

Summary of economic conditions

- The UK GDP increased by 1.2% in the second quarter of 2010 (revised up from 1.1%); the fastest rate since the first three months of 2001. The latest **South East Purchasing Managers' Index survey signaled a further overall improvement in business conditions in July, though growth seemed to have lost some momentum**: both output and new orders increased at the weakest rate since September 2009, leading to the steepest fall in outstanding work in four months.
- The latest ONS data shows that in the three months to June the number of people in employment in the region fell by 1,000 compared with the previous three months. The **South East was the only region in the UK to see a fall in employment**. However, **survey evidence shows that private sectors firms continued to add to their workforce** - the PMI private sector employment index in July increased for the fourth month running, at a rate that was greater than the index's long-term trend.
- **Claimant count unemployment in July fell to 132,042**, down by 2,093 compared to June. At the same time the number of **vacancies notified to JobCentre Plus dropped** by -250, to 40,283.
- According to the latest RICS Housing Market Survey results for July, **house prices in the South East declined for the first time in thirteen months**; on balance, the proportion of surveyors reporting a rise, no change or fall in prices over the past 3 months was -15% in July, compared to +15% in the previous month.
- The latest Bank of England **Inflation Report** shows that the **recovery is likely to continue in the UK, though the overall economic outlook is now weaker than expected in the May report**. Growth forecasts for the UK in 2011 have been downgraded from 3.4 per cent to 2.5 per cent.

Key challenges and hotspots

- According to the latest FSB Voice of Small Business Index for Q2 2010, **business confidence has faltered across the UK in the second quarter**. On balance just over 4% of SMEs expect an improvement in the next three months (down from 16% in March), businesses in the South East are slightly less optimistic than the UK average. This is reflected in the GDP estimate that shows business investment was down by 2.4% in Q2.
- The latest Business Link Customer Satisfaction Survey shows a slight fall in confidence: the proportion of BL customers being much more or slightly more confident about the next 12 months dropped from 55% in June to 49% in July 2010. However, survey evidence from Oxfordshire shows that firms are generally positive about the next year, with two-thirds expected their turnover to grow in that time.
- **The majority of UK businesses (67%) are still working below capacity**, according to the FSB Voice of Small Business Index for Q2. Even more, **South East businesses are the least optimistic on this measure**: 64% expect to operate below capacity in the next three months, compared to 60% nationally. This could be partly explained by a higher dependence on the service industry, with the main drive behind the recovery so far stemming from manufacturing and production industries. It could also be that the capacity of businesses located in the South East - the UK's economic powerhouse - prior to the economic downturn was relatively higher than in other regions, and is now consequently harder to fill.

Business specific intelligence / information on key questions

- Latest figures for June show that **sales of Oxford-built MINIs increased by 5.57% during June** compared the same month a year earlier to 4925 vehicles. 22,266 cars were sold in the year-to-date, **up by 27.8% on a year earlier**. The sales boost makes the MINI the sixth best selling car in the UK, ahead of cars such as the VW Golf and Polo.
- According to the latest intelligence from Tourism South East (July), hotels have been reporting that average room occupancy, daily rate and revenue have increased compared to a year ago, reflecting the economic recovery. Hotels are furthermore reporting good forward bookings for September/October which they feel shows increased confidence in the market, according to Berkshire Economic Commentary.
- **There is evidence of a growing skills mismatch in some areas**: The Oxfordshire Skills Survey 2010 showed that 21% of employers surveyed are experiencing skills gaps, up from 16% of respondents in 2008. The survey also revealed that 30% of Oxfordshire businesses are finding recruitment a problem despite the economic climate, with greatest problems recruiting professionals, technical staff and highly skilled specialists.

Sectoral Overview

Manufacturing

According to the latest GDP statistics from the ONS for quarter 2, manufacturing output in the UK continued to grow in the second quarter of 2010. Growth is estimated at 1.6%, up from 1.4% in Q1.

The latest CBI Monthly Trends Enquiry (August 2010) indicates that there has been an increase in export orders, together with a smaller increase in total orders. Both of these increases have predominantly been driven by larger manufacturers. After a fall last month, expectations have also strengthened slightly – continued growth in output is predicted, with medium-sized manufacturers the most confident. Consumer goods manufacturers are the gloomiest, with expectations having worsened over recent months and no change in order books expected over the next three months. Expectations for inflation have also picked up, particularly among larger firms and manufacturers of consumer goods.

Despite the general trend for strong performance from large manufacturers, **Qinetiq** has announced plans to axe 325 jobs on top of almost 400 cuts announced last month. Most of the new redundancies will be at Boscombe Down, near Salisbury in Wiltshire, with the rest at its corporate headquarters in Farnborough.

