Regional Intelligence Snapshot for the South East

November 2010

Summary of economic conditions

- The latest South East Purchasing Managers Index survey indicates **the fastest rise in business activity and incoming new business in three months, but growth remained weak compared to earlier this year.**
- According to the latest autumn **forecast** by Experian, the **South East is expected to be one of the fastest growing UK regions**, with output forecasted to grow by 2.8% in 2010 (up from 2.1% in the spring forecast) and by 2.4% in 2011 (down from 2.6%). For the UK as a whole this compares to 1.8% in 2010 and 1.9% in 2011.
- **Despite weak demand, UK inflation remains stubbornly well above the 2% target.** Inflationary pressures were the main concern for South East firms in October, with **the rate of inflation accelerated for the third month running to its fastest since September 2008,** according to the latest South East PMI. Metals, plastics, chemicals, paper, packaging and fuel were all reported to have risen in price during the month, making inflationary pressures much stronger in manufacturing than services.
- **Firms raised their output prices in response:** according to the South East PMI, the rate of output price inflation was also the steepest since September 2008. Results from SEEDAs latest Business Snapshot Survey (conducted in October) show, that around a quarter of firms have passed on increases in costs to customers over the last three months.
- However, **inflation is expected to remain above target** throughout 2011, given the forthcoming rise in VAT and continuing increases in commodity prices.
- **Employment** in the South East in the three months to September **increased by 36,000** to 4.19 million. According to the latest PMI, private sector employment in the South East continued to increase in October (after a fall in August) however, overall rise in workforces masked a marginal decline in services employment, as manufacturers took on more staff at a robust pace.
- **Claimant count unemployment** in October 2010 was **127,400, a drop of 3,000** from the previous month. The **number of vacancies** notified to JobCentrePlus **increased by more than 13,000** between August and October.

Key challenges and hotspots

- Businesses in the **Financial & Business services** sector (the largest sector of the regions economy) have seen the **most improvement** in overall business performance over the last three months (34% improved, 39% remained stable), according to SEEDAs latest survey. However, businesses in the **Construction** sector report **tough trading conditions** (39% worsening performance, 41% stable), which look set to continue for the majority.
- According to the latest South East results from RICS Construction Market Survey, more surveyors reported that workloads fell rather than increased in Q3 2010, and the outlook remains subdued.
- Businesses in Buckinghamshire are more likely to report worsening conditions over the past three months, whilst those in Oxfordshire and West Sussex were more likely to report improving conditions, according to SEEDAs latest survey.
- **Outstanding workloads in the region declined for the ninth months running** in October, according to the South East PMI. Services saw a sharper fall than manufacturing. Anecdotally, this was often linked to completed contracts not being replaced and rising capacity.
- According to SEEDAs latest South East Business Snapshot Survey, **the majority of the regions firms (63%) still work below capacity**, almost unchanged compared to January/February 2010 (65%).

Business specific intelligence / information on key questions

- According to SEEDAs latest survey, **only one in ten firms identified a skills gap**, with over half of all skills gaps falling in the 'administrative/ secretarial' or 'manager/ senior official' occupational roles. Businesses in the Manufacturing and the Retail, Motor & Wholesale sectors are most likely to have skills gaps – about one in five currently do. In contrast there are few skills gaps in the Finance & Business Services sector. However, for most companies with skills gaps these have either decreased or remained unchanged since 2009.
- There is a **possibility that Christmas sales could be higher than normal** as most people will spend in the run up to Christmas to beat the VAT increase in January, according to Berkshire Economic Commentary.
- The latest Business Link Customer Satisfaction Survey recorded a **slight fall in business confidence** between September and November, but more firms expect the conditions to remain stable.
- Continued lack of mortgage finance and a generally cautious attitude from purchasers has resulted in new buyer enquiries continuing to slip in the South East, whilst instructions to the market have continued to increase, according to the latest RICS Housing Market Survey. As a result, **house prices continued to decline in October**, with 49% more surveyors reporting that South East house prices fell rather than rose.

