

## Summary of economic conditions

- Preliminary estimates from the Office for National Statistics (ONS) show that **GDP growth has returned in the UK in first three months of 2011**. Gross Domestic Product (GDP) increased by 0.5% in the first quarter of 2011, following a decrease of 0.5% in the final quarter of 2010.
- The preliminary estimate from ONS shows construction output decreased by 4.7% in the first quarter, compared with a decrease of 2.3% in the previous quarter. **Anecdotal evidence suggests that construction activity in the region performed better** in Q1 2011 than in the final quarter of 2010.
- Survey evidence from the South East Purchasing Managers' Index (PMI) indicates that **private sector business activity continued to expand in April**. Firms attributed higher output/business activity in the region to success in winning new contracts, improved capacity utilisation and expansion into new markets. **The rate of growth has eased from March, but was still above the long-run survey average**. The **South East posted the sharpest rise in business activity of all UK regions** for the second month running.
- The **rate of growth in new business in the region has eased for the second time in three months**. Slower new business growth mainly reflected a weaker growth in manufacturing new orders.
- In the three months to February 2011, **unemployment** (on the broader Labour Force Survey measure) **in the South East decreased by around 10,000**, to 263,000. The **claimant count unemployment was 129,900 in March, 300 higher than in February**. The latest data from ONS shows that **the number of people in employment has increased by 19,000 to 4.2 million over the three months to February**.
- The latest survey data (South East PMI) indicates that the **growth in private sector jobs in the region continued in April**. The rate of job creation eased from March's peak, but was nevertheless greater than the long-run series average.

## Key challenges and hotspots

- The **rate of input price inflation in April in the South East eased for the first time since July 2010** but still remained sharp. Fuel and commodity prices remained the main sources of rising input costs for manufacturers, while travel, utilities, hotels, catering and business rates were the main sources of rising costs for service providers. **Output prices rose further in April but the seasonally adjusted Output Price Index eased for the first time since last December** and signalled the slowest rate of inflation so far this year.
- **Growth in spending on consumer services remains weak**. The latest data from Nationwide shows a small increase in consumer confidence in March following its lowest ever level recorded in February. However, the GfK **Consumer Confidence Index in April has dropped three points to -31**. In response to low consumer confidence and soft domestic markets **firms are placing greater emphasis on business to business marketing**.
- **Concerns about future income growth and the prospects for house prices were depressing demand for housing, while first-time buyers remained constrained by a lack of credit**. The latest RICS Housing Market Survey shows that **prices continued to fall in the South East in April**. London was the only region of England where more surveyors reported rising rather than falling prices. There are some longer term concerns that some commercial development plans will be difficult to progress because of the uncertainty with the planning system.
- The **Japanese earthquake** is having the effect of further pushing up the price of steel and also **delaying delivery of electronic control systems** for installation in many manufacturing systems according to the Kent Economic Board.

## Business specific intelligence / information on key questions

- The global influences of Japan in terms of **declining appetite for nuclear energy**, and the upheaval in the Middle East are **strengthening the demand and commercial opportunities for renewable energy systems**. At present time **offshore wind is seen as the only technology of really significant scale** in the region. Businesses in Kent see the **skills, in particularly the quality of the semi-skilled workforce, as critical** in ensuring the industry can really take off and operate successfully.
- **Kent Economic Board report an increase in mergers and acquisitions amongst the third sector in response to tough competition for ever more rigorous public sector contracts**.
- Global entertainment giant Disney is **laying off up to 100 staff at its Brighton based developer Black Rock Studios**. Directory giant Yell is in consultation over proposals to make 10% of its UK workforce redundant with 78 job losses at its site in Reading.
- **Huawei**, the Chinese telecoms firms which employs some 500 staff in Basingstoke **has announced that it will double its headcount in the UK** over the next three years.

### Annex - Sectoral Overview

#### Manufacturing

Official GDP statistics released by the ONS report that manufacturing increased by 1.1 per cent in Q1 2011 compared to 0.8 per cent in the previous quarter (ONS GDP Preliminary Estimate Q1 2011).

The manufacturing sector remains strong with firms reporting increases in activity according to the CBI Industrial Trends Survey April 2011. However, increases in output and staffing levels have been offset by cost pressures with companies raising output prices. The outlook for the sector however is weak with respondents to the CBI survey expecting output growth over the next three months to be limited due to capacity constraints. Uncertainty in the sector is also reported in the Bank of England Agents' Summary of Business Conditions with firms cautious about the outlook for growth.

