

Summary of economic conditions

- UK GDP increased by 0.8% in the third quarter of 2010, growth was once again underpinned by a strong rise in construction. Overall GDP growth was higher than expected, but lower than in the second quarter (1.2%).
- Preliminary results from SEEDA's latest South East Business Snapshot Survey (conducted in October) showed largely unchanged business performance over the last 3 months: **almost half of South East businesses (45%) report stable overall business performance, 27% report improvement, and 28% report deterioration.**
- The latest South East Purchasing Managers' Index (PMI) underlined **the weaker growth path of business activity in the region compared to the first half of 2010.** Output growth remained modest in September, as **incoming new business rose at the slowest pace since August 2009.**
- SEEDA's survey signals a **weakening trend in business climate:** More firms expect the business climate to worsen in the next three months (32%) then to improve (24%); **nonetheless: 41% expect the business climate to remain stable.**
- Results from the latest Q3 Federation of Small Businesses (FSB) Voice of Small Business Index survey indicate a more positive picture, with small firms in the region appearing second most optimistic in the UK, here, a positive balance of more than 10% expect business prospects in the next three months to improve compared to the last three months.
- **Employment in the South East in the three months to August increased by 23,000, to 4.17 million.** The latest PMI survey shows that employment in the private sector economy returned to growth in September (after a fall in August), but **weak incoming new business and a further decline in outstanding work raises concerns about the strength of the recovery** in the South East.
- According to SEEDA's Business Snapshot survey, **two thirds of firms in the region expect to keep their current level of employment in the next three months,** whilst the number of those who expect to hire staff (8%) is balanced by those who expect redundancies (8%).

Key challenges and hotspots

- According to the latest **RICS Housing Market Survey**, September saw an influx of new selling instructions as homeowners test the property market in the South East, driven by concern over the future of the economy. However, demand for property in the South East remained low, as buyers continue to struggle to find mortgage finance, or wait to see what will happen to the market over the coming months. **This has contributed to the third consecutive monthly fall in house prices in the South East in September.**
- According to Kent Business Advisory Board (BAB), there are **concerns about how the planning processes for strategic infrastructure and projects will operate in future,** and the need for Government to clarify its proposals quickly.
- There has been mixed response following the CSR: In addition to expected job losses and a negative impact on the local economy, some fear the loss of higher level skills from universities as a result of a 'brain drain' to other countries. Others are aiming to get more orders from abroad in order to offset Government spending cuts in the UK, or else express the need to think more laterally and find different routes to the market, according to anecdotal evidence from Surrey Economic Prospects.

Business specific intelligence / information on key questions

- **Overall investment is likely to remain largely unchanged in the next three months.** According to SEEDA's survey, 60% of firms expect investment to remain the same, 20% expect it to increase whilst 19% plan to lower investments.
- Weaker demand and continuing increases in input prices have led to a sharp **slowdown in manufacturing growth,** which according to the latest South East PMI stagnated in September. However, there has been a slightly sharper pace of expansion in service sector activity, which so far has lagged behind manufacturing.
- The fact that the recovery is not more export led, is largely due to weakening demand in developed markets and probably also due to volatility of sterling, which is making pricing very difficult. **High prices of imported components and raw materials is a another factor that acts as a further burden to export growth,** according to anecdotal evidence from Kent BAB/EEF.
- Firms are increasing emphasis on achieving efficiencies through sharpening procurement processes and competing for tenders, there has also been a growing trend for on-line promotion and marketing.
- Some businesses, such as Debenhams and Royal Mail (in Southampton) are now recruiting extra staff for the Christmas season.

Annex - Sectoral Overview

Manufacturing

According to the latest release from the Office for National Statistics (ONS), manufacturing output in the UK grew at 1% in Q3 2010, but growth slowed down compared to the previous quarter (1.6%).

According to preliminary results from SEEDA's Business Snapshot Survey (conducted in October 2010)¹, the majority of manufacturing firms in the South East (44%) report stable business performance over the last three months. However, a third (32%) of manufacturing companies in the region report worsening overall business performance over the last three months.

Looking forward, half of the sector's firms (52%) expect the economic conditions to remain the same in the short term, but a third of manufacturing firms (33%) expect the business climate to worsen over the next 3 months. Overall investment intentions in the manufacturing sector are likely to remain stable in the next three months, according to SEEDA's survey.