The science and technology sector appears to have performed strongly in the South East in recent months. Notably, a new **£26 million research laboratory complex** has opened at Harwell, Oxfordshire, to bring together scientists from different disciplines in the hope that this will increase interaction and potentially spark research breakthroughs. The property consortium that has developed Harwell Science & Innovation Campus into a major hi-tech employer is also paying an undisclosed sum to Oxford Investment Opportunity Network (OION) to strengthen links between Oxfordshire investors, researchers and high-growth companies. More good news in this sector came from the announcement that a large research collaboration into sub-atomic particles at the **Rutherford Appleton Laboratory** near Oxford has been extended until 2018. This work covers superconducting materials for computers and medicine and also has links with fusion energy. In the pharmaceuticals sector, **Custom Pharmaceuticals** hope to expand their Brighton-based workforce by up to 50.

There was mixed news in the shipbuilding industry this month. **Palmer Johnson**, the superyacht builder, announced it is to shut its Hythe (Southampton) yard with the loss of 110 jobs, and **P&O** is to ace its Pride of Bilbao ferry service, with the potential loss of 208 agency staff. More positive news came from **Griffon Hoverwork**, based in Southampton, which has won a contract with the Indian Government to build 12 new hovercraft.

The drive for energy efficiency has often been identified as a potential source for new 'green jobs'. Some evidence that this could be the case came from **British Gas**, which will open a new 'insulation depot' in Southampton, designed to help customers make their homes more energy efficient – this will lead to the creation of 40 full-time jobs.

Some early indications of the effects of public sector cuts on private sector firms came from schools computer company **RM**, which announced that it is to make redundancies in the "low double digits" as a result of the government cutting the Building Schools for the Future scheme.

Tourism (hospitality & travel)

According to the latest intelligence update from Tourism South East (July 2010), hotels have been reporting that average room occupancy, average daily rate and revenue per available room have all increased in recent months. This positive sentiment in the hospitality sector was reflected in reports of new hotels being opened or renovated across the South East this month. For example, a new **Premier Inn** hotel is being built in Rochester, creating 45 jobs, and **Butlins** has unveiled plans for a third hotel in Bognor Regis, creating around 100 new jobs.

Financial Services

Evidence from the CBI Financial Services Survey indicates that business profitability has been rising throughout 2010, though expectations are relatively muted for the second half of the year.

Consistently high demand for high-quality business and finance-related qualifications has led Oxford University to commence work on a £28million extension to **Saïd Business School** scheduled for completion

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

in summer 2012. The extension will allow the school to expand its teaching and executive education activities, and will complement the school's existing facilities.

A master plan for the future of the Manor Royal business park in Sussex has also been unveiled. This will help the locally important area, which houses 500 businesses and employs 30,000 people, grow and develop over the next two decades.

Retail & motor trade

The latest CBI Distributive Trades Survey (August 2010) indicates that retail sales and order volumes increased strongly across the country for the second consecutive month in the year to August, with further growth expected in September. In general, retailers were the most optimistic regarding the overall business situation than at any time since May 2004. The survey also provides good news for investment intentions, with retailers expecting to invest significantly more in the coming year relative to the past 12 months. Headcount in the sector was broadly unchanged from August 2009.

The survey also indicates that many of these trends are also true for firms in wholesaling, though growth was less strong. In general, wholesalers expect to invest broadly the same amount in the coming twelve months as they did in the last. Sales volumes and orders in the motor trades sector fell in the year to August, more sharply than expected, and both are expected to fall further in September. Annual growth in selling prices eased somewhat but remained elevated, while employment in the sector was unchanged on a year ago. Positive sentiment in the motor trades sector was reflected in the news that **Prodrive** is returning to rallying, creating up to 30 new jobs in Banbury.

Intelligence from the Federation of Small Businesses in the Thames Valley indicates that while the economy as a whole seems to be performing better than expected, small and micro firms are not expressing the same confidence. At the same time, small businesses across the South East have welcomed Government plans to encourage bankers to lend money to firms or face losing their bonuses. The FSB has also sounded a warning that the National Insurance holiday should be extended to all UK businesses – the latest 'Voice of Small Business Index' (July 2010) indicates that 64% of firms in the South East are likely to be working below capacity – more than anywhere else in the country. The FSB is concerned firms in the region will not start-up and that existing businesses will not have the support they need to grow and take on more staff.

Despite these very real concerns, the generally positive news from national retail surveys has been reflected in the South East. There were numerous reports this month of companies, both large and small, opening new premises in town centres across the South East. For example, **The Malls shopping centre** in Basingstoke is undergoing a £5.9 million refurbishment, a **New Look** store is expected to open in Farnborough, the **Rank Group** is planning to open a new casino in Reading, and more jobs are set to be creating by **Shoppingvouchers.co.uk** in Berkshire, and at a new **British Gas** call centre in Southampton, which will create at least 50 jobs.

Following on from last month's reports of regeneration in town centres (Aldershot and Worthing), a partnership between Sainsbury's and Cherwell District Council was announced this month that work has begun on a scheme to redevelop **Bicester town centre**. The £70 million scheme will see the creation of a new supermarket, a seven screen cinema and shops. A £12m retail development at Whitfield near Dover is also likely to create around 120 jobs.

Construction

The latest estimates from the Office for National Statistics for UK GDP growth in Q2 indicate that construction recorded the largest growth across all UK sectors, by a significant margin. Construction output is now estimated to have increased by 8.5% in Q2 (revised from 6.6%), which represents a significant improvement from Q1, when output declined by 1.6%. Much of this improvement will be due to the bad weather in Q1 which led to a delay in projects.

