for Cities highlights Barnsley, Newcastle, Liverpool and Blackpool as cities within the northern city-regions that are highly vulnerable because a large proportion of their economy is reliant on public sector activities (along with Swansea, Hastings, Ipswich and Newport) (Larkin 2009). It suggests 6,600 public sector jobs could be lost in Newcastle (1.8 per cent of total employment) and 1,200 in Barnsley (1.7 per cent). After allowing for consequent losses in the private sector, Newcastle could lose 8,600 jobs in total and Barnsley 1,600.

The outlook is particularly worrying for those areas where public sector jobs have been created in recent years by the relocation of parts of central government the publication in 2004 of Sir Michael Lyons' review for HM Treasury on the pattern of government service (Lyons 2004).

11. These ratios are calculated from identifiable public expenditure (83 per cent of total managed expenditure) for 2007/08 and gross value added at basic prices, by workplace, in calendar year 2007.

Table 4: Northern cities that have gained posts under the Lyons relocation programme (2004–2009)

City	Posts received
Liverpool/Bootle	1,667
Manchester	1,169
Sheffield	820
Leeds	728
Newcastle	668
Blackpool	503

Source: Office of Government Commerce 2009: www.ogc.gov.uk/government_relocation_relocation_programme_progress__8180.asp

It is not too soon for regional bodies to be lobbying government – and the opposition – in an effort to minimise the effect of spending cuts on deprived areas in the North. More generally, where city-regions have relied on public money in the past to fund efforts to help deprived areas, it would be wise to assume that less will be available in the future. A priority, therefore, should be to seek out alternative approaches to the problem of how to lift communities out of deprivation.

Conclusion

The recession is bad news for deprived communities in the northern city-regions, bringing rapid increases in unemployment, cutbacks in housing-led regeneration programmes and the prospect of cuts in public spending in coming years. It is imperative, therefore, that efforts are made to explore how deprived areas can be better linked to areas of economic opportunity, to consider the roles of local, city-regional, regional and national bodies, and to start to develop the next generation of policies targeted at deprived communities.

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Appendix 1: Divisions within the eight northern city-regions

Central Lancashire

1. Blackburn with Darwen
2. Blackpool
3. Preston
4. Fylde
5. Wyre
6. Chorley
7. South Ribble
8. Hyndburn
9. Ribble Valley
10. Burnley
11. Pendle
12. Rossendale

Hull and Humber Ports

1. Hull
2. East Riding of Yorkshire
3. NE Lincolnshire
4. North Lincolnshire

Leeds

1. Barnsley
2. Bradford
3. Calderdale
4. Craven
5. Harrogate
6. Kirklees
7. Leeds
8. Selby
9. Wakefield
10. York
11. North Yorkshire CC

Liverpool

1. Liverpool
2. Wirral
3. St Helens
4. Knowsley
5. Sefton
6. Halton

Greater Manchester

1. Manchester
2. Bolton
3. Bury
4. Oldham
5. Rochdale
6. Salford
7. Stockport
8. Tameside
9. Trafford
10. Wigan

Sheffield

1. Barnsley
2. Doncaster
3. Rotherham
4. Sheffield
5. NE Derbyshire
6. Derbyshire Dales
7. Chesterfield
8. Bolsover
9. Bassetlaw
10. NE Derbyshire CC
11. Derbyshire CC
12. Peak District NPA

Tees Valley

1. Darlington
2. Middlesbrough
3. Hartlepool
4. Redcar and Cleveland
5. Stockton-on-Tees

Tyne and Wear

1. Newcastle
2. Gateshead
3. Sunderland
4. North Tyneside
5. South Tyneside
6. Northumberland CC (Blyth Valley, Wansbeck, Castle Morpeth, Tynedale)
7. Durham CC (Durham, Derwentside, Easington, Chester-le-Street)

Appendix 2: The nature of the recession and the recovery

The current recession was caused, primarily, by a credit crunch. This makes it different from all the other recessions the UK economy has experienced since the Second World War. Previous recessions were preceded by a period of excessively strong growth in demand, which created bottlenecks in the economy and caused the rate of inflation in domestic wages and prices to increase. In some instances, strong global demand pushed up commodity prices, particularly oil prices, at the same time.

Policymakers responded with substantial increases in interest rates, which eventually caused demand and economic output to fall – in other words, a recession – so easing the bottlenecks and allowing inflation to go back down to acceptable levels.

Inflation in the UK did increase in 2008, but the inflation pressures were almost wholly external. The bulk of the rise in consumer price inflation, from 2.1 per cent at the end of 2007 to a peak of 5.2 per cent in September 2008, was caused by much higher food and energy prices. Domestic inflation remained subdued, with average earnings, for example, continuing to grow at an annual rate of 3.5 to 4 per cent throughout 2007 and 2008. While the Bank of England increased its official interest rate in 2006 and 2007, it peaked at only 5.75 per cent (in July 2007) – not high enough to cause a recession.