However, the majority of manufacturing firms (43%) have reported lower cash flow level during the past 3 months. This is corroborated by the Kent Economic Board which suggests that many companies are extending their payment terms to 90 days – particularly the large food producers and super markets – and this makes cash flow budgeting extremely challenging for small business.

Some reassuring news come from employment in the manufacturing sector, the vast majority (78%) of firms in the sector has kept employment levels stable in the last three months, and expect this to remain so in the next three months.

However, some manufacturing companies seem to be faring relatively well in the South East. In the automotive industry, for example, business specific intelligence indicates that **Mini's** new Countryman model has helped the company record its best ever September sales. Figures released by parent company BMW show 25,222 cars were sold globally, a rise of 1.9 per cent on the same month last year.

In the aerospace industry some firms are besides considering further expansion of their business. For instance, business specific shows that **Surrey Satellite Technology Ltd (SSTL)** will have a new £10m technical facility in Guildford. In partnership with the University of Surrey's research park, the new 3,700sq-m facility, expected to open in April opposite SSTL's headquarters, will house approximately 40 permanent staff and anything up to 100 further project specific staff at key periods

Construction

According to the latest statistics from the ONS, construction output grew by 4% in quarter 3, but substantially slower than in the previous quarter (9.5%).

However, construction made one of the largest contributions to GDP growth in the UK, accounting for 0.2 percentage points out of an overall growth of 0.8 %.

Preliminary results from SEEDA's latest Business Snapshot Survey show that 41% of firms in the construction sector report stable overall business performance, but 39% say that business performance has declined over the last three months. Moreover, the majority of construction firms (47%) in the South East expect the business climate to worsen, whilst a quarter (32%) expect the business climate to remain stable.

The survey results also indicate that investment intentions are likely to remain low, with a third of companies in the construction sector expecting lower investment (31%) and only 7% planning to increase investment activities.

Anecdotal evidence from the Kent Economic Board suggests that **Skanska** is concerned about levels of consumer confidence. Skanska has been looking at achieving efficiencies through sharpening their procurement processes but the level of capital expenditure has been significantly reduced. In terms of the emerging policy landscape the company is looking for clarity on how the Planning system will be operating in future, particularly for strategic infrastructure projects and the need for some confidence in the Planning system to be quickly established.

¹ 650 businesses in the South East where interviewed via telephone. The report will be published in due time.

Retail, motor trade & wholesale

The official data on GDP growth in the UK shows that the distribution, hotels and restaurant sector grew marginally by 0.5% in Q3 2010, compared with the previous quarter. Retail made the largest contribution to the increase, although sales volume has been declining over the last 2 months.

According to SEEDA's Business Snapshot Survey, business performance of the retail sector has remained broadly stable (47% of respondents), although 27% of firms reported a weaker performance over the past 3 months. Besides, 86 % of respondents said that the numbers employed has remained the same over the same period of time.

On more positive news, 60% of respondents indicated they expect business investment to remain stable over the next 3 months, followed by 22% of them awaiting a higher trend for the same period of time. This trend is corroborated by business specific intelligence suggesting a number of investment plans and jobs safeguarded across the South East districts. For instance, **Cargo**, the homewares and furniture retailer, has said that there will be no job losses in its Redhill store, despite the branch launching a closing down sale. The store is expected to close its doors at The Belfry at end of this month. Cargo and the German retailer Butlers are combining their product ranges to create a new store trading as 'Butlers by Cargo' in time for Christmas. Similarly, department store **Debenhams** is to create about 50 temporary jobs for the festive season in Milton Keynes as it gears up for the busiest time of year for retailers while **The Range**, a leisure and garden retailer, will open a store in Eastbourne during October generating 150 jobs at the new 29,000 sq ft store.

Hospitality & tourism

SEEDA's Business Snapshot Survey results show that the bulk of companies in the sector (46%) stated their business performance stayed the same during the past 3 months, while 28% reported worsening conditions over the same period of time. However, 37% of firms expect an improvement in their business climate over the next 3 months, with 37% of them still awaiting the conditions will remain the same.

