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Unemployment rises for the first time in over a year
Sabina– The Collapse of an Airline

Reasons for Cheer

One positive factor is that the decline in oil prices is helping to promote recovery and reduce financing requirements in oil-importing countries.

In addition, while there has been a correction in the high-technology sector, there is still major potential for further productivity gains from the use of new technology

**IMF Director
Horst Köhler
on the Global Economic
Situation**

UNEMPLOYMENT REACHES A TURNING POINT

We have been here before. In the autumn of 1998, a small rise in the monthly unemployment total was heralded as the start of a major turning point for the UK labour market as the Asian Financial Crisis threatened a much broader economic downturn. In the event, both the Claimant Count and Labour Force Survey measure of unemployment have continued to decline, reaching their lowest levels for over a quarter of a century in the early autumn of 2001. But the news this week that the official jobless total is once again rising is likely to be confirmed by successively higher unemployment figures for the remainder of the year.

This week also saw the publication of the latest IMF world economic survey. Their analysts have scaled down their growth expectations for all of the leading economies as can be seen from the table below.

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IMF REVISE DOWN THEIR EXPECTATIONS OF WORLD GROWTH

	Latest IMF Projections		Revisions (%)	
	2001	2002	2001	2002
% change in real GDP				
World Output	2.4	2.4	-0.2	-1.1
United States	1.1	0.7	-0.3	-1.5
European Union	1.7	1.4	-0.1	-0.8
Japan	-0.9	-1.3	-0.4	-1.5

Revisions made to forecasts in the October 2001 IMF World Economic Outlook

Special Report: Sabena Collapse Sets Scene for Airline Industry Change

The collapse of Sabena, the Belgian national airline, and the first European national flag-carrier to go into bankruptcy, signals that a fundamental restructuring of the European aviation industry is under way. The political and economic role of "National Airlines" has come into question, as has their ability to weather the storm of events since 11 September

Falling passenger numbers after September 11 – have prompted complete business collapses (e.g. Sabena and Swissair) but also major rationalisation programmes at some of the biggest national airlines, including British Airways, Lufthansa and KLM. As travel routes are dropped, and take-off and landing slots vacated, companies with a lower cost base are likely to take advantage. In the short term the big winners could be the leading low-cost carriers Ryanair and EasyJet and possibly Go, the former BA low-cost subsidiary.

Industry analysts are agreed on one thing. That the European industry needs to undergo a pe-

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*(Continued from page 1)***A TURNING POINT?**

“We are seeing a turning in the labour market. The pressure will stay on the Bank of England to cut interest rates further in the coming months.”

Ciaran Barr (UK Economist, Deutsche Bank)

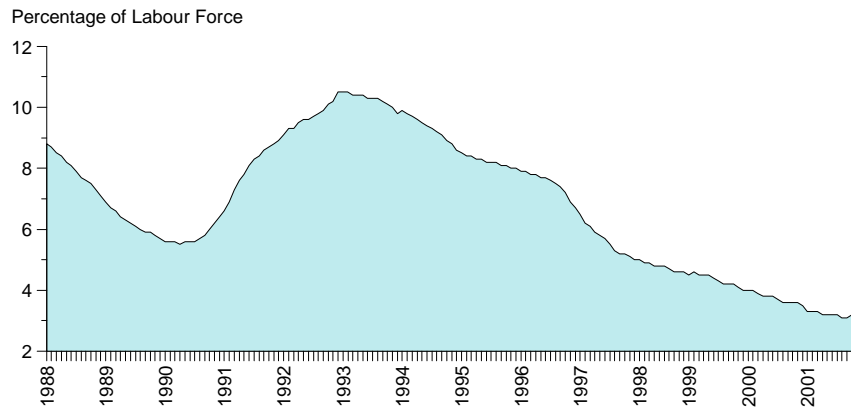
ACTIVE SUPPORT NEEDED

‘The Government must bring forward measures to support industry, local communities and sectors most affected. The Bank of England must be ready to cut rates again. Employers must show responsibility and restraint and look to the long term.’

John Monks
TUC General Secretary

Has UK unemployment reached the trough?

The number of people out of work and claiming unemployment benefits rose by 4,300 to 951,100 - the first rise in over a year and a sign that the labour market is feeling the strain of the economic slowdown. There was also a rise in unemployment using the Labour Force Survey measure. In the three months to the end of October, the number of jobless rose 28,000 to 1.51 million (or 5.1% of the labour force)

UK CLAIMANT COUNT UNEMPLOYMENT**Delayed reaction—redundancies now showing through in the data**

The raft of redundancies caused by plant closures and other forms of labour shedding is now starting to feed through to the employment statistics. The seasonally adjusted UK jobless rate edged higher to 3.2 per cent from 3.1% in September. The survey evidence (for example from the Confederation of British Industry and the Chambers of Commerce) has been warning of a rise in claimant count unemployment for some months now, The surprise has been that the unemployment figures have continued to fall for so long.

