

Summary of economic conditions

- The latest evidence from businesses and business representative organisations shows that the **rate of deterioration in business conditions** in the South East **has started to slow down**, with output, new orders and numbers employed being broadly flat compared to last month.
- **Manufacturing firms continue to face adverse trading conditions** in both domestic and export markets. Significant depreciation of the pound has so far failed to improve the fortunes of the region's manufacturers with depreciating currency continuing to put upward pressure on import prices.
- Largely anecdotal evidence from businesses suggests that there are signs of a **more positive outlook for the next few months**. Corroborating our latest business survey results (the Quarterly Snapshot), the latest EEF survey shows that the **region's manufacturers are more upbeat about the outlook** with businesses expecting a generally higher volume of new orders over the next three months.
- The **labour market continues to weaken**. Over the past quarter for which data is available the number of people in employment fell by 32,000 – the largest decline of any region – and the number of people claiming JSA reached 136,000 in February (the highest level since May 1997). With redundancy notifications in March increasing to 5,900 or 9% up on February the labour market is expected to weaken further over the coming months.
- **Inward investment inquiries are holding up** but difficulties in **obtaining investment finance remain an obstacle** in converting these into solid investments.

Key challenges and hotspots

- **Falling demand, managing cashflow, and retaining skilled staff** to prepare for the upturn are some of the most pressing issues affecting businesses.
- **Accessing finance is still proving difficult for many businesses.**
- Further **weakening of the labour market in coastal areas, smaller commuter towns and rural areas** is of particular concern where even relatively small job losses could have a significant impact on demand. Further restructuring within the financial sector, lower demand for other services and the impact of falling incomes as a result of reduced revenues in the public sector are likely to lead to a new round of redundancies in these sectors over the coming months.

Business specific intelligence / information on key questions

- Anecdotal evidence suggests that the take up of the EFG has been slow due to the personal guarantees required, and several other strings attached.
- General feedback is that banks are still calling back existing credit arrangements and in some cases reducing overdraft facilities that have already been agreed. See Annex for sectoral and business intelligence.

Sectoral Overview

The downturn has spread out across a broad range of sectors, with retail, construction and property related activity, manufacturing (especially automotive) and financial services affected the most. Furthermore, Business Link Surrey are seeing increasing volumes of enquiries from businesses in sectors they wouldn't normally hear from, such as dentists, solicitors, plumbers and opticians.

Manufacturing: continues to face adverse trading conditions in both domestic and export markets. A significant depreciation of the pound has so far failed to improve the fortunes of South East manufacturers. Manufacturers who import are continuing to feel pressure from higher import prices. A number of manufacturing firms have got into difficulties in March, including **Carringworth**, the West Sussex-based metal components manufacturer with about 250 staff, which has gone into administration, while the engineering firm **Active Signs** has also gone into administration with the loss of 70 jobs at its Ramsgate-based sign manufacturing business. **Kemble & Co**, the Milton Keynes based piano manufacturer is said to be considering plans to close its factory in Bletchley with the loss of up to 96 jobs.

The automotive sector is experiencing very challenging conditions because of low consumer confidence and high levels of uncertainty. New car sales are significantly down on last year, but there may be some slowing of the decline in April following the issuing of new plates in March. Uncertainty about the introduction of the 'scrappage tax' has severely dampened demand, as potential car buyers wait to see if there are likely to be any incentives on offer. The latest business specific intelligence includes the news that **Greens Motor Group**, the Kent-based Vauxhall car dealership, has gone into administration with the loss of about 70 jobs. Kent Economic Board report that used car sales are holding up, as are repairs and servicing. Defence orientated manufacturers are still doing reasonably well but some firms are concerned that government contracts could "dry up" over the next couple of years.

According to the latest EEF survey, manufacturers in the South East are less pessimistic about the next three months than they were previously. Businesses expect a generally higher volume of new orders over the next three months, with export orders being higher, while the outlook for the volume of domestic orders and volume of output is broadly flat. Employment levels and profit margins are expected to be lower, with further worsening of cash flow over the next three months. Cashflow and access to credit still remain significant challenges for the region's manufacturers.

Energy: The energy sector appears to be performing relatively well, with no major redundancies announced in the past two months, and a number of new plants to be set up and new jobs to be created. For instance, **Scottish Power** has unveiled plans for a new £500 million 1,000MW gas-fired power station at its Damhead Creek site in Kent, with the creation of 50 permanent jobs, while **Ceres Power** is to set up a fuel cell manufacturing plant in Horsham, Sussex, creating hundreds of jobs.