Higher food and energy prices did play some part in slowing demand growth, by reducing the amount of money households had available for discretionary spending, but they played a secondary role. The recession is mainly the result of a credit crunch, which was, in turn, caused by a bursting of house price bubbles, particularly in the United States and the United Kingdom.

In the US, house prices started to fall in 2007 and there was a rise in mortgage defaults, particularly defaults on sub-prime mortgages (loans made to those on low or irregular incomes). A lot of these mortgages had been parcelled up into mortgage-backed securities (MBS), which had in turn been used to create more complex debt instruments, including collateralized debt obligations (CDOs). When mortgage defaults rose, the prices of these securities started to fall. It then emerged that banks and other financial institutions were holding vast quantities of these instruments, often having used borrowed money to buy them. The subsequent scramble to sell drove prices lower, led to massive losses in the financial sector and bankrupted some institutions.

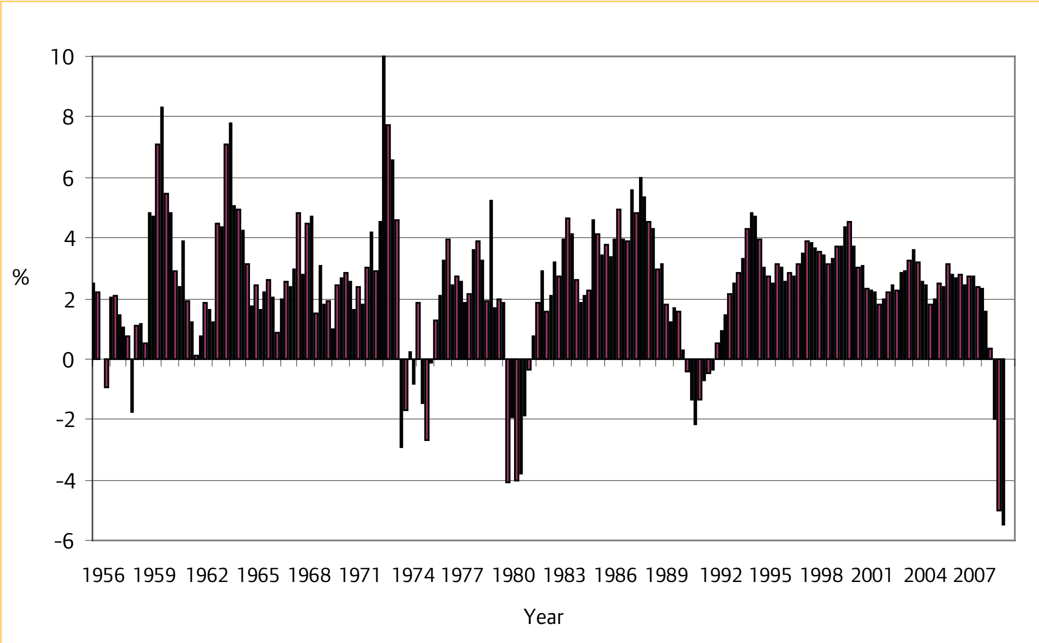
Meanwhile, house prices also began to fall in the UK, exposing a serious weakness in households' balance sheets. Household debt in the UK had increased from 109 per cent of disposable income in 1999 to 176 per cent in 2007. Much of this debt was backed by rising housing wealth and taken on in the belief that house prices would continue to increase. Once they began to fall, it was unsustainable. Mortgage defaults rose, adding to the problems banks were already facing.

Once banks ran into trouble of this magnitude, it was inevitable that the financial collapse would spill over into the real economy. Large losses caused banks' capital bases to shrink, forcing them to cut back on lending in order to repair their balance sheets. Credit-worthy households and businesses could no longer borrow the funds they needed to purchase houses, to make investments, or simply to keep companies afloat. Consumer and business spending was cut, workers were laid off and the economy fell into recession.

The cause of the recession is important because studies by organisations such as the International Monetary Fund consistently show that recessions that are primarily the result of balance sheet problems tend to be worse – deeper and longer – than recessions that result from a tightening of monetary policy to counter inflation pressures. Similar studies show that synchronised recessions tend to be worse for individual countries than isolated recessions. As we are now experiencing a global, balance sheet recession, it is no surprise that it is turning out to be the worst since the Second World War.

In the UK, the recession has, so far, lasted for five quarters (2008 Q2 to 2009 Q2) and output is down 5.6 per cent from its peak. The fall in output over the last year is the largest annual fall since at least 1956 (when quarterly records begin), and probably the largest since the 1930s.