Anecdotal evidence from the Surrey Economic Partnership indicates that wine sales (from off-licence stores and supermarkets) are growing. Yet, there are some concerns about the rate of closure of pubs, restaurants and bars and as well as the rate of decline in drink sales in pubs and restaurants. Overall, alcohol consumption in the UK is down 1% in the year to date.

In the Tourism industry, the latest figures from the International Passenger Survey (ONS) for the South East reveal a 4% drop in the number of overseas visitors staying overnight in the region for the first six months of the year, compared to the same period last year.

On more positive news, business specific intelligence suggests that there are a number of investment announcements underway that will enhance the tourism infrastructure in the region. For example, work is underway on the £16.3m construction phase of the new £35m **Mary Rose Museum** at Portsmouth Historic Dockyard. Due for completion in autumn 2012, the scheme will see a boat-shaped building constructed over the dry dock that contains the Mary Rose - Henry VIII's flagship. When the new museum opens, more than 19,000 artefacts raised from the bottom of the Solent will be put on show in galleries located on the same level as the ship's main deck. Similarly, **Rother District Council** has announced that work is due to commence on the next stage of a £3.5m scheme to transform the seafront in Bexhill, East Sussex. Kent-based Neillcott Construction will start construction work on the Next Wave scheme along the town's promenade. Plans include the renovation of the Grade II-listed King George V Colonnade, the creation of a new boathouse for Bexhill Rowing Club and the refurbishment of the Metropole Lawns.

Business services & finance

According to the ONS, output growth in the business services and finance sector slowed to 0.5 % in Q3 2010, compared with an increase of 1% in the previous quarter. The most significant positive contribution was from computer services.

According to preliminary results from SEEDA's Business Snapshot Survey, business services and finance was the sector that saw the highest proportion of respondents (34%) reporting an improvement in their business performance over the past 3 months. The vast majority of businesses (78%) stated their employment levels has remained the same over the past 3 months, in line with the rest of the regions sectors on average. However, business services & finance saw the largest proportion of respondents (12%) reporting a higher trend in employment during the last quarter.

Despite the improved business performance in the business services & finance sector as a whole, the picture is still quite mixed at sub-sectoral level.

On one hand, anecdotal evidence from the Kent Economic Board suggests that in the legal sector there has not been much evidence of return to growth during the past 6 to 12 months. However, dispute resolution and insolvency were still buoyant and, indeed, these are the only areas where there has been some modest recruitment. Likewise, the communication services industry is still to fully recover from recession, as suggested by business specific intelligence. For example, **Vodafone** is to close its Oxfordshire call centre with the loss of 400 jobs. The company said it would shut its site on the Banbury Business Park, Adderbury, next year.

On the other hand, business specific intelligence suggests that some business lines are faring relatively well in the South East. For instance, **Ellacotts and Jones Boughton** will merge, bringing a total of 69 staff together when the deal is rubber stamped in November. The merger will create the largest accountancy business in north Oxfordshire. In addition, a merger of accountancy firms **Whitley Stimpson and Hale Partnership** has been approved, with 55 staff working together under the Whitley Stimpson banner. The picture is quite similar in the environmental consultancy sector with **AEA Technology**, the Harwell-based company, snapping up US rival Eastern Research Group for £60m in cash and shares. The company aims to win more orders in the US than in its home market.

Transport & communications

The latest statistics from the ONS show that the transport & communications sector posted a positive growth of 0.7% in Q3 2010, compared with a decline of 1.5% in the previous quarter.

The most significant positive contributions were from land transport and post services.

These national results are broadly in line with business specific intelligence from the South East. For example, **Eurostar**, the operator of international trains between London, Kent and mainland Europe, is gearing up for competition by injecting £700 million in new 200mph trains and a facelift for its existing fleet. At the same time, **Royal Mail** is recruiting 200 more temporary staff in Southampton to handle its bumper festive mail bag. The temporary staff are needed to start work at the beginning of December.

Looking forward, SEEDA's Business Snapshot Survey results indicate that 41% of firms in the sector expect the business climate to remain the same over the next 3 months, followed by 29% expecting improved conditions. Besides, 30% of transport & communications companies are expecting to increase in the overall investment for their business over the next 3 months, more than any other sector in the South East.