Growth in the domestic market is more modest compared to the foreign demand according to the Bank of England Agents' Summary of Business Conditions. Foreign demand is particularly noticeable in the aerospace and automotive industries. Corroborated by business specific intelligence from the KEB Business Advisory Board, a key defence company currently focus on the key markets of Brazil and the US rather than the UK due to the lack of investment in defence activities.

Business specific intelligence from the KEB Business Advisory Board also suggests that companies in the South East are feeling the effect of a rise in prices. The Japanese Earthquake has impacted on the electronic components industry as steel prices and delivery times have been affected. Events in Japan and Middle East have also strengthened interest in renewable energy due to global perception of nuclear energy and rising oil prices.

#### Construction

The construction sector remains subdued, according to the latest GDP Preliminary Estimate from the ONS, construction decreased 4.7 per cent in Q1 2011, compared to a decrease of 2.3 per cent in the previous quarter. However, compared to the same quarter a year ago construction output has increased by 3.5 per cent in Q1 2011.

Anecdotal evidence suggests that issues around planning and government policies are causing uncertainty in the sector, despite the healthy order books of many companies. As a consequence employers in the region have frozen staff pay or introduced reduced working hours.

The Bank of England Agents' Summary of Business Conditions reports that there has been a small increase in house building. However, access to mortgages for house buyers is still difficult according to the KEB Business Advisory Board.

There has been a decline in major retailers building new or expanding existing stores compared to previous months but there has been a slight increase in renewable energy projects (Bank of England Agents' Summary of Business Conditions).

In the South East, a green energy park is earmarked for the former Richborough power station site. If the park goes ahead it would create hundreds of jobs during construction and 60 full time jobs. Plans have also been approved by Medway Council for a new superstore in Strood which would create 500 jobs.

#### Retail, motor trade & wholesale

The retail sector also cites increased costs and lack of consumer spending as a major concern for the future. However, retail sales for April were up 1.8% over the three months to April 2011 according to the BRC-KPMG Retail Sales Monitor April 2011. The warm weather had a positive impact on the sales of clothing and footwear and also DIY and leisure items. Sales of large household items continued to struggle as consumers reined in spending amid fears about job security and income.

As with all other sectors, outlook for the future remains negative as consumer confidence is unlikely to recover in the near future. Growth in wholesalers' and motor traders' sales fell, according to the CBI Distributive Trades Survey April 2011, and it is not expected to improve over the next month.

Reports that Focus DIY is to go into administration could impact on jobs in Kent as it has stores in Sittingbourne and Ramsgate.

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

In positive news for the region, the opening of a new superstore, planned for Strood would create 500 jobs if it goes ahead. One of the biggest stores in Southampton, Debenhams, is currently undergoing refurbishment, bringing 30 new jobs to the city.

### **Business services & finance and other services**

The business services and finance was the largest contributor to the overall GDP figure for Q1 2011 according to the ONS GDP Preliminary Estimate Q1 2011. Compared to a decrease of 0.8 per cent in Q4 2010, business services and finance increased 1.0 per cent in Q1 2011. Over the year to Q1 2011, business services and finance increased 1.1 per cent. Transport, storage and communication output increased by 2.7 per cent compared to a decrease of 0.8 per cent in the previous quarter. Government and other services, with health and recreation making the largest contribution, increased 0.7 per cent compared to the previous quarter's decrease of 0.1 per cent.

The potential effects of government spending cuts continue to impact on the sector. Anecdotal evidence highlights a trend for mergers and acquisitions in response to tougher competition for public sector contracts.

South East companies in the creative and media sector report that as clients look to cut costs demand for high quality marketing is decreasing as customers look to utilise free resources on the web. However, those companies specialising in digital media are reporting brisk business as companies capitalise on social media for marketing.

Business specific intelligence suggests that companies in the South East may come under more pressure to give financial support to potential recruits as more and more university look to increase their fees to £9,000.

Evidence of the trend for mergers and acquisitions is highlighted in business specific intelligence with a number of South East companies involved. Marketing group Cello has bought Red Kite Consulting for an undisclosed sum. Slough based Logicalis UK is to buy Egham based Inca Software who is one of IBM's biggest UK partners.