According to intelligence from local partners, building companies could potentially benefit from the suspension of the Building Schools for the Future scheme. The school building contracts were said to be only available to large national contractors – as such, many smaller building firms could benefit if local authorities have more freedom to choose contractors for remodeling and renovation.

In general, anecdotal evidence suggests that construction firms in the South East are indeed seeing an improvement in the business climate. For example, **Helius**, the UK based energy firm, which announced plans

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

to build a 100 megawatt biomass plant in the Western Docks in Southampton – this project will bring up to 250 construction jobs and 40 permanent 'green' jobs. The plant is subject to consultation and planning permission.

Redundancy notifications¹

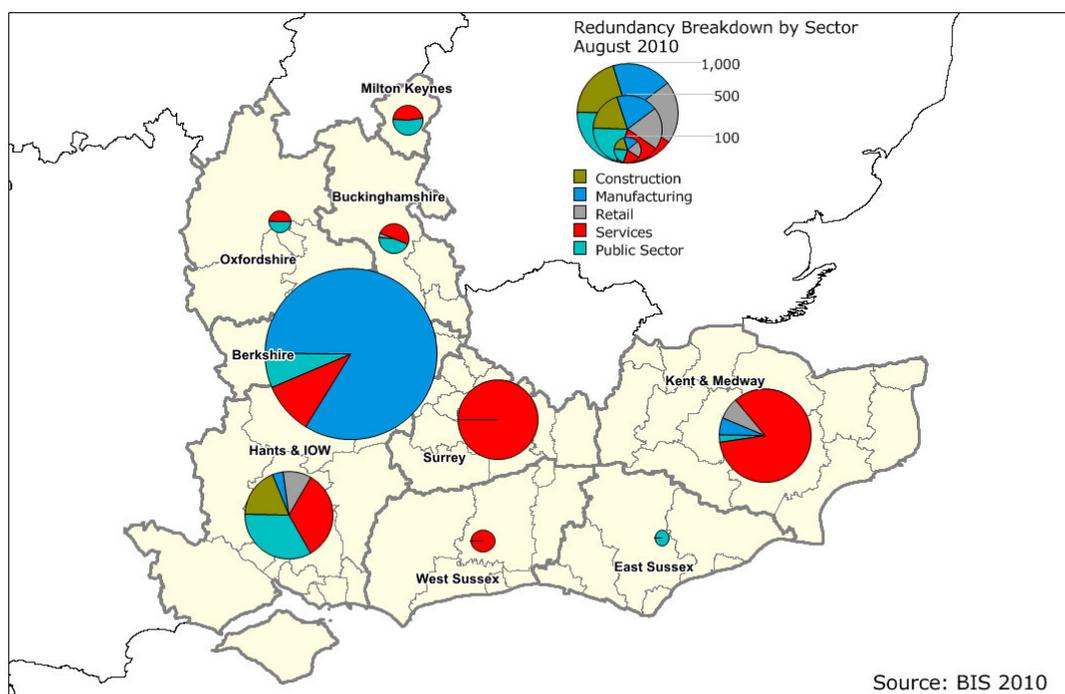
According to HR1 data, verified and checked using intelligence from SEEDA's Continuing Employment Support Service² the number of genuine redundancies relating to employees in the South East in August was 5,338, which included a one-off redundancy notification of over 2,000 employees due in April 2011. The overall figure is much higher than the trend seen in July of 2010, when total redundancies were 2,825.

More than a half of redundancies (53%) were in the service sector (including public sector) this month. This is smaller than that sector's share of total employment in the South East (60%). The share of redundancies in the manufacturing sector in August, at 41%, is significantly higher than the sector's share of employment in the region (8%), and is mainly attributed to a one-off redundancy notification from a specific manufacturing firm. The proportion of redundancies in the construction sector in August is 3%, lower than its share of employment of 9%. Similarly, redundancies in the retail sector accounted for 3%.

Public sector job losses made up a relatively small proportion of redundancies this month, accounting for just 12% of total redundancies, and for 23% of service sector redundancies.

By far the largest number of redundancies this month was recorded in Berkshire (47% of the South East total) – the vast majority of which were in the manufacturing sector (83%). Kent & Medway accounted for 17% of the regions' redundancies (mostly in the service sector), followed by Hampshire & IOW (15%) and Surrey (13%).

Redundancy notifications by sub-region, volume and sector August 2010³ (Source: HR1 data via BIS / Job Centre Plus – verified by South East Continuing Employment Support Service)



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¹ Please note that 'August' data refers to a one-month period from 20/07/2010 to 19/08/2010.

² Brokers from SEEDA's Continuing Employment Support Service exclude any notifications which relate to redundancies outside the South East or are simply renewals of contract rather than job losses. This helps to provide a more accurate picture of total large redundancies. The data also includes some smaller redundancies, picked up by the brokers, which fall below the threshold of 20 job losses required for a company to submit an HR1 form.

³ Please note: 'August' data refers to a one-month period from 20/07/2010 to 19/08/2010.