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Annex - Sectoral Overview

Manufacturing
According to the latest CBI Industrial Trends Survey (November 2010), Britain's manufacturers expect only a modest increase in output over the next quarter, with predictions having moderated considerably on recent months. This was driven by deterioration in expectations among intermediate and consumer goods firms - the latter in particular expects output to fall sharply, following predictions of growth in the previous survey.

Having eased from June through to August, the pace of output growth in the South East picked up for the second month running, the latest PMI for October 2010 reported. However, detailed sector data suggested that manufacturing production rose at a much slower pace than higher rates seen earlier in 2010, in line with the trend seen at national level.

The picture is still quite mixed across the South East manufacturing industries, as business specific intelligence suggests.

In the automotive sector, **Mini** has released 140 agency workers from their Oxford plant. The staff were told they were not needed following a change in shift patterns at the factory because of 'fluctuations in demand' for the car. Similarly, **John Dennis Coachbuilders** is to shed about 45 jobs at its fire engine factory in Guildford in November because local authorities across the country are not currently ordering new fire engines. The job losses will affect shop floor workers as well as office staff. However, **Romahome**, the Isle of Wight motor-home manufacturer, is ending its best year yet with full production lines and orders, taking deliveries well into 2011.

In the electronics sector, **Bell Micro** in Chessington is to close its headquarters in Surrey, with the possible loss of up to 100 jobs while, at the same time, **Electrocomponents** has more than doubled its profits. This company, based at the Oxford Business Park, recorded a pre-tax profit of £50.5m for the six months to September, compared to £24.8m for the same period last year.

Construction
The most recent RICS Construction Market Survey shows that business performance in London and the South East declined again as total workload net balance fell from 0 in Q2 2010 to -7 in Q3 2010, and are expected to remain negative over the next quarter alongside employment and profit expectations. Demand for manual labour edged up but still remains very subdued; 6% of respondents reported blue collar shortages, up from 1% in Q2 2010. Inflationary pressures are a bit of a concern with input costs accelerating (the net balance increased from +3 to +14) and output prices falling at a rapid pace (the net balance fell from -9 to –19).

The housing market in the South East is not faring very well either, the latest RICS Housing Market Survey indicated. The proportion of surveyors reporting a price fall in the three months to October 2010 was substantially bigger than that reporting price rise. Indeed, the non- seasonally-adjusted balance dropped from -40 in September to -51 in October 2010.

A similar business climate is reflected in some of the South East counties. For instance, the latest Kent monthly economic bulletin points out that Kent's property and construction sectors face pain after the government's spending cuts. Drawing on the latest RICS survey results, they also claim that private sector homes "may become even less affordable for potential home owners too where the supply is not enough to meet demand."

Business specific intelligence suggests that the south coastal area is being affected by the closure of **Rok**'s regional bases. The building services company has gone into administration due to sizable losses and financial shortcomings at its plumbing division and thus made 52 people redundant in Fareham and 32 in Eastbourne.

On more positive news, **Square Bay**, a London based developer, has unveiled proposals to create housing, office, retail space and a hotel on the Block J site in Brighton's New England Quarter. It is thought that the scheme will cost between £25 and £30 million and create hundreds of construction jobs.

Retail, motor trade & wholesale
The latest CBI Distributive Trends Survey (November 2010) shows that the UK retail sales volumes increased strongly in the year to November, marking the fifth consecutive month of strong sales growth. Retailers expect this robust performance to continue, anticipating strong sales growth in the year to December. Furthermore,

they are optimistic about the overall business situation over the coming quarter, and they expect to increase investment over the year ahead. Elsewhere, Britain's wholesalers also saw growth in sales, but they expect sales to be flat next month, while motor traders saw an unexpected fall in sales volumes.