UK real GDP growth (% change on year)



Recent data releases, which show some signs of stabilisation in consumer and business confidence, the housing market and parts of the retail sector, could be interpreted as suggesting the downturn is coming to an end. However, these data need to be treated with caution. Much of the improvement is in manufacturing where inventory levels have been corrected and companies can no longer cut production while meeting demand from stocks. Other sectors, such as construction, are still contracting sharply. It is too soon to say with any confidence whether the recession is ending or just that the worst is over. In previous recessions, output has occasionally rebounded temporarily before contracting again. The same may happen in this recession.

The unusual nature of the recession and the policy response to it make it harder than usual to predict its course and the nature of any subsequent recovery. Fiscal and monetary policies have both moved into uncharted territory. The fiscal deficit this year is projected to be £175 billion, which is 12.5 per cent of GDP and, by some way, the largest deficit in UK post-war history. Meanwhile, the Bank of England has cut interest rates to almost zero and implemented a policy of 'quantitative easing' (boosting the amount of money in the financial system). No one can be sure how the economy will react to this stimulus because it has never been tried in the UK before.

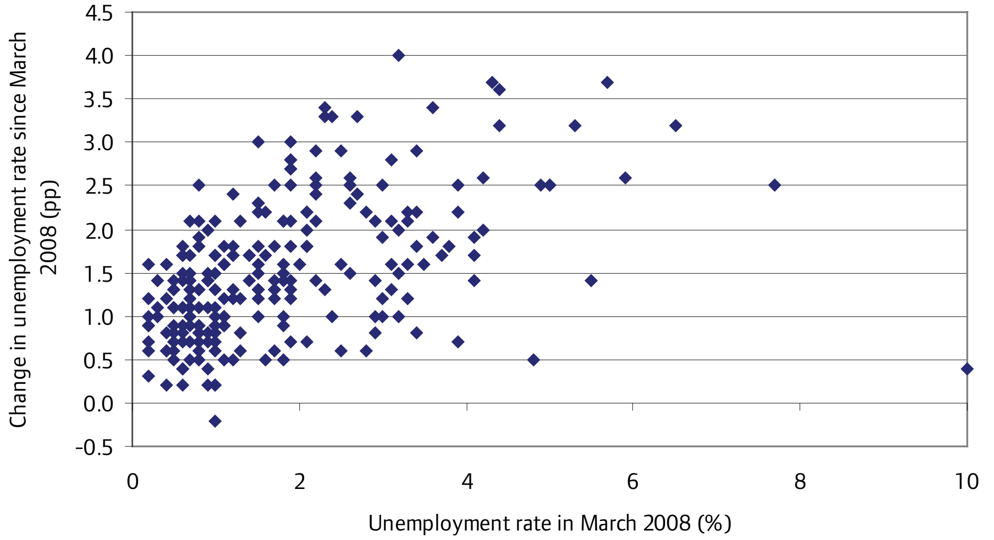
However, despite all the policy measures that have been taken, the risk is that the recovery, when it commences, will be slower and weaker than is normal in the UK. Banks still have much more to do to rebuild their capital bases and repair their balance sheets, so the availability of credit will improve only very gradually. Meanwhile, although households have started to save more and borrow less, they have a lot of work to do before their balance sheets are in better shape, and companies are also seeking to reduce debt as a priority, so credit demand will be subdued. Furthermore, government spending, excluding debt interest and welfare payments, will have to be cut in real terms – perhaps quite sharply – after 2010/11. This will hold back aggregate demand and output growth in the economy.

Just as this recession has been different from all other recessions since the Second World War, so the recovery is likely to be different from all other recoveries too. Unfortunately, the main difference could be that it is slow and faltering. The latest forecasts from the International Monetary Fund suggest UK real GDP will contract by 4.4 per cent in 2009, followed by growth of just 0.9 per cent in 2010 (IMF 2009).

Appendix 3: Increases in unemployment and unemployment levels by ward

Central Lancashire

Level of unemployment and increase March 2008 – Sept 2009, Central Lancashire city-region



Wards with biggest increases in unemployment:

Mill Hill (Blackburn) – from 3.2 to 7.2%

Sudell (Blackburn) – from 4.3 to 8.0%

Wensley Fold (Blackburn) – from 5.7 to 9.4%

Trinity (Burnley) – from 4.4 to 8.0%

Spring Hill (Hyndburn) – from 3.6 to 7.0%

Wards with smallest increases in unemployment:

Elswick and Little Eccleston (Fylde) – from 1.0 to 0.8%

Blacko and Higherford (Pendle) – from 0.9 to 1.1%

Gisburn, Rimington (Ribble Valley) – from 0.6 to 0.8%

Bowland, Newton and Slaidburn (Ribble Valley) – from 0.4 to 0.6%

Garstang (Wyre) – from 1.0 to 1.3%

Wards with the highest unemployment:

Bloomfield (Blackpool) – 10.4%

Claremont (Blackpool) – 10.2%

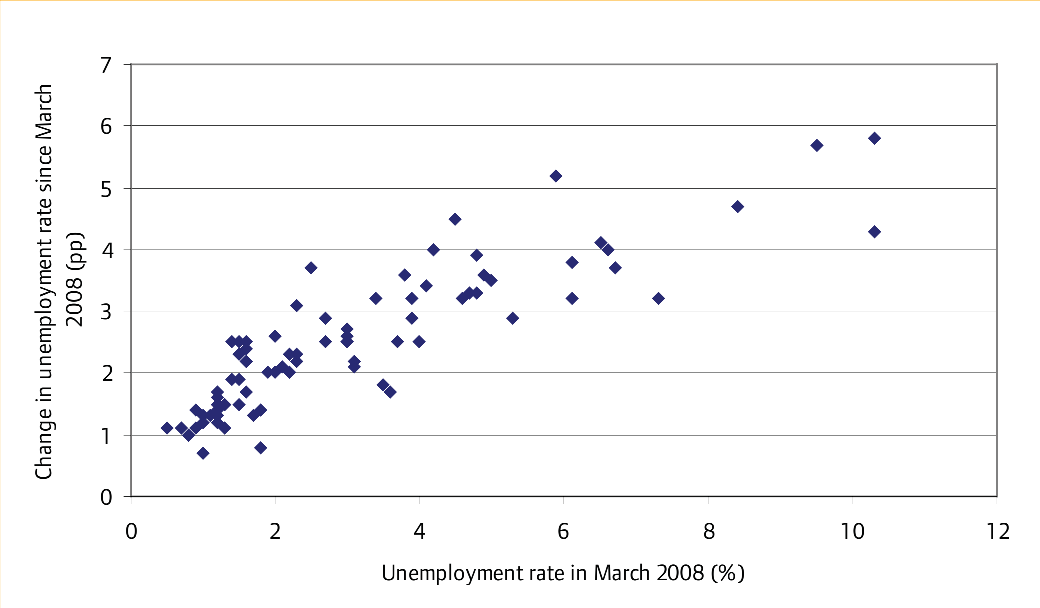
Ribbleton (Preston) – 9.7%

Wensley Fold (Blackburn) – 9.4%

Shadsworth with Whitebirk (Blackburn) – 8.5%

Hull and Humber Ports

Level of unemployment and increase March 2008 – Sept 2009, Hull and Humber Ports city-region



Wards with biggest increases in unemployment:

Myton (Kingston upon Hull) – from 10.3 to 16.1%

Orchard Park and Greenwood (Kingston upon Hull) – from 9.5 to 15.2%

West Marsh (NE Lincolnshire) – from 5.9 to 11.1%

East Marsh (NE Lincolnshire) – from 8.4 to 13.1%

Crosby and Park (North Lincolnshire) – from 4.5 to 9.0%

Wards with smallest increases in unemployment:

Beverley Rural (East Riding of Yorkshire) – from 1.0 to 1.7%

Bridlington North (East Riding of Yorkshire) – from 1.8 to 2.6%

Wolds Weighton (East Riding of Yorkshire) – from 0.8 to 1.8%

Dale (East Riding of Yorkshire) – from 0.8 to 1.8%

Pocklington Provincial (East Riding of Yorkshire) – from 0.7 to 1.8%

Wards with the highest unemployment:

Myton (Kingston upon Hull) – 16.1%

Orchard Park and Greenwood (Kingston upon Hull) – 15.2%

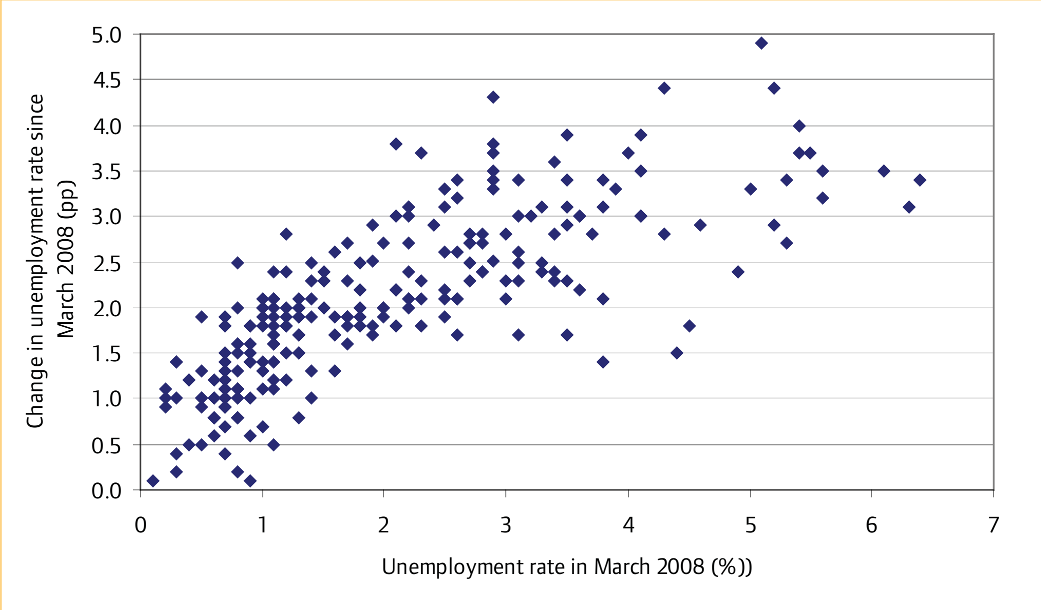
St Andrew's (Kingston upon Hull) – 14.6%

East Marsh (NE Lincolnshire) – 13.1%

West Marsh (NE Lincolnshire) – 11.1%

Leeds

Level of unemployment and increase March 2008 – Sept 2009, Leeds city-region



Wards with biggest increases in unemployment:

Selby South (Selby) – from 5.1 to 10.0%

Ovendon (Calderdale) – from 4.3 to 8.7%

Hunslet (Leeds) – from 5.2 to 9.6%

Wombwell North (Barnsley) – from 2.9 to 7.2%

Richmond Hill (Leeds) – from 5.4 to 9.4%

Wards with smallest increases in unemployment:

Bishop Monkton (Harrogate) – from 0.9 to 1.0%

Heslington (York) – from 0.1 to 0.2%

Hellifield and Long Preston (Craven) – from 0.8 to 1.0%

Upper Wharfedale (Craven) – from 0.3 to 0.5%

Penyghent (Craven) – from 0.3 to 0.7%

Wards with the highest unemployment:

Selby South (Selby) – 10.0%

Little Horton (Bradford) – 9.8%

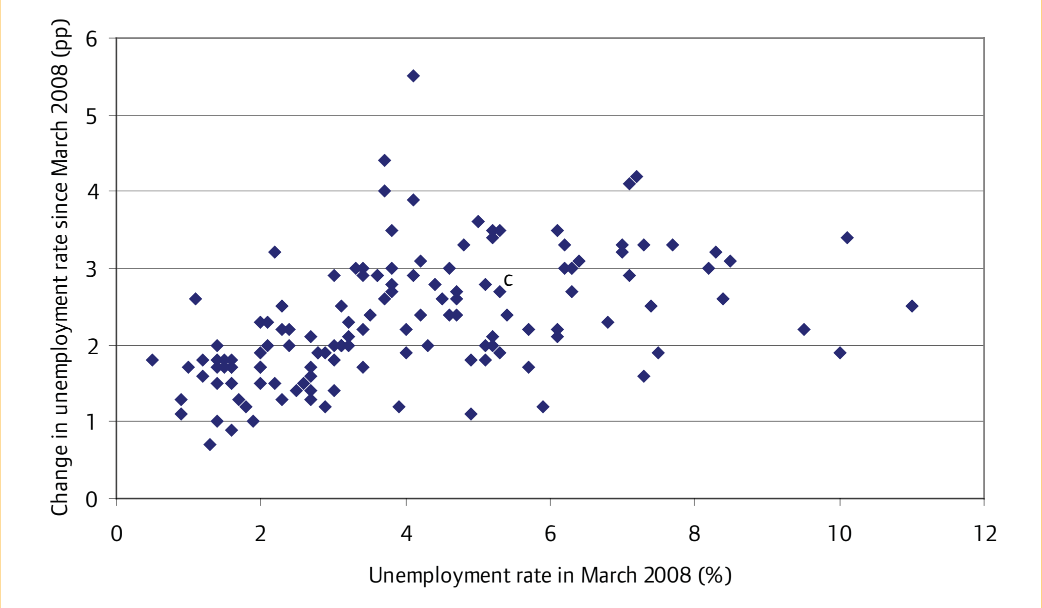
Hunslet (Leeds) – 9.6%

St John's (Calderdale) – 9.6%

Richmond Hill (Leeds) – 9.4%

Liverpool

Level of unemployment and increase March 2008 – Sept 2009, Liverpool city-region



Wards with biggest increases in unemployment:

Riverside (Halton) – from 4.1 to 9.6%

Appleton (Halton) – from 3.7 to 8.1%

Longview (Knowsley) – from 7.2 to 11.4%

Parr and Hardshaw (St Helens) – from 7.1 to 11.2%

Mersey (Halton) – from 3.7 to 7.7%

Wards with smallest increases in unemployment:

Meols (Sefton) – from 1.3 to 2.0%

Clatterbridge (Wirral) – from 1.6 to 2.5%

Rainhill (St Helens) – from 1.9 to 2.9%

Eccleston (St Helens) – from 1.4 to 2.4%

Harington (Sefton) – from 0.9 to 2.0%

Wards with the highest unemployment:

Granby (Liverpool) – 13.5%

Birkenhead (Wirral) – 13.5%

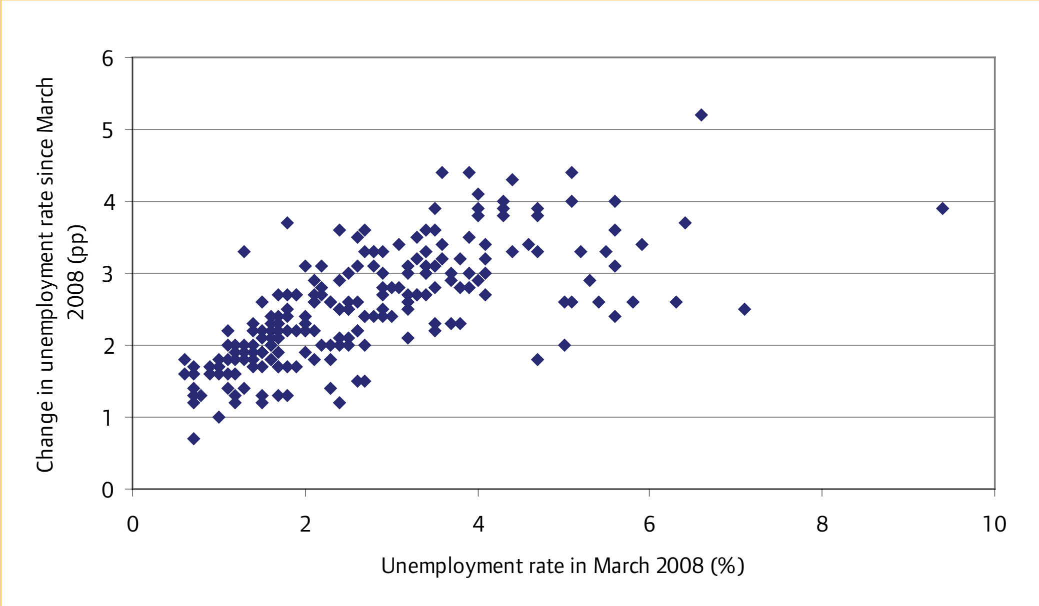
Breckfield (Liverpool) – 11.9%

Kensington (Liverpool) – 11.7%

Vauxhall (Liverpool) – 11.6%

Greater Manchester

Level of unemployment and increase March 2008 – Sept 2009, Manchester city-region



Wards with biggest increases in unemployment:

Brinnington (Stockport) – from 6.6 to 11.8%

Walkden North (Salford) – from 3.6 to 8.0%

Ince (Wigan) – from 3.9 to 8.3%

Norley (Wigan) – from 5.1 to 9.5%

Newtown (Wigan) – from 4.4 to 8.7%

Wards with smallest increases in unemployment:

Bowdon (Trafford) – from 0.7 to 1.4%

Saddleworth East (Oldham) – from 1.0 to 2.0%

Tottington (Bury) – from 1.2 to 2.4%

West Bramhall (Stockport) – from 0.7 to 1.9%

Ramsbottom (Bury) – from 1.5 to 2.7%

Wards with the highest unemployment:

Central and Falinge (Rochdale) – 13.3%

Brinnington (Stockport) – 11.8%

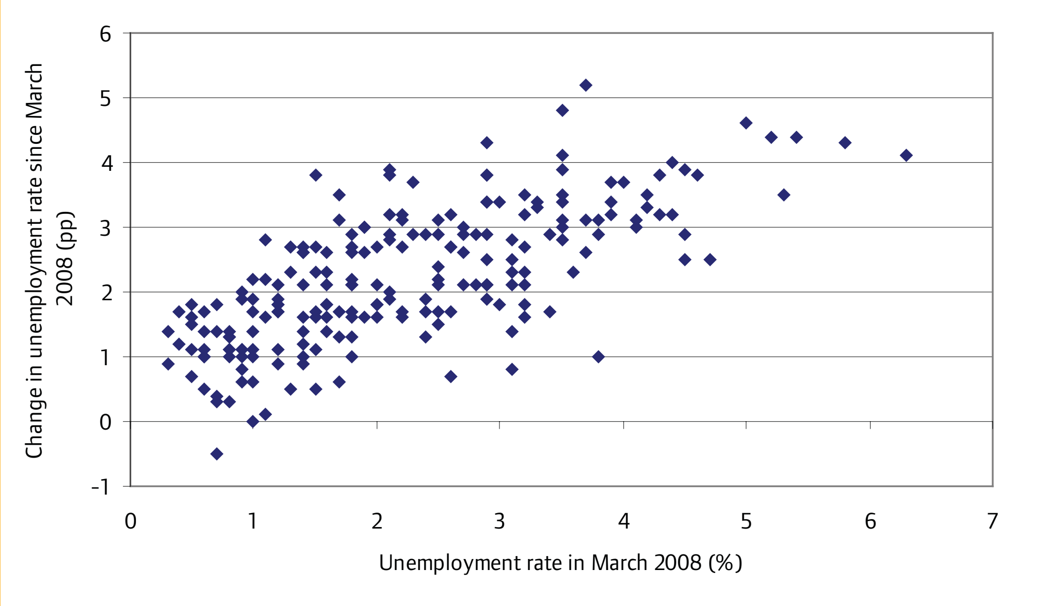
Coldhust (Oldham) – 10.1%

Langworthy (Salford) – 9.6%

Benchill (Manchester) – 9.6%

Sheffield

Level of unemployment and increase March 2008 – Sept 2009, Sheffield city-region



Wards with biggest increases in unemployment:

Shirebrook East (Bolsover) – from 3.7 to 8.9%

Greasbrough (Rotherham) – from 3.5 to 8.3%

Herringthorpe (Rotherham) – from 5.0 to 9.6%

Central (Rotherham) – from 5.4 to 9.8%

Manor (Sheffield) – from 5.2 to 9.6%

Wards with smallest increases in unemployment:

Chatsworth (Derbyshires Dales) – from 0.7 to 0.2%

Winster and South Darley (Derbyshires Dales) – from 1.0 to 1.0%

Hathersage and Eyam (Derbyshires Dales) – from 1.1 to 1.2%

Sutton (Bassetlaw) – from 0.7 to 1.0%

Ashover (NE Derbyshire) – from 0.8 to 1.1%

Wards with the highest unemployment:

Burngreave (Sheffield) – 10.4%

Central (Doncaster) – 10.1%

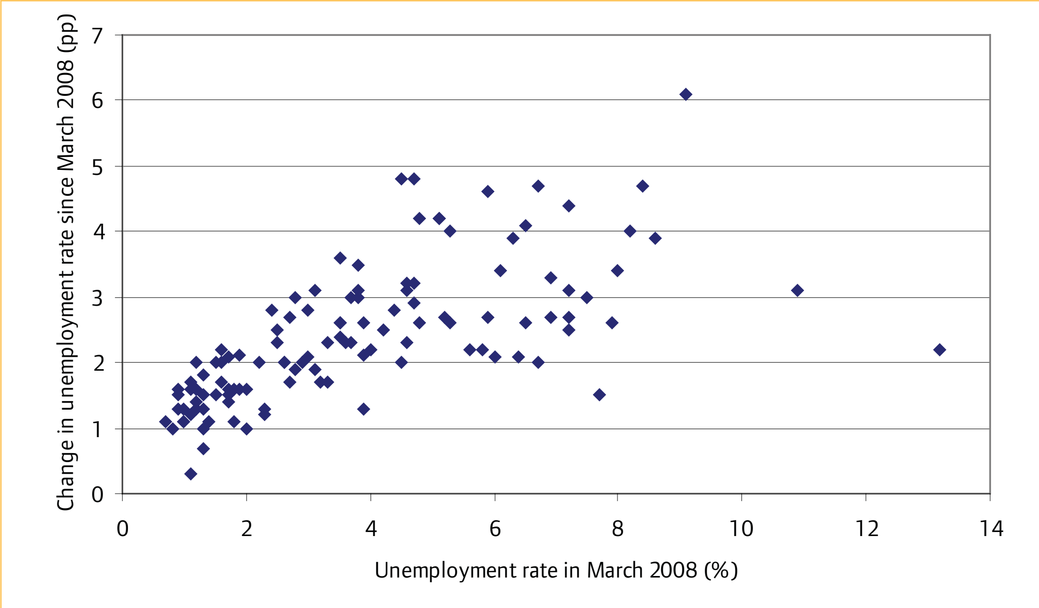
Central (Rotherham) – 9.8%

Herringthorpe (Rotherham) – 9.6%

Manor (Sheffield) – 9.6%

Tees Valley

Level of unemployment and increase March 2008 – Sept 2009, Tees Valley city-region



Wards with biggest increases in unemployment:
Portrack and Tilery (Stockton-on-Tees) – from 9.1 to 15.2%