Retail: Footfall is holding up in some areas such as Brighton and Hove and Milton Keynes, although in West Sussex town centres footfall is down. Food shops are doing reasonably well, but fashion shops and high-end retail continue to struggle, as customers think hard before making non-essential or larger purchases. **Home Retail Group** has shed 300 of the 1,500 jobs at the Milton Keynes head office of its Argos and Homebase operations, while **Waitrose** is due to create 140 jobs with the opening of a new store in Ashford, Kent later this year. The number of vacant shops is continuing to increase in many town centres, with more redundancies associated with troubled major national chains (eg. recent closures of **Principles** and **Marks and Spencer** stores across the region). Landlords are being flexible in offering monthly rental payments for retailers with cashflow problems. Some market traders are seeing a drop in trade as larger stores have reduced their prices heavily.

Construction and property: Developers are still trying to sell their stocks of new homes quickly at discounted prices in anticipation of further price falls. One of the most recent casualties of the downturn in house building is **Cadenza**, the Windsor-based house building firm, which has gone into voluntary liquidation. However there is evidence that some larger developments with long lead times (c. 18 months) are starting to come out of moth balls – suggesting that developers are planning to have projects ready to bring to market in anticipation of the upturn. As evidence of this preparation for the upturn, **Laing O'Rourke**, the Dartford based construction firm is to create a further 1,000 positions for construction apprentices, in partnership with ConstructionSkills, with 200 to be recruited this year. Some increase in construction activity has been reported in West Sussex due to falling raw material prices.

There are some reports of buyers still waiting for the housing market to bottom out, but there are signs of increased activity in several parts of the region. Kent Economic Board reports that demand from first time buyers with savings to draw on has increased significantly, which is borne out by increased auction sales and some growth in demand for domestic conveyancing. The rental market remains buoyant, although rents are static or falling.

According to Hampshire Economic Partnership employment levels in electrical, plumbing, heating and ventilation and air conditioning are predicted to fall by up to 50% and some apprentices may also be made redundant.

Leisure and tourism: The number of pub closures is increasing in some areas. The restaurant trade has been affected significantly by the downturn except in those cases where outlets (largely chains) offer discounts or special offers. Tourist operators are fairly confident of a good summer season, but less optimistic about the off-season. Conference venues are reporting a significant drop in bookings and luxury hotels are having to reduce their room rates to attract business customers, but budget hotels are doing well. **The Forbury Hotel**, a Reading-based luxury hotel that recently underwent a £6 million renovation, has gone into administration. Caravan parks are seeing an increase in bookings (up by 40% on a year ago). **Holidaybreak** is setting up a new chain of 9 Eurocamp campsites in the UK, including two sites in the New Forest. As the downturn continues to bite, visitor numbers at museums and heritage sites are increasing.

Agriculture / land-based: Businesses in West Sussex are reportedly benefiting from higher food prices and the weakness of sterling. Investor Development Managers report buoyant orders for horticultural growers from garden centres in West Sussex. However, the weak pound is leading to increases in the cost of imported inputs.

Creative and cultural: There is a mixed picture in this sector, with publishing, design and fashion, leisure, advertising and architecture generally struggling, while music, software and computer services are doing relatively well. Web developers are reportedly seeing increasing orders from businesses seeking new markets. Theatre bookings are holding up quite well, perhaps because people are swapping holidays for less expensive 'treats'.

Printed media (particularly local newspapers) are struggling due to reduced advertising spend and the challenge from online media. Many businesses are reducing their budget for printed media and switching to online media instead. A number of local newspapers in the region are restructuring and shedding jobs. For example, **Kent Messenger Group** is planning to shed up to 159 of the 560 jobs at its media operations in Kent, and its printing, mailroom and distribution operations will be outsourced. Meanwhile, the **Reading Evening Post** is to move from a five-day to a twice-weekly publication.

Both feature film and TV production were lower than usual in the first quarter of 2009, but the outlook for the next few months is more positive, with significant budgeting and scheduling work taking place. However, the possible scarcity of good soundstage space in the second quarter of 2009 may limit the appeal of the South East and the UK more generally as a location for TV drama production, with consequent shifting of some projects to central and eastern Europe.

Security Innovation and Technology: From a general SME perspective, the market situation continues to deteriorate. Many major customers, potential customers and partner organisations are tightening their belts, reducing budgets and either cancelling or postponing previously planned projects. Very few companies have not laid off staff in the last few months and most have more cut-backs in the pipeline.

