

Summary of economic conditions

- The **volume of output and volume of new orders in February was lower** than last month, although **the rate of decline was not as large** as experienced in late 2008. Anecdotal evidence shows that **destocking is starting to ease**.
- Preliminary results based on a survey of 600 businesses across the South East show that in the past three months **overall business performance has remained stable or improved** for two thirds of businesses in the South East (RDA Business Survey, forthcoming).
- The **labour market continues to weaken**. The RDA survey shows that one fifth of businesses in the region have fewer people in employment than three months ago. The number of people claiming JSA increased to 120,000 in January or 76% higher than a year ago (the highest level since February 1998).
- The prevailing adverse market conditions and increasing job uncertainty have resulted in **subdued wage settlements**. According to EEF, pay settlements in manufacturing in the South East have fallen sharply and rapidly to the lowest level for more than 10 years.
- **Energy and raw material costs are falling** but the RDA Business Survey shows that for 50% of companies in the region these costs have placed most upward pressure on the overall cost base.

Key challenges and hotspots

- The **weakening labour market** is increasingly becoming a key challenge, especially in more remote areas.
- Some 37% of businesses in the region have experienced a **delay in payments** (RDA Business Survey).
- Eight in ten Business Link customers have seen **falling sales** in February and combined with late payments this is having a significant impact **on cashflow**.
- There is an urgent **need to support companies in retaining the skilled workers** they will need when the upturn comes (EEF).

Business specific intelligence / information on key questions

- The RDA Business Survey shows that over the past three months almost a fifth of businesses seeking new finance or new lines of credit have failed to obtain it.
- The **banks have been slow in responding** to the latest government initiatives. Anecdotal intelligence shows that some banks are offering better support to businesses than others. The evidence from Business Link clients suggests that local bank branches do not have sufficiently detailed information on the Enterprise Finance Guarantee Scheme.
- Economic Partnerships report that there is still a general **lack of awareness** amongst businesses **of the support services** offered by Business Link and others.
- See **Sectoral Overview for business** specific intelligence.

Sectoral Overview

Most sectors have experienced adverse conditions in February 2008, but February was a particularly bad month for manufacturing and transport related activities (automotive manufacturing, air and water transport).

Manufacturing: EEF, the manufacturers' organisation, reports that manufacturers across the South East are feeling the full effect of the UK recession and the slowdown in the global economy. Markets at home are continuing to show a decline and the global slowdown is preventing the weaker pound providing a significant boost to export orders. 60% of respondents from the business trends survey in the South East conducted by EEF report a reduction in total output and 69% say total new orders are down. The current market conditions and the liquidity squeeze are having a significant impact on investment decisions with almost 60% of manufacturers reducing capital expenditure. Anecdotal evidence shows that the practice of putting staff on a three or four day week is spreading amongst manufacturing firms in the South East, but the latest administrative data also shows a significant number of redundancy notifications in manufacturing. There were almost 1,800 redundancy notifications in manufacturing in the South East in February 2008 or almost a third of the total.

February was a particularly bad month for the automotive sector in the region with a large number of redundancy notifications as companies consolidate their operations in the face of a sharp fall in demand and pressure to reduce costs. Companies in the supply chain of automotive manufacturers are very pessimistic about the next few months and in many cases are already shedding jobs. Business specific intelligence shows that the **BMW** Mini car plant near Oxford has moved production from three shifts to two with the loss of 850 temporary jobs. Another major car producer in the region, **Ford**, is to shed up to 500 jobs at its Transit van plant in Southampton by May, and a further 350 jobs will be lost at sites throughout the country. **Renault F1** is planning to shed up to 60 staff at its motor racing headquarters in Enstone, Oxfordshire.

Metals & engineering and printing manufacturers have also been affected significantly over the past month. **Lymington Precision Engineers** is to shed up to 50 staff at its engineering base in Hampshire and **BGP** is shedding up to 57 staff at its printing business in Bicester, Oxfordshire.

However, the business specific intelligence also reports some positive news amongst manufacturing firms in the region. For example, **McLaren Group**, based in Woking is planning to invest up to £250m in the production of 1,000 luxury sports cars a year by 2011, which could lead to the development of a new production plant in the UK and the creation of up to 400 jobs. **Managed Support Services**, a Woking based engineering firm is raising £5.7m in a share placing to fund the expansion of its air conditioning business.

