

Spring 2003

Economic and Business Bulletin

I am pleased to present the Spring 2003 issue of SEEDA's six-monthly Economic and Business Bulletin.

This bulletin aims to inform the development of business strategies in the private, public and voluntary sectors. It brings together key economic and business intelligence and puts both the short and long term outlooks of the South East economy into a wider national context.

If you have any comments on how it can be improved, or would like more copies, please fill in the attached questionnaire or contact Rashid Bashir, Head of Policy and Economics, email: rashidbashir@seeda.co.uk. This bulletin is also available on our website at www.seeda.co.uk.

Yours



James Brathwaite CBE
Chairman

Contents

	Page
Introduction	3
Executive summary	4
1 Key facts	5
1.1 Total output and industrial composition	5
1.2 Population	5
1.3 The labour force	5
1.4 Employment	5
1.5 Incomes and spending	6
1.6 Environmental assets	6
1.7 Untapped potential	6
1.8 Budget 2003: Implications for the South East	7
2 The short term outlook	8
2.1 Total output and sectors	8
2.2 Employment and unemployment	8
2.3 Incomes and spending	9
2.4 The housing market	9
2.5 Tourism in the region	9
2.6 Inward investment	9
3 The medium/long term outlook	10
3.1 Total output and sectors	10
3.2 Employment and unemployment prospects	11

This report assesses the recent performance of the South East economy and its likely development over the medium to long term. Its intention is to help inform strategic decision-making by businesses, public and voluntary sector organisations.

This report examines the prospects for economic growth, the labour market, income and spending, housing and inward investment, based on the analysis carried out by Experian Business Strategies in January 2003.

If you have any queries regarding this bulletin or its contents, please contact Rashid Bashir, Head of Policy and Economics (01483 500719), email: rashidbashir@seeda.co.uk

Executive summary

- Economic growth in the South East is expected to pick up in 2003 after the slowdown in 2002. However, the upturn is unlikely to take hold until the second half of the year when war related uncertainty diminishes and external demand begins to accelerate.
- In the medium term, growth in the South East is forecast to be driven by financial and business services, transport and communications and strong investment in the public sector. Manufacturing is expected to climb out of recession as we move through 2003, although growth is expected to be modest.
- The labour market reacted to the economic slowdown in 2002 with modest declines in employment in the region – the first time since the recession in the early 1990s. Even so, unemployment rates in the region remained well below the national average and employment growth is expected to resume in 2003.
- Growth in household disposable incomes has slowed in response to lower employment last year, and is to be affected in 2003 by increases in National Insurance contributions. The slowdown in income growth, combined with falling consumer confidence, is forecast to lead to slower consumer spending growth.
- Long term prospects for the South East economy are positive. Both Gross Domestic Product (GDP) and employment in the region are expected to grow faster than the national average.

1.1 Total output and industrial composition

The South East economy is forecast to account for 15.1% of total UK output in 2003, with a GDP of approximately £146 billion (current prices).

Output per head in 2003 is estimated at just over £18,000 (current prices) in the South East, £1,735 higher than the UK average.

South East GDP is expected to grow by 3.1% in 2003, well ahead of the UK average (2.4%). This marks a continuation in the trend for growth in the South East to exceed that recorded across the rest of the UK.

The South East economy is more dependent on financial and business services and distribution, hotels and catering than the national average, with almost half of all activity in the region in these two sectors.

1.2 Population

The total population of the South East is approximately 8.1 million equivalent to 13.7% of the UK total. Population growth over the last decade has been faster in the South East (5.4%) than the UK as a whole.

1.3 The labour force

The labour force of the South East currently numbers 4.2 million. This equates to an economic activity rate (the proportion of the working age population participating in the labour market) of 85.4%. This is higher than in any other UK region.

The South East also compares favourably in terms of unemployment. The International Labour Organisation (ILO) unemployment rate (a wider measure than the claimant count) is currently 3.5% of the workforce, significantly below the national average of 5.3%¹.

As of the end of 2002, approximately 48.5% of the working age population in the South East were qualified to NVQ Level 3 or above, compared to 44.1% across the UK as a whole².

1.4 Employment

In 2003 we estimate there will be 3.6 million employees in employment in the South East, equivalent to 14.1% of the UK total. Employment growth has averaged 2.1% across the region over the past decade, substantially ahead of the national average. Employment in the South East fell marginally last year, although a recovery is expected throughout 2003.

