

## Summary of economic conditions

- Preliminary estimates from the ONS shows that **UK GDP growth decreased in the last three months of 2010**. The economy shrank by -0.5%. The contraction follows growth of 0.7% in the previous three months and 1.1% in the second quarter of 2010. According to ONS, the decline in GDP was due to exceptionally bad weather.
- The latest South East Purchasing Managers' Index (PMI) data indicated that the **recovery in private sector output in the South East faltered at the end of 2010**. Activity rose at the slowest rate in the current eighteen-month sequence, driven by a slower intake of new business, which also lost momentum in December. The South East registered the second-slowest rate of output expansion in the country.
- **Business expectations amongst SME's for the next three months have now fallen back for three successive quarters**. According to the latest FSB Voice of Small Business Index, **small businesses are increasingly concerned about their short-term outlook**: confidence in the South East fell to a balance of -5% in quarter 4 of 2010, from more than 10% in the previous quarter. However, businesses in the South East appear more positive about the near term prospects than in the UK as a whole, where the index dropped to a score of -13.2%.
- The latest GfK **Consumer Confidence Index dropped to lowest level since March 2009**, with the climate for major purchases index dropping 22 points to -29 in January.
- In the three months to November, **unemployment** (on the broader Labour Force Survey measure) in the South East **dropped by 8,000, to 273,000**. The claimant count unemployment was 131,600 in December, 500 lower than in November. The latest official data from ONS shows that the number of **people in employment has increased by 21,000 to 4.19 million** over the three months to November. According to the latest South East PMI, overall private sector employment remained flat in December. However, whilst manufacturers took on more staff, workforces were cut at service providers.

## Key challenges and hotspots

- **CPI Inflation continued to increase in December, to 3.7%** (up from 3.3 % in November). According to the latest South East PMI, **input price inflation in the region accelerated to a twenty-eight month high in December**. Manufacturers cited upward pressure on raw material prices, while service providers mentioned rising bills for fuel and utilities. **The inflationary gap between input and output prices was the third-largest in the series history**, as output prices charged by firms in the South East rose more slowly in December.
- **The exceptional weather conditions in November and December let to many small businesses being unable to trade**, or staff being unable to travel to work. Research by the FSB found that **37% of their members closed for up to five days as a direct result of the bad weather**, with a direct negative impact on productivity and cash-flow.
- According to research from the FSB and corroborated by the latest Berkshire Economic Commentary, **businesses are uncertain about the short-term** and fearful that **inflation and VAT increase puts extra pressure** on margins and cash-flows. However, the latest survey of businesses in Surrey reports that more firms expect their sales/turnover to increase in the next 6 months (42%) than to decrease (18%). On the other hand, only 6% expect to increase capital investment, whilst 22% expect a reduction.
- According to the latest RICS Housing Market Survey, **37% more surveyors reported house prices fell rather than rose in December**, an improvement from the previous month. Expectations for house prices over the next three months saw 18% more surveyors predicting prices would fall than rise, an improvement from 45% in November.

## Business specific intelligence / information on key questions

- **Manufacturing was the only key sector to see growth (+1.4%) in the final quarter of 2010**. Major contributions to **negative growth came from services (-0.4%) and in particular business services and finance (-0.2%)**. Construction also contributed -0.1% to negative growth.
- **Foreign demand was providing a boost to manufacturing output, but domestic demand has weakened in December**. According to the latest EEF Economic Prospects, exports to emerging markets have been particularly strong in driving the recovery. This is corroborated by the latest Bank of England Agents' summary of business conditions, the score for manufacturing export values has reached a new series high, which was driven by trade with emerging markets. According to the latest South East PMI, manufacturers reported export demand to remain solid, while service providers reported that poor weather had disrupted business flows.
- The latest results from the FSB Voice of Small Business Survey imply that nationally, **job creation could weaken again in the first quarter of 2011** as small businesses expect weaker growth in employment in the coming three months. The latest Manpower Employment Outlook shows that slightly more firms expect to decrease employment in Q1 (8%) than they plan to growth headcount (7%).

## **Annex - Sectoral Overview - January 2010**

### **Manufacturing**

According to the latest preliminary estimate from the ONS, manufacturing output in the UK increased 1.4% in Q4 2010, compared to 1.1% in the previous quarter. Manufacturing businesses, according to the latest FSB 'Voice of Small Business Index' are particularly confident about short-term prospects with a positive net balance of +15% expecting improvement in business conditions in the next three months. More businesses expect to increase their workforce in Q1 2011, than those expecting to reduce their staffing levels, reports the Manpower Employment Outlook Survey.