Given the speed and scale with which the UK and global downturn has hit manufacturing, firms are extremely pessimistic about the next three months.

Retail: Anecdotal evidence shows that footfall in many town centres is still holding up (driven in part by deep discounting), but the number of vacant units is increasing as a result of the closure of national chains like Woolworths and Zavvi. Large retail grocery stores (Tesco, Sainsbury's, Asda) are reporting higher turnover and are planning the creation of thousands of jobs across the country. **Tesco** is opening a new store in Hungerford, with the creation of 50-60 jobs, while **Waitrose** is to expand its headquarters in Bracknell. Some smaller retailers are making redundancies, although some shops are benefiting from the closure of Woolworths. High-end and luxury retailers continue to struggle, and fashion retailers are facing difficult trading conditions. There have been a number of job losses in firms selling household goods: **B&Q** is shedding 80 jobs in Hampshire; the Kent-based **Land of Leather** has gone into administration, and **ProCook**, a kitchenware company, is closing 18 stores across the country, including one in Chatham.

Small independent shops are increasingly finding it difficult to compete with the discounts offered by large chains.

Transport: There is a mixed picture in this sector, with some significant redundancies announced, as well as plans to add new passenger routes and services by air, rail and sea. Significant redundancies have been announced in the passenger transport sector in the past month, including 600 job losses at Crawley-based **Virgin Atlantic**, 650 jobs at **SeaFrance** (operating ferries between Dover and Calais), and a further 180 job losses at **South West Trains**. The recession does not appear to be affecting the SME market (i.e. coach, taxi and private hire, independent bus operators) so far. However, many small to medium sized coach operators run on a very tight budget and as people travel less in the UK/Europe for holidays and excursions they could well be affected. Similarly, sole traders and the self employed in the taxi and private hire industry may be affected in 2009 as people look to cut down on 'luxuries' like cabs and use public transport instead. On the positive side, new ferry routes from Dover to Boulogne and Dieppe have been announced by the Portsmouth-based **LD Lines**, with the creation of up to 100 jobs, while **Aer Lingus** is to launch eight new routes from Gatwick Airport to the European mainland, with the creation of more than 160 jobs.

Financial services: There is a concern over the availability of working capital for businesses within the financial services sector in the region. Investment intentions remain low, with many businesses seeking to prolong the life of assets. Prolonged uncertainty within the financial markets is expected to lead to further 'restructuring' within the sector over the coming months. In Surrey, the greatest effect has been on residents who work in City firms, but major restructuring in Surrey-based firms is expected in the coming months. **Legal & General** is planning to shed up to 450 of the 8,500 jobs at its insurance offices, including one in Kingswood in Surrey.

Business services: Anecdotal evidence points to a significant number of legal and accountancy firms shedding jobs, due to problems in attracting new business and the failure of existing clients. A number of SMEs in IT, sales and marketing, management consultancy and employment agencies are reporting difficulties securing contracts, retaining staff and maintaining cashflow.

Construction / property: The level of activity within the sector remains depressed with little sign of improvement. According to SEEDA/CBRE Monthly Commercial Development Snapshot, projects in the pipeline are moving along but with more delays, particularly because of liquidity constraints. For example the developer **Hammerson** has postponed the £100 million plans for the extension of the West Quay shopping complex in Southampton. Construction costs in the region are down by around 10% and 15% further up the country and are expected to decline by around 7.5% in 2009. Firms are focused on trying to offload existing stock while avoiding making a loss. SECBE points out that residential prospects remain particularly grim – the residential index is 44% lower than a year ago – and maps out an extremely difficult year ahead particularly for the private housing sector. **Oakdene Homes** (based in Reigate, Surrey) has gone into administration after seeing its base business in the house building sector collapse.

Firms in commercial property are finding it challenging to maintain cashflow and cope with a reduction in capital values. SMEs in the construction and property supply chain are facing significant challenges (e.g. architects, small building/property maintenance firms, plumbers, electricians, house removals). Falling sales and a reduction in new enquiries is making it difficult to retain staff and maintain cash flow. According to Berkshire Economic Strategy Board a large number of SMEs in Berkshire are struggling to remain solvent.