Third sector: Figures from Citizens Advice Bureaux indicate that the South East CABx have seen by far the largest number of enquiries of any region regarding unemployment benefits and redundancy. Between January and March 2009 there were more than 5,500 enquiries about Jobseekers' Allowance (almost one fifth of the total for England and Wales), and at least 5,000 enquiries relating to redundancy (more than one fifth of the total). This equated to more than 100 enquiries per working day. In addition, over 3,100 enquiries about mortgage arrears were received in this period, and more than 3,600 enquiries relating to council tax arrears.

Redundancy Notifications: According to HR1 data, the level of redundancy notifications in the South East in March was higher than in February. There were some 5,900 redundancy notifications in the South East in March against 5,400 in February 2009.¹

Relative to their share of regional employment, the telecommunications and finance sectors have seen the greatest increase in redundancy notifications over the past month. These two sectors accounted for over 40% of all redundancy notifications, with telecommunications alone accounting for over one fifth of all redundancy notifications in the South East in the past month. There has been a relatively large number of redundancies in manufacturing, printing & publishing activities, construction and other business activities.

Berkshire and West Sussex recorded disproportionately more redundancy notifications than other sub-regions (see map below). For example, over a quarter of all redundancies notified via HR1s in the past month were recorded in Berkshire, which is well above its share of total employment within the South East.

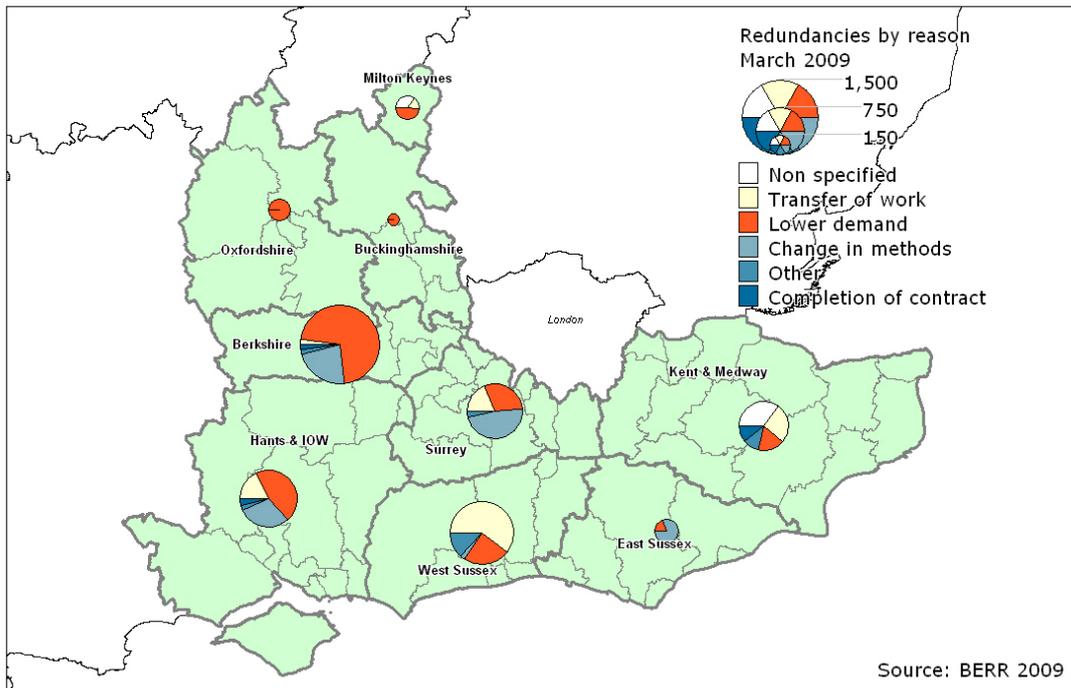
With more than one in ten redundancy notifications, Horsham and Newbury, relative to their share of regional employment, were affected by redundancies disproportionately more than other urban areas, followed by Slough. Dartford and Bracknell were also affected disproportionately more than other urban areas.

Over the past month there was a decline in the proportion of redundancy notifications in the South East due to lower demand. In March 2009 some 44% of redundancy notifications in the South East were entirely or partially caused by lower demand against almost two thirds in February and more than half in January.

In Berkshire and Buckinghamshire lower demand accounted for over 70% of all redundancy notifications in March 2009.

¹ 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 2009; 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.

**Redundancy notifications by sub-region, volume and reason
March 2009 (Source: HR1 data via BERR / Job Centre Plus)**



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