Blue Hall (Stockton-on-Tees) – from 4.5 to 9.3%

Park East (Darlington) – from 4.7 to 9.5%

Coatham (Redcar and Cleveland) – from 6.7 to 11.4%

North Ormesby and Brambles Farm (Middlesbrough) – from 8.4 to 13.1%

Wards with smallest increases in unemployment:
Elwick (Hartlepool) – from 1.1 to 1.4%

Hummersknott (Darlington) – from 1.3 to 2.0%

Park West (Darlington) – from 1.3 to 2.3%

Heighington and Coniscliffe (Darlington) – from 0.8 to 1.8%

College (Darlington) – from 2.0 to 3.0%

Wards with the highest unemployment:
Middlehaven (Middlesbrough) – 15.4%

Portrack and Tilery (Stockton-on-Tees) – 15.2%

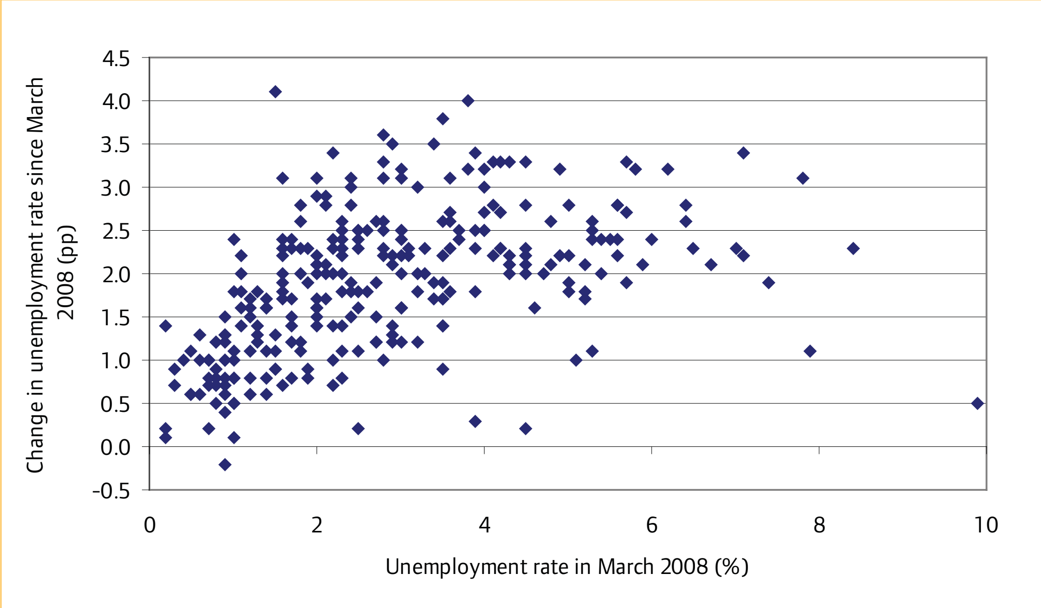
Grangetown (Redcar and Cleveland) – 14.0%

North Ormseby and Brambles Farm (Middlesbrough) – 13.1%

Thormtree (Middlesbrough) – 12.5%

Tyne and Wear

Level of unemployment and increase March 2008 – Sept 2009, Tyne and Wear city-region



Wards with biggest increases in unemployment:
Acre Rigg (Easington) – from 1.5 to 5.6%

Eden Hill (Easington) – from 3.8 to 7.8%

Castletown (Sunderland) – from 3.5 to 7.3%

Horden South (Easington) – from 2.8 to 6.4%

Catchgate (Derwentside) – from 3.4 to 6.9%

Wards with smallest increases in unemployment:
Shincliffe (Durham) – from 0.9 to 0.7%

St Nicholas (Durham) – from 0.2 to 0.3%

Wark (Tynedale) – from 1.0 to 1.1%

Elvet (Durham) – from 0.2 to 0.4%

South Tynedale (Tynedale) – from 0.7 to 0.9%

Wards with the highest unemployment:
Rekendyke (South Tyneside) – 10.9%

Walker (Newcastle) – 10.7%

Bede (South Tyneside) – 10.5%

Hirst (Wansbeck) – 10.4%

Hendon (Sunderland) – 9.4%

Appendix 4: Correlations between increases in unemployment and unemployment levels by ward

City-region	Correlation*	Number of wards
Central Lancashire	0.48	249
Hull and Humber Ports	0.87	81
Leeds	0.77	244
Liverpool	0.48	138
Greater Manchester	0.68	214
Sheffield	0.71	208
Tees Valley	0.65	116
Tyne and Wear	0.46	278

* Correlation between the unemployment rate in March 2008 and the change in unemployment between March 2008 and September 2009
All these correlations are highly statistically significant.