Creative and cultural sector: Some projects relying on private sector funding are under threat as this funding is cut or withdrawn as a result of the downturn. For example, the developer of a major arts sector project in Southampton has gone bankrupt, putting the project under threat. The change in the treatment of empty buildings for business rates is jeopardizing their use for local arts activity. Printing companies are struggling with falling sales, and some are laying off staff, although

others are benefiting from strong year-end demand from the public sector. Some corporate clients are looking for discounts, leading to cashflow problems for small firms in the creative industries. A video editing and production company in Surrey reports picking up some good contracts from London companies that would normally use more expensive London firms.

Leisure and tourism: Although enquiries have fallen, hotel room bookings are generally holding up relatively well, partly due to hotels cutting rates to attract business. Business customers are more cost-conscious – looking for discounts and 'better value' accommodation and catering options. As a result, lower-priced attractions and accommodation are faring much better than the luxury end of the market. **Holiday Inn** in Woking is looking to expand by adding an extra 67 bedrooms to its hotel. Many pubs and restaurants are struggling, so are using discounts or special offers and/or diversifying (eg. offering business meeting facilities). **AWT Restaurants** based in Windsor has gone into administration with the closure of six outlets in London and the South East and the loss of 60 jobs. Local tourist boards are expecting an increase in visitors once the Spring arrives (there is evidence of greatly increased traffic on the Visit Surrey website, for example).

Marine: Volume of output is flat compared to January but the sector is experiencing an increasingly difficult environment with lower volumes of domestic and export orders in February. Some sectors are selling into long-lead markets and are not yet seeing significant declines in output, though these are expected in future. Most of these companies are seeing reductions in order books as future orders are cut back or cancelled. The leisure marine sector and shipping sectors are suffering now as discretionary retail spending and freight demand fall. **SeaFrance**, the operator of cross-Channel ferries between Dover and Calais, is to reduce the size of its fleet and shed about 650 jobs, while **Coastal Bulk Shipping**, the Kent-based freight firm with 90 staff, has gone into administration. Some marine sectors such as commercial workboats are seeing their market grow, and this is providing some welcome scope for new employment and redeployment of skills. Exporting companies (most of the industry) are generally seeing an increase in profit margins due to a favourable exchange rate, except where trading conditions demand price reductions.

Companies suffering drops in output are facing cash flow risks and lack of availability of bank lending is a serious problem. In some cases companies are seeking to mothball part of their production capacity. Leisure marine boat and yacht construction, and their supply chains, particularly at the lower end of the market are facing tough trading conditions. In shipping, a drop in freight demand is driving down freight rates, and operators are mothballing vessels wherever possible.

Business specific intelligence shows that recent arrival **Palmer Johnson** is continuing to build up its workforce, focusing on highly-skilled metalworkers. The workload for the UK's carriers is a positive sign for many companies.

Environmental technologies: A survey conducted by Envirobusiness on companies working in the energy technologies, environmental consulting or recycling or materials management areas in the South East revealed that 43% of businesses expect to have lower profits in 2009 than what was projected initially. Regarding cashflow position and relationships with banks, more than 30% responded that they have never been offered an overdraft facility and nearly 50% reported that they have never been offered short term or longer term loans to support their businesses. Moreover, 20% of respondents reported that their overdraft facility has either been reduced or removed altogether. Some companies in this sector are reporting positive news, however. **Centrica Leasing**, the Windsor-based energy provider has won government permission to build a 1,020MW gas turbine power station at King's Lynn, while the Ministry of Defence is planning to build an energy-from-waste plant at the naval base in Portsmouth, in order to cut energy bills and supply electricity to ships.

Agriculture / Rural: A key challenge for small producers is the extension of payment terms by customers. Producers who supply supermarkets are being paid on time but are still being pressured to lower prices. Rural businesses are having difficulty increasing overdraft limits with their banks, but there is no evidence of overdrafts being reduced. Seasonal businesses are experiencing severe cashflow problems because of their inability to access finance.

Investment decisions by land-based businesses are now seen as increasingly risky because it is difficult to forecast future growth. The lower pound is having a detrimental impact on some firms as they struggle to control the cost of imported inputs. Increasing numbers of empty shops have been reported in market towns (e.g. Dorking, Banbury) and according to Kent Rural Board there is anecdotal evidence of a 10-15% drop in turnover for rural shops in Kent. BERR and RDAs are putting in place a mechanism to ensure effective 'rural-proofing' of the regional state of the economy reports that RDAs have been commissioned to produce by the National Economic Council.