Government cutbacks in 2011 are a concern for many businesses, with 45% predicting weaker consumer and business confidence according to the latest EEF Economic Prospects (January 2011). However, less than a fifth of companies expect a direct loss of orders and 5% view the austerity measures as an opportunity to develop new business.

To corroborate the positive growth figures for manufacturing, business specific intelligence reports a favourable outlook for South East companies.

Guildford based Surrey Satellite Technology has won a £9.2m contract from the European Space Agency to provide a remote sensing instrument to monitor air quality and climate change in the atmosphere. Chemring, based in Whitely has secured a £25m contract to supply mine detection systems to the US Army.

Companies expecting to increase their workforce include Johnston Sweepers in Surrey and Discovery Yachts in Hampshire. Both businesses are expanding production with Johnston Sweepers creating 137 new jobs and Discovery Yachts 30 new jobs.

### **Construction**

The latest data from the ONS indicates that construction output decreased by 3.3% in Q4 2010, compared to an increase of 3.9% in Q3 2010. The ONS estimate that, due to the exceptional weather, construction contributed -0.1% to the overall decline of 0.5% in growth in the last quarter of 2010.

However, confidence in the construction industry remains weak, with an FSB Small Business Index showing a net balance of -16.5% in Q4 2010. Employment intentions are also weak, with more firms looking to reduce headcount rather than increase it, contributing to a Net Employment Outlook of -4% (Manpower Employment Outlook Survey Q1 2011).

However, business specific intelligence reports some positive news for South East companies with two major projects being approved. Scottish Power plan to build a £500m gas-fired, "carbon capture ready", power station near Hoo St Werburgh and Shanks are to build an £11m anaerobic digestion plant at the Westcott Venture Park near Aylesbury.

There is also evidence of activity picking up in construction, within the hotel, tourism and leisure sector with Light Boutique ApartHotel planning to develop a hotel with 60 apartments at the former Queen Square ice rink in Brighton. Waverley Council is also considering plans for the development of a new £6m leisure centre in Godalming.

### **Retail, motor trade & wholesale**

Distribution, hotels and restaurants output declined 0.5% in Q4 2010 according to the latest ONS GDP figures, compared to an increase of 0.8% in the previous quarter. The hotel and restaurant sector had a significant impact on the overall contraction of 0.5% in Q4 2010 with the bad weather in December being behind the contraction.

## **Regional Intelligence Snapshot for the South East (cont'd)**

The latest evidence shows that the rise in commodity prices and VAT are further weakening confidence in retail businesses with the sector recording a low FSB Small Business Index of -42% in Q4 2010.

The CBI Distributive Trades Survey also reports that retailers anticipate that sales growth will slow over the next month. The motor trade, according to the survey, saw sales volumes fall more than expected in the year to January and at the fastest rate since July 2009.

Business specific intelligence suggests a mixed picture for the retail sector with the adverse weather in December having an impact on many companies. Blaming cash flow problems and difficult trading conditions over the Christmas period, British Bookshops and Stationers, the Brighton based chain of 51 bookshops with 300 staff has gone into administration.

Despite the volatile nature of the motor trade sector Sussex based Rolls Royce released record sales figures for 2010, a 171% increase on 2009.

Companies looking to expand operations in the UK and South East include Domino's Pizza with 55 new stores and 1,700 jobs created this year.

### **Business services & finance**

Growth in business services and finance declined by 0.7% in Q4 2010, compared with no growth in the previous quarter, according to the GDP estimates from the ONS. Government and other services saw a marginal decline in activity by 0.2%, with recreation contributing the most to the decrease.

However, according to the latest FSB Small Business Index, companies in the financial services are expecting robust growth in the coming months with a positive balance of +24%. Companies in the service sector are also broadly optimistic, with a positive balance of 6.2% over the next three months.

Employment intentions, as reported in the Manpower Employment Outlook Survey, in the finance and business services sector are positive, with a balance of 8% in Q1.

Sub-regionally, Surrey Economic Prospects reports that professional services and marketing companies in the area are finding the business climate tough as cash-strapped customers are cutting back on expenditure. Surrey businesses also echo the sentiment of manufacturing firms with regard to public sector cuts. A total of 43% of Surrey businesses expect the reduction in government spending to have a negative impact and 8% expect a positive impact. Those companies in Surrey that rely on public sector contracts are finding their market smaller and more competitive.

Surrey Economic Prospects also report the concern of the video games software sector, which has an important cluster in Surrey. The UK trade body, Tiga, warn of the relocation of operations and skilled graduates abroad if Government were to scrap the planned tax relief for the sector.