Redundancy notifications²

The HR1³ 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 redundancies notified in the South East via HR1 forms for October was 9,116. This is a significant increase on the figures reported in September and August, 1,311 and 5,338 respectively. As the data is not checked it includes all of the notifications received by BIS for the South East and therefore may include national redundancies and employees affected by changes to their contracts.

There was a single notification of over 5,000 employees in the service sector in Hampshire in October. However, this figure does include those staff affected by contract changes, therefore it is unclear how many are genuine redundancies. There is also a single notification of nearly 1,300 in the service sector in Berkshire but this may include national redundancies.

Including the single notification of over 5,000 in Hampshire and the 1,300 in Berkshire, over 90% of notifications were in the service sector, including public sector. Manufacturing accounted for 2% of all notifications, construction 2% and retail 3%. Excluding the 5,000 Hampshire and 1,300 Berkshire notifications, the share of redundancies attributed to the service sector (including public sector) is 78%, retail 11%, manufacturing 6% and construction 5%.

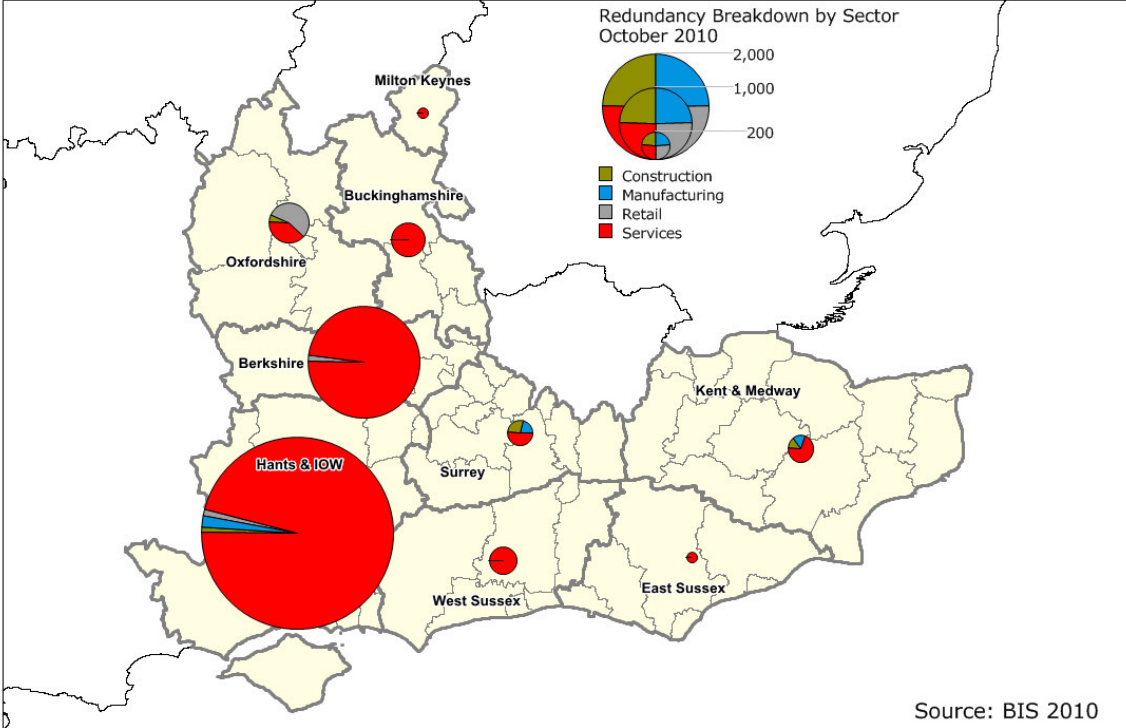
² Please note that 'October' data refers to a one-month period from 20/09/2010 to 19/10/2010.

³ 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.

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

Hampshire had the largest number of notifications in October, 63% of all redundancies, followed by Berkshire, 24% of all redundancies. After taking into account the two large notifications in these areas, Hampshire and Berkshire still account for the largest proportion of redundancies at 25% and 31% respectively.

**Redundancy notifications by sub-region, volume and sector
October 2010 (Source: HR1 data via BIS)**



Source: BIS 2010

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