Manufacturing job losses now spreading to services

Jobs in manufacturing, which accounts for 20 percent of the economy, fell in the last three months to their lowest level since records started in 1984. But the job losses are now spreading into service sector industries. **Energis**, Britain's biggest carrier of Internet traffic has announced plans to shed 300 jobs, or 12 percent of its U.K. workforce. **Regus**, the country's biggest provider of temporary offices is cutting back employment by twenty-five per cent this year. **Thomas Cook AG**, Europe's second-biggest travel company has started a redundancy programme that will slash 16 per cent of its workforce from the payroll. This is exactly what we would expect from having a flexible labour market. Employment can respond more quickly to fluctuations in demand and output. Many companies are taking the opportunity of the downturn to cut back excess capacity - and this involves paying fewer workers as well as reining back on capital investment programmes.

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Stelios Speaks

"Consolidation will be painful but it is necessary to produce an operating

environment more capable of coping with a downturn in demand.

Fourteen national airlines is about eight too many"

**Stelios Haji-Ioannou,
EasyJet**

Ryan Air's View

"The notion that Sabena, having lost money for 39 of the last 40 years, can suddenly be restored to viability with one more tranche of state aid is a fantasy,"

**Michael O'Leary
Ryanair**

riod of substantial consolidation if it is to emerge from the current downturn in reasonable prospects. "Consolidation" is the process by which the number of competitors in an industry is reduced, so that overall market share is "concentrated" in the hands of fewer, larger businesses. This is a common feature of large, mature industries.

Consolidation of the European airline industry could take some time. The market is heavily influenced by international regulation, as well as strong political emotions. Nearly all countries, however small, remain attached to the idea of having a national airline in the same way that they all like to have a flag and a national anthem. But it seems likely that long-term economic pressures, particularly the need to achieve economies of scale in airline operation, will force a reduction in the number of separate European airlines.

Case Study: The Collapse of Sabena:

Belgium's national airline Sabena became the first European flag carrier to go bankrupt in aviation history yesterday with the loss of up to 12,000 jobs directly and a further 30,000 indirectly. In a move that is likely to be repeated in several other European countries if the gloomy economic situation persists, a judge in Brussels declared the 78-year-old firm formally bankrupt and appointed a panel of administrators to begin liquidating its assets.

"This is an economic and social disaster for Belgium," the employment minister, Laurette Onkelinx, said, comparing Sabena's demise to the painful death of the country's coal and steel industry in the 1970s and 1980s. "We cannot escape a debate about responsibility."

"This disaster is not just a result of September 11," one furious check-in clerk said. "It is years of bad management. The government has let us down and yet people in Belgium don't care. If we were Air France or British Airways everyone would be up in arms but the Belgian public has effectively said let them go bankrupt. They think we have used up enough of taxpayers' money already."

One commentator in daily La Dernière Heure yesterday hailed its passing as an inevitable and necessary evil. "Sabena was a political monster and there was no more room for this monster in today's economic climate," he wrote.

Adapted from: The Guardian, 8 November 2001

Most industry observers believe that the European airline industry is likely to be eventually dominated by three big carriers - probably British Airways, Air France and Lufthansa. Each is expected to form close links with one of the big three US airlines, achieving further cost savings by being part of a global alliance.

It is expected that these "super-carriers" will dominate long-haul traffic, particularly in the heaviest North American routes. The market will continue to support many, smaller regional airlines whose role will be to provide feeder traffic to the big airport "hubs" at Heathrow, Paris, Frankfurt and Amsterdam.

What role can be played by the existing smaller "national airlines"? Almost all will have to reduce their scale of operations ("downsize"), concentrating on providing feeder traffic and running a small number of long-haul routes in which they have a particular niche.

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A Decade of Solid Achievement

Lest we forget, the performance of the British labour market over the last ten years has been remarkable. If this is a turning point, presaging a period of much greater job insecurity and rising unemployment claims, it is worth bearing in mind the position we are in as the downturn bites. As the table below shows, since 1993, there has been a sustained and substantial fall in both measures of unemployment. The economy has created over two million extra jobs since the end of the last recession. The UK economy is over 23% larger than it was at the trough of the 1990-92 downturn. Unemployment is still at its lowest for twenty six years and UK unemployment remains the lowest among the G7 nations!

	Claimant Count	Claimant Unemployment Rate	LFS Unemployment	LFS Unemployment Rate
	000s	%	000s	%
1990	1673.8	5.6	2518	8.8
1991	2331.3	7.8	2107	7.3
1992	2778.8	9.3	2005	6.9
1993	2861.4	9.7	2445	8.4
1994	2567.2	8.7	2830	9.9
1995	2272.9	7.5	2996	10.5
1996	2057.4	6.9	2796	9.8
1997	1546.0	5.2	2026.8	7.0
1998	1338.1	4.5	1827	6.3
1999	1236.2	4.1	1764.3	6.0
2000	1077.8	3.6	1617	5.5
2001	961.5	3.2	1491.9	5.0

RECENT JOB LOSSES IN THE UK ECONOMY

British Petroleum	1,200	40% of workforce– “re-structuring”
Waterford Wedgwood	1,200	Falling demand for china & crystal
Prudential	2,100	Restructuring– focus on core business
ICI	1,300 (300 in UK)	Part of world-wide cost-cutting
Thomas Cook	2,600 in Europe	Drastic demand in holiday demand
Financial Times	150 (15% of workforce)	Heavy decline in advertising spending

The Bank of England painted a fairly robust picture of prospects for the UK economy over the coming year when it published its Quarterly Inflation Report this week. Deputy Governor Mervyn King calculated that the risk of Britain falling headlong into a fully-fledged recession is little more than 10% - even allowing for the considerable residual uncertainty about global demand and trade. Fortunately, the combined monetary and fiscal policy stimulus imparted to the domestic economy over the last six months is helping to keep consumer demand strong. If anything, there is a growing danger that an upturn in the world economy sometime next year (probably in the second half of 2002) will leave the Bank of England needing to raise interest rates to take some of the steam out of consumer spending.

Carrying the Flag

"We can't maintain 14 flag-carriers in Europe, plus a lot of other regional carriers. We need to guarantee a good service throughout Europe. But we must go beyond the logic of the national flag-carrier and think only of European flag-carriers."

Loyola de Palacio,
European Commission
Transport Commissioner

At the same time, the European low-cost carriers are likely to grab a growing share of "point-to-point" traffic between smaller centres. EasyJet and Ryanair in particular have strong balance sheets and are accelerating their expansion plans. They hope to increase passenger numbers annually by 25 per cent or more by exploiting the weaknesses of big carriers.

Consolidation could be speeded up further through the acquisition of weaker airlines by larger ones. But for the moment, the biggest airlines are concentrating on securing their own survival. There is no money available for taking on the liabilities of ailing flag-carriers around Europe. Swissair, which bought stakes in Sabena and other small airlines before its collapse, has shown the dangers of such a strategy.

For the moment cash is king, as airlines seek to ensure that they have enough liquidity and available lines of credit in place to get them through the crisis. Rod Eddington, chief executive of British Airways, sought to allay fears this week that the company might go under by revealing that the group had around £3.4bn of liquidity at hand.

The problems are always in the middle

Airlines are an industry like any other - just one that happened to be unusually vulnerable both to terrorist attack and the swings of the world economic cycle. If the attacks of 11 September hit the world economy at a particularly unfortunate time, savaging demand just when it was already turning down, they struck the airline industry at an utterly dreadful one.

There is a general rule in business that the tops and bottoms of markets will be fine, but the problems are always in the middle. Airlines are no exception, so the middling carriers - like Swissair and Sabena - will have a tough time, just as the middling carriers in the US have struggled. The weakest will die. But this process of renewal is the very core of the market economy. Firms rise because they provide products or services that people want at a price they can afford. Firms die. Or at least get taken over when they fail. Why should airlines be different? If you don't have this Darwinian process you cannot advance.

We Will Survive

"We will survive the industry crisis. We have taken swift action to control costs and conserve cash. We have sufficient liquidity to see us through,"

Rod Eddington
Chief Executive
British Airways

THIS WEEK'S BEST OF THE WEB

You can find all these resources and more at Tutor2u Resources: Find us at www.tutor2u.net/default.asp

Sabina—From Pioneer to Failure:

http://news.bbc.co.uk/1/hi/english/business/newsid_1642000/1642576.stm

Sabina Airlines Home Page

www.sabena.com

International Monetary Fund World Economic Outlook (October 2001)

www.imf.org/external/pubs/ft/weo/2001/02/index.htm

Bank of England Inflation Report (November 2001)

www.bankofengland.co.uk/Links/setframe.html