Public sector: is generally performing better than any other part of the economy. Internal staffing reviews are being undertaken in a number of local authorities, as they face the twin challenges of reduced car parking and business rate receipts and reduced income from investments and falling interest rates. Jobs are at risk at a number of local authorities, including Buckinghamshire, Slough and Ashford. On the other hand, extra staff have been recruited to Jobcentre Plus, who are considering opening on Saturdays to cope with demand.

Redundancy Notifications: According to HR1 data, more than 5,400 redundancies were announced in the South East in February 2009, which is some 11% fewer than in January.¹

Relative to their share of regional employment, manufacturing and transport related activities have seen the greatest increase in redundancy notifications over the past month. These two sectors accounted for almost half of all redundancy notifications, with manufacturing alone accounting for almost a third of all redundancy notifications in the South East over the past month. Telecommunications and other business activities have also recorded an increase in redundancies above their share of regional employment.

Hampshire and West Sussex recorded disproportionately more redundancy notifications than other sub-regions. For example, almost a third of all redundancies notified via HR1s in the past month were recorded in Hampshire, yet Hampshire accounts for one fifth of employment within the South East. West Sussex, which accounts for less than one tenth of employment within the South East accounted for more than a fifth of all redundancy notifications in the region.

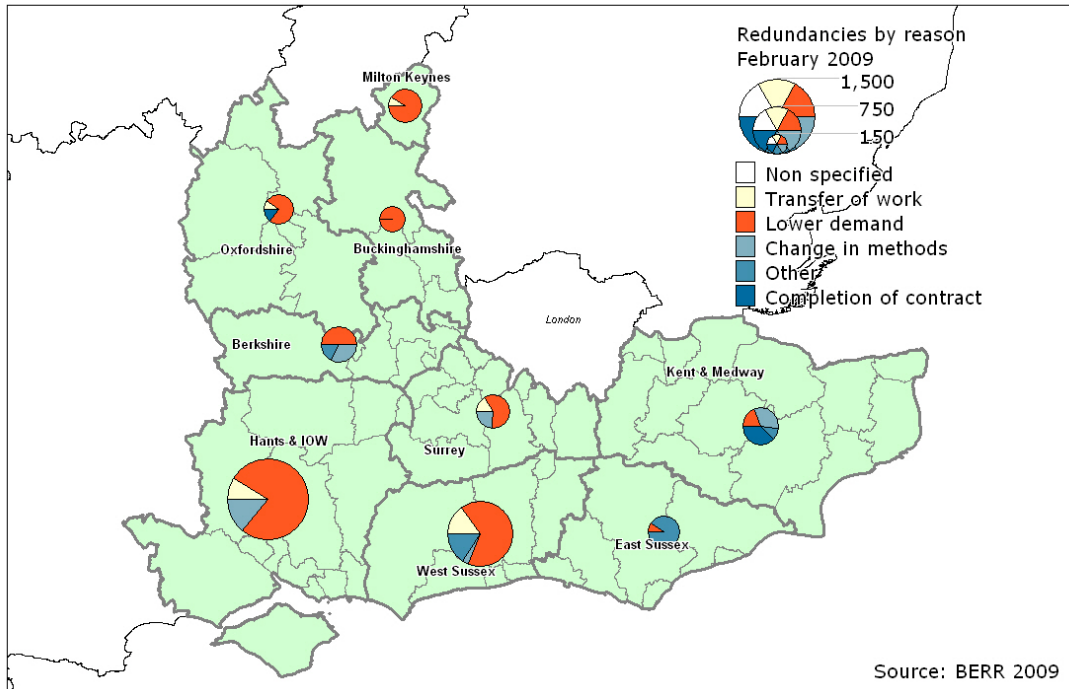
With one in six redundancy notifications, Crawley, relative to its share of regional employment, was affected by redundancies disproportionately more than other urban areas, followed by Southampton (one in ten redundancy notifications). Milton Keynes, Hook and High Wycombe were also affected disproportionately more than other urban areas.

Over the past month there was an increase in the proportion of redundancy notifications in the South East due to lower demand. In February 2009 almost two thirds of all redundancy notifications in the South East were entirely or partially caused by lower demand against more than half in January and less than half in December 2008.

In Hampshire and Oxfordshire lower demand accounted for around three quarters of all redundancy notifications. More than half of the redundancy notifications in West Sussex and Surrey were caused by lower demand.

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
February 2009 (Source: HR1 data via BERR / Job Centre Plus)**



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