The service sector dominates employment in the South East. More than three quarters of jobs in the region are concentrated in three sectors – ‘other’ (mainly public) services, distribution, hotels and catering and financial and business services. Manufacturing industries account for just 10.8% of jobs. However, manufacturing is concentrated in relatively high value added sectors, making the South East the UK’s largest manufacturing region in terms of value added.

¹International Labour Organisation (ILO) unemployment, the measure used by the Labour Force Survey. This records as unemployed, those who have undertaken no paid work in reference week, are starting, or are available to start work in the next fortnight and have actively sought work in the preceding four weeks.

²NVQ Level 3 is equivalent to GNVQ - advanced level, A level or equivalent (2 or more), RSA advanced diploma, BTEC national/ONC/OND etc., City and Guilds advanced Craft, Scottish certificate of 6th year studies (Scottish CSYS) (67%), SCE higher or equivalent (67%), AS-level or equivalent (4 or more), Trade apprenticeships (50%).

1.5 Incomes and spending

Household disposable income in the South East was estimated at £113 billion (current prices) in 2003. This is equivalent to 15.1% of the UK total. Income growth in the South East has been faster than the national average over the past decade (3.4% and 3.2% respectively).

Consumer spending in the South East has been particularly strong in recent years, reaching an estimated £108 billion in 2003 (measured at current prices). Growth over the past decade has averaged 3.8% a year in the South East compared to 3.6% nationwide.

1.6 Environmental assets

The South East has a striking concentration of key environmental assets:

- One third of the region is designated as Areas of Outstanding Natural Beauty (AONB) – nearly one third of the total AONBs in England.
- Another 15% of land is designated as green belt.
- There are 700 Sites of Special Scientific Interest (SSSI).
- There are approximately 93,000 designated historic buildings, sites and areas.
- A total of 72 km of the South East's coastline is designated as Heritage Coast.

These assets make a key contribution to the region's prosperity. At one level, they form part of the region's attractiveness to business investors. At another, at least 530 environmental technology firms are present in the South East.

1.7 Untapped potential

Although the South East is one of the most prosperous regions in the UK, there are pockets of severe deprivation. In particular, the coastal fringes of the region are performing significantly below regional and national average levels. Enhancing the growth rates in these areas will contribute to the overall prosperity of the region.

- South East contains 119 of the worst 20% wards nationally, a higher number than South West and East of England.
- One million people of working age lack basic literacy or numeracy skills in the South East.
- Despite the low unemployment rate in the region, over 150,000 people are unemployed in the South East, a higher number than six other English regions. Unemployment rates in the Isle of Wight, Brighton and Hove and Medway are significantly higher than the regional and national average.

1.8 Budget 2003: Implications for the South East

The 2003 Budget was cautiously welcomed by businesses. Some of the key announcements effecting small businesses in particular included:

- Corporation tax, small business corporation tax and capital gains tax all frozen.
- Stamp duty on buying business properties left unchanged.
- Vehicle excise rates for lorries frozen, and the previously announced rise in fuel duty deferred for six months.
- Firms with a turnover of less than £56,000 no longer have to pay VAT, and more small businesses exempt from automatic fines for late payment of the tax.
- Existing tax breaks for Research and Development (R&D) extended. With 30% of UK's private sector R&D expenditure, the South East will benefit particularly from this incentive to innovate.

Chancellor Brown announced plans to review whether civil service and non-departmental bodies should be relocated from London to other UK regions.

