Regional Intelligence Snapshot for the South East

October 2008

Summary of economic conditions

- Survey evidence from South East businesses and business representative organisations during October shows **output flat**, with **new order volumes lower** (especially domestic orders, with export orders broadly flat).
- There remains a **mixed picture across a range of sectors and businesses**. The retail, financial, housing and automotive sectors are facing tougher trading conditions. IT, security, exports orientated engineering and government suppliers are reporting sales volumes holding up. Those businesses with diversified products and markets are generally doing better.
- Manufacturing, and in particular engineering, report marginally lower output than in the previous month, but profit margins and cashflow position have marginally improved. Export orientated engineering businesses appear to be doing better than other parts of manufacturing helped by the recent sterling depreciation.
- **Upward pressure on prices charged to consumers may have started to ease**, largely due to severe competition for new customers. **Input costs may also be easing**.
- **Employment remains broadly flat** in line with the latest data from National Statistics. Businesses are planning for cut backs or redundancies should the recent financial turmoil unravel further and start having a greater impact on the economy.
- The current economic downturn and increasing job uncertainty are resulting in **subdued wage settlements**.
- **Investment (plant & machinery and training) appears to be lower**, with some investment decisions being put on hold or cancelled. **Investment in R&D amongst larger companies is reported higher**.
- A Business Link survey of 100 companies found 70% believe the economic situation will get worse in the next 6 months, with 66% thinking it will negatively affect their business.

Key challenges and hotspots

- The financial turmoil continues to impact on **cost and availability of credit**. Generally, access to credit remains difficult across the board, with some evidence that even some companies who generate cash and with strong balance sheets are having difficulties in raising credit. Larger companies are still able to obtain finance (sometimes with difficulty), but smaller companies still face greater difficulties in raising finance and are facing higher costs of credit. **Larger companies have extended payment terms from 30 up to as much as 90 days, resulting in tightening cash flow for smaller businesses**. Businesses are also suffering as not all debts are being paid.
- **Falling sales** is one of the most significant challenges affecting businesses across the board. As a consequence of slowing demand, high input prices and severe competition for new business (which is depressing output prices) **profit margins have fallen further**, impacting on cashflow and investment intentions (in particular on capital investment and training).
- Amongst the region's manufacturers' (engineering in particular), there is a great deal of **uncertainty over growth in the G7 economies and a slowdown in emerging markets** (China in particular) and its impact on the volume of new orders.
- SEEDA's October Survey of 15 major housebuilders shows **private buyer discounts of 20-33%** being offered. Bank re-financing has had no effect on sales. A few cash investors are emerging for stock deals but are seeking deep discounts. **Output and workforces have both reduced by c30%**.

SEEDA South East England Development Agency
Working for England's World Class Region

Business specific intelligence / information on key questions

- **Retail** – Sales are down on September but discretionary spend is affected more severely. It is smaller independent retailers that are being affected to a greater extent by the downturn.
- **Marine** - significant reduction in discretionary spending is hitting the leisure sector particularly hard (with the exception of super yachts), but commercial vessels for export and marine defence are relatively immune to the downturn as yet.
- **Agriculture** – Profit margins have fallen and there is a concern that migrant labour may return home, creating further staff shortages.
- **Inward investment** inquires are holding up well.
- **Financial services** - currently, uncertainty about potential impacts appears to be just as significant as actual adverse effects on businesses. Anxiety is a particular concern in Surrey and Buckinghamshire (eg. concerns over future of HBOS staff in Aylesbury) and parts of Hampshire (with significant concentration of insurance companies).
- **Gaming industry** - Brighton's gaming industry has been boosted by recent inward investment and a big contract from Disney.
- **Health care:** Prime Care Community Services has secured GBP 5m from private equity firm Close Ventures to fund the expansion of its Sussex-based care business over the next five years, with the creation of up to 1,000 jobs.
- **Transport:** Portsmouth Continental Ferry Port has won permission to build a new GBP 15m passenger terminal by the end of 2010.
- **Energy:** Electricity 4 Business has gone into administration through PricewaterhouseCoopers with the loss of 100 of the 140 jobs at its Milton Keynes-based electricity supply business, which currently supplies electricity to 40,000 SMEs.
- **Construction:** Persimmon Homes South East has made 2,000 staff redundant since New Year and its half year results reveal that completions were down to 5,500 from 8,000 in the same period last year.
- **Retail and distribution:** Morrisons is building a depot in Sittingbourne which will create around 1,000 jobs. The depot will open in October 2009.
- **Defence and security**: Qinetiq has secured a £150 million, 15 year deal with MoD for the Marine Strategic Capabilities Agreement, securing highly skilled jobs in Gosport.
- **Financial services (insurance):** Zurich– shedding 481 jobs between now and year end, in Fareham.
- **ICT:** Cisco Systems is re-sourcing to suppliers based on the Isle of Wight, due to the more favourable £/$ exchange rate.