

High level summary of economic conditions

- ***Overall, the economy in Wales and UK remains fragile, although the negative UK GDP number for the final quarter of 2010 painted a more negative picture than suggested by a range of other sources. Early indications suggest that the economy will probably have grown in the first quarter of 2011, but at too slow a rate to make any real inroads into unemployment. The impact of UK government expenditure cuts, and the situation in respect of oil prices, are key uncertainties for the rest of the year. But in most respects, the global context is fairly benign.***
- ***Much of the most up to date information relates to the UK as whole, but where we believe the position in Wales is different this has been noted.***

- The latest Labour Force Survey (LFS) data show a modest deterioration in the **UK** labour market. The most recent position in **Wales** is less negative but data are volatile at this level of geography.
- While recent UK LFS data portray a generally weakening labour market, the scale of deterioration is modest compared with developments during the recession, and overall the labour market position over the last six months is probably best characterised as “broadly stable”.
- With the latest results, UK employment is back to where it was last spring, but still almost 300,000 (1%) more people are now in employment compared with the start of 2010. In Wales, employment is at its highest level in two years and up by 17,000 or 1.3% compared with the start of 2010.
- Taking a medium term perspective, the overall labour market position in the UK and Wales is broadly favourable compared with the mid 1990s.
- The claimant count in Wales fell during the first 6 months of 2010 and has shown broad stability since. The claimant count shows a more positive picture for the UK than the LFS based statistics.
- UK GDP fell by 0.6% in the fourth quarter. There is some uncertainty about the role of bad weather in this performance. The ONS estimates that growth would have been broadly flat had bad weather not intervened but every major business survey suggested growth was roughly at trend or about 0.5%.
- However, the reported decline in GDP is too big to be revised away and inevitably there is concern in some quarters that GDP will decline again in the current quarter which would mark a retreat back into recession. Such

an outcome seems highly unlikely as some of the output 'lost' in the fourth quarter will probably be produced in the first quarter of 2011 instead.

- Indeed, business surveys including those published by Bank of England Agents and Purchasing Managers' Indices all show manufacturing output rebounding strongly in January. January's manufacturing PMI was at a record high and that record reading was maintained in February. Service sector PMIs are not so buoyant but posted readings in January and February that are, nonetheless, consistent with the economy growing at a modest rate.
- Clearly, some economic headwinds are gaining in force. Fiscal consolidation is set to intensify in April and inflation is running well ahead of earnings which will likely compromise household spending in the near term. However, from a monetary policy perspective, it is encouraging that there is no evidence of a wage/price spiral emerging. Where pay settlements have been described as 'high' they are mainly in manufacturing and evidence suggest they are more than offset by increases in productivity.
- Global growth remains strong, with a number of organisations revising their estimates for 2011 upwards over recent weeks. However, commodity prices in general, and oil in particular, remain an important threat to growth.