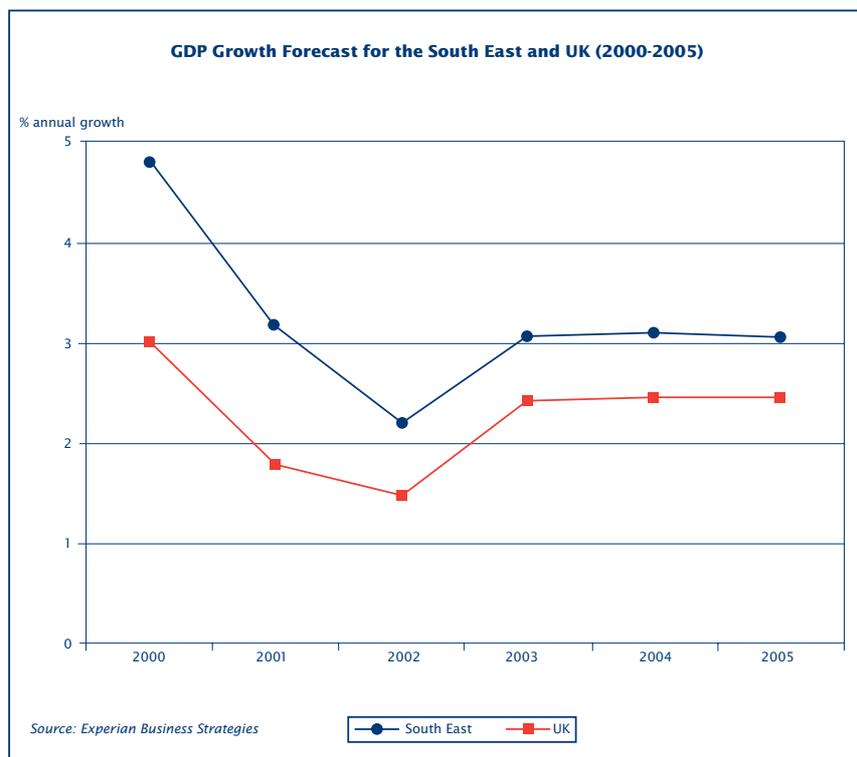
Finally, Chancellor Brown recognised that in the past rateable income from new businesses has flowed directly to the Treasury and not local authorities, despite the encouragement and support provided by local agencies. New legislation will ensure that this income will be shared by central government and local authorities in recognition of their important role in business creation.

The short term outlook

2.1 Total output and sectors

The outlook for the South East economy is for an improvement in growth in 2003 after the slowdown of 2002, although the pick up is likely to take longer to materialise than previous forecasts envisaged. GDP growth in the South East is expected at 3.1% in 2003, strong by national standards but below that achieved in the region around the turn of the century. Growth is expected to remain at this rate in the South East during 2004 and 2005.

The underlying drivers of growth in the economy in the near term are likely to shift somewhat from consumer spending to government consumption and a recovery in exports. The underlying fundamentals on which recovery is based are favourable with low inflation, interest rates and unemployment.



Growth this year in the South East is expected to be led by financial and business services, the public sector and construction. Output from the South East's manufacturing industries is also expected to expand after two years of falling activity.

2.2 Employment and unemployment

Employment in the South East fell marginally in 2002 in response to the slowdown in economic activity. Despite the job losses in the region, activity rates have remained stable, suggesting that the main impact of slowdown has been to relieve excess demand pressures in the job market. Growth in the region is expected to recover this year, with expansion at 0.5% above the national average.

The contrasting fortunes of employment in service sector industries and manufacturing is likely to persist in the South East. Among private services, employment in financial and business services in South East is expected to expand by approximately 1.1% in 2003. This outturn falls well short of the rapid expansion achieved in the late 1990s and reflects global economic weakness and the continuing problems associated with the plunging stock market. This weak backdrop, combined with the continuation of restructuring in the airline industry, are likely to result in job losses in transport and communications in the South East this year.

Fortunes are expected to be a little better in distribution, hotels and catering, with job gains at a rate of 1.7%. However, the slowdown in consumer spending is likely to constrain further growth as we move towards the end of 2003 and into 2004. On a more positive note, expansionary spending plans unveiled by the Government should lead to an expansion in employment in the key public services of health and education in the region this year and next.

In contrast to gains in service sector employment, manufacturing redundancies are expected to persist, particularly in engineering where restructuring in electronics and mechanical engineering continues in response to weak global demand and increasing competition.

Job gains in the service sector are likely to be sufficient to push the unemployment rate down to 3.5% in the South East this year. This will reverse the upward movement recorded last year.

2.3 Incomes and spending

Household disposable income growth in the South East is set to slow in 2003. This reflects a combination of weaker wage settlements, weak employment growth last year and forthcoming tax increases in the form of higher National Insurance contributions.

The slowdown in income growth, combined with falling consumer confidence, will lead to slower consumer spending growth in the South East this year.

2.4 The housing market

A marked slowdown in house price inflation is expected in the South East this year to 7.5%. At this stage a house price crash in the South East is not expected, although a little or no growth is anticipated in the region in 2004 and 2005.

2.5 Tourism in the region

Tourism continues to play a key role in the South East economy, despite the difficulties endured due to foot and mouth and then the fall in confidence in the aftermath of September 11th. Visitor numbers to the region in 2002 are not yet available, although they are likely to show a moderation in overseas visitors to the region.