Anecdotal evidence from the Bracknell Forest Borough Council suggests that most retailers think that people will spend in the run up to Christmas to beat the VAT increase in January 2011. However, they also reported that Bracknell Forest had 8% of retail units vacant in October 2010 compared to 7% vacant at the same time last year. Likewise, car parking figures were, on average, slightly lower in October 2010 than the same time last year.

In line with the upward trend in retail sales throughout the UK, a number of retail stores have been or are due to be opened/expanded across South East counties. For instance, **Sainsbury's** in Broadcut, Fareham, has been revamped with a new frontage, bigger car park with 51 more spaces and a larger shop floor. The changes have created 104 new posts, both part and full time. **Tesco**'s bid to increase the size of its Pembury store dramatically is a step closer to fruition after the retail giant promised to address road-congestion fears. Tesco wants to replace its existing 2,093 sqm premises with a 5,539 sqm single-storey development and has pledged to widen parts of the A228 and A264. The **Somerfield** store in Woodcote has been converted into a **Co-op** at a cost of £520,000. Nine new jobs have been created, taking the total number of employees to 23. **Waitrose** opened a store in East Cowes during November making it the most 'green' supermarket in Britain.

Some other retail businesses have been faring well, particularly in Brighton, as business specific intelligence indicates. For example, **Crocs**, the footwear company, is opening a stand-alone store in Brighton creating a dozen of jobs at the new shop in the Churchill Square shopping centre. Similarly, **Urban Outfitters**, the clothes chain, has opened a new branch in Brighton, creating 40 jobs while **Hollister**, the fashion giant, is to open a store in Brighton with the creation of 250 jobs.

Hospitality & tourism

SEEDA's Business Snapshot Survey (October 2010) results show that the sector's business performance has remained relatively stable (46% of respondents) over the past 3 months, despite their increased investment. The sector saw the highest proportion of respondents reporting a higher trend (27%), compared to the South East average (15%). This trend has been particularly strong for investment plans in buildings (18%) and is expected to continue over the next 3 months, although at a slower pace (11%).

Business specific intelligence for the South East suggests a number of cases that corroborate the higher trend on business investment in buildings. For instance, Wokingham Borough Council has appointed **Wilson Bowden** to drive forward the regeneration of Wokingham town centre, including 140,000 sq ft of new retail space, housing and leisure facilities. This is expected to create 750 jobs and generate £21 million in additional wages for the local economy. **The Royal Hotel** in Ventnor, Isle of Wight, is undergoing a massive investment programme. The first phase of a £750,000 upgrade has already been completed and work will soon begin on the next stage. Similarly, Kent's largest conference centre is to open in March. The £1.1m project at the **Kent Showground** will offer space for a range of shows and meetings, with seating capacity for up to 1,000 people.

Employment is still an area of concern for the food & accommodation sector in the region. According to SEEDA survey, 27% of respondents reported a lower number of employees over the past 3 months, fairly above the average for the South East (9%). This lower trend is expected to continue over the next 3 months, although at a slower pace (15%).

Business services & finance

While confidence has fallen sharply across most UK sectors, it has held up in Business Services and improved in Banking, Finance & Insurance. According to the latest ICAEW UK Business Confidence monitor, the Confidence Index fell sharply across services industries (11.4 points) in Q4 2010, while it rose in the Banking, Finance & Insurance sector, from 21.7 to 26.4, making it the highest-ranking sector this quarter.

Business specific intelligence corroborated the same business service & finance momentum for the South East. For example, Kent Reliance Building Society (KRBS) has asked members to vote on whether to back a link-up with J C Flowers. The move would create a new bank **OneSavingsBank Plc** with 40.1 per cent owned by Flowers and 59.9 per cent owned by Kent Reliance Provident Society, a new mutual organisation. **The Gatehouse Bank**, a Sharia law-compliant subsidiary of Securities House Kuwait, has snapped up a student accommodation block in Cowley for £28.95m. This way, The Gatehouse Bank will obtain a 9.63 per cent annual return on its money.