A number of companies have announced job losses in the region. Grant Thornton is shedding up to 30 jobs due to the centralisation of its personal tax compliance service at offices in Southampton and Kettering. Up to 72 job losses are expected to be lost at BBC Monitoring in Reading at its information monitoring service.

Companies investing in the region include Brocade Communications, who are setting up at new headquarters for its networking services business at One The Braccans in Bracknell.

### Redundancy notifications<sup>1</sup>

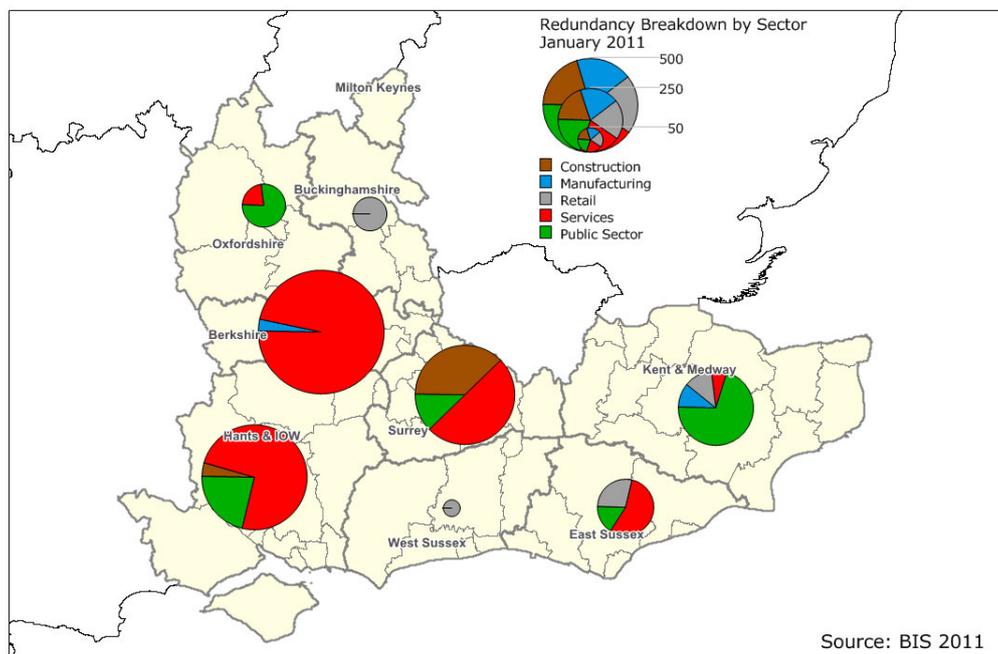
The HR1<sup>2</sup> data received from BIS is no longer verified by the Continuing Employment Support Service (CESS). Brokers from CESS excluded any notifications which related to redundancies outside the South East or were simply renewals of contract rather than job losses. Therefore the data may now include national figures and those notified as a result of contract changes. The potential redundancies in January 2011 declined to 2,688 from 4,472 reported in December 2010.

The service sector as a whole (including the public sector) accounted for over 80% of all potential redundancies. The share of total notifications attributed to public sector was 20%; construction 9%; retail 8%; and manufacturing 2%.

Both the public sector and manufacturing saw a marked drop in the number of potential redundancies in January. The total number of notifications in the public sector in January was just a quarter of those reported in December. Compared to December when all areas with the exception of Buckinghamshire reported redundancies in the public sector, five of the eight sub-regions had companies placing staff at risk in January. Potential redundancies in the manufacturing sector dropped to less than 100, the lowest level for over 3 months.

Berkshire had the higher number of people at risk of redundancy in January, with 30% of all notifications. The majority of the potential redundancies in Berkshire were in the service sector (not including public sector). Hampshire and the Isle Wight saw the biggest drop in notifications (22% of total), with a large decrease in the number of potential redundancies in the public sector. The share of notifications attributed to Surrey in January was 20%; Kent and Medway 12%; East Sussex 7%; Oxfordshire 4%; Buckinghamshire 3% and West Sussex 1%.

### Redundancy notifications by sub-region, volume and sector January 2010<sup>3</sup> (Source: HR1 data via BIS)



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<sup>1</sup> Please note that 'January' data refers to a one-month period from 20/12/2010 to 19/01/2011.  
<sup>2</sup> Note that this data only captures redundancies of more than 20 employees; some of the job losses are not scheduled to take place until later in 2011/2012; and in some cases the redundancies are happening in another region but are registered in the South East because it is home to the company's headquarters.  
<sup>3</sup> Please note: 'January' data refers to a one-month period from 20/12/2010 to 19/01/2011.