A broad proxy for tourism activity is employment in hotels and catering. We estimate approximately 232,000 people currently work in the industry in the South East, up 1.5% on 2002. Tourism in the region benefits from its close proximity to major international airports (Heathrow, Gatwick), tourist towns such as (Oxford, Winchester and Brighton), and Areas of Outstanding Natural Beauty (the New Forest, South Downs)

2.6 Inward investment

Latest data for inward investment in the South East refers to the 2001/02 financial year. This showed that the region attracted 16.5% of all inward investment projects in the UK (7.1% of manufacturing projects and 21.1% of non-manufacturing). The South East remained the most sought after location outside of London.

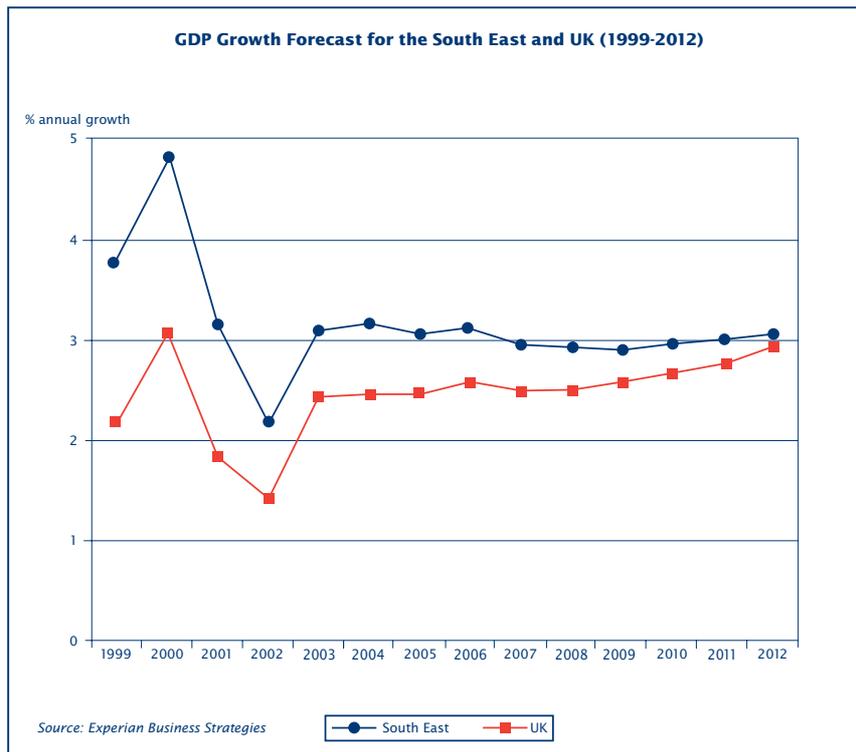
Latest data for the third quarter of last year showed deterioration in inward investment in the UK relative to the second quarter, reflecting the worsening economic climate. This fall is likely to be reflected in the results for the South East when new data becomes available in the summer.

The medium/long term outlook

3.1 Total output and sectors

Over the medium to long term, we expect the South East economy to continue to outperform the UK. GDP growth is forecast at approximately 3% each year over the next ten years, close to its long run trend.

Despite their recent difficulties, key growth sectors in the South East are likely to include transport and communications and financial and business services. In addition, construction, distribution, hotels and catering and the public sector are all expected to achieve faster growth in the South East than nationally.



3.2 Employment and unemployment prospects

Employment is expected to increase in the South East over the coming decade, although gains are unlikely to match that achieved over the last decade. Much of this reflects labour market fundamentals that are likely to be less positive in the future than they have been in the past. These include less favourable demographics, relatively low unemployment and less scope for 'employer friendly' labour market legislation.

Even so, employment growth in the South East is expected to exceed the national average over the next decade, although growth will be restricted to the service sector. In particular, we anticipate healthy gains in financial and business services and distribution, hotels and catering as the global recovery boosts consumer and business confidence. Transport and communications and the public sector are also expected to employ more workers.

The recent contraction in employment in the South East's manufacturing sector is likely to persist. Losses will be concentrated in engineering and metals, mineral and chemicals. In 2012, we estimate just 8.4% of the South East's workforce will be in manufacturing industries. However, the manufacturing output will continue to grow modestly over the next decade, reflecting continuing productivity improvement to sustain international competitiveness.

Despite this projection for jobs in manufacturing, the gains anticipated in the service sector will be sufficient to push down unemployment in the South East, both in terms of rates and levels. In 2012, the ILO unemployment rate is expected to be just 2.0% in the South East compared to 4.3% for the UK as a whole.