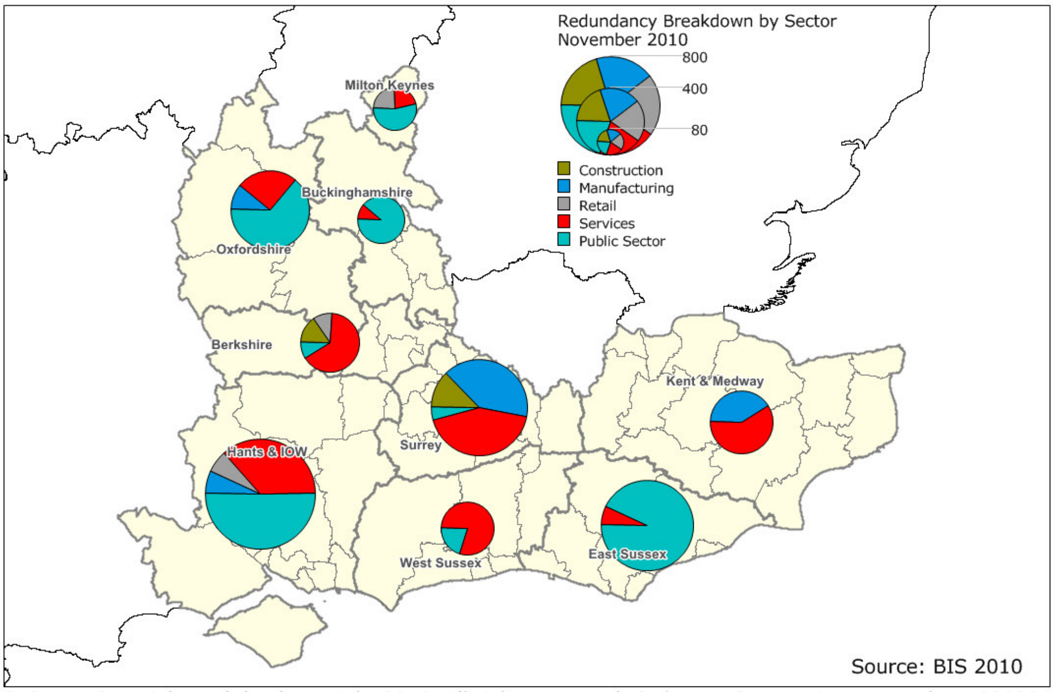
Redundancy notifications[1]
The HR1[2] data received from BIS is no longer verified by the Continuing Employment Support Service (CESS). Brokers from CESS excluded any notifications which related to redundancies outside the South East or were simply renewals of contract rather than job losses. Therefore the data may now include national figures and those notified as a result of contract changes.

The total number of potential redundancies decreased from 9,116 in October to 4,084 in November, the lowest total for the past three months. However, the figure for October included two large notifications in Hampshire & Isle of Wight and Berkshire which totalled over 6,000.

The service sector (including public sector) accounted for 80% of all notifications. Over half of service sector potential redundancies were in the public sector, which accounted for 45% of all notifications in November. The share of notifications attributed to manufacturing was 13%; construction 4%; and retail 3%.

Hampshire & Isle of Wight continued to account for the greater proportion of notification at 24%. Though, this is a significant decrease on the number of notifications received from Hampshire & Isle of Wight in October when the share was 63%. Berkshire also saw a significant drop in number of notifications in November (6%) from October when the share of total redundancies was 24%. The numbers of notifications increased by over 600 in both Surrey and East Sussex. In October the share of redundancies accounted for by Surrey and East Sussex was 2% and <1% respectively. However, in November these shares rose to 18% for Surrey and 17% for East Sussex.

Redundancy notifications by sub-region, volume and sector
November 2010[3] (Source: HR1 data via BIS)



[1] Please note that 'November' data refers to a one-month period from 20/10/2010 to 19/11/2010.
[2] 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 2010; 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
[3] Please note: 'November' data refers to a one-month period from 20/10/2010 to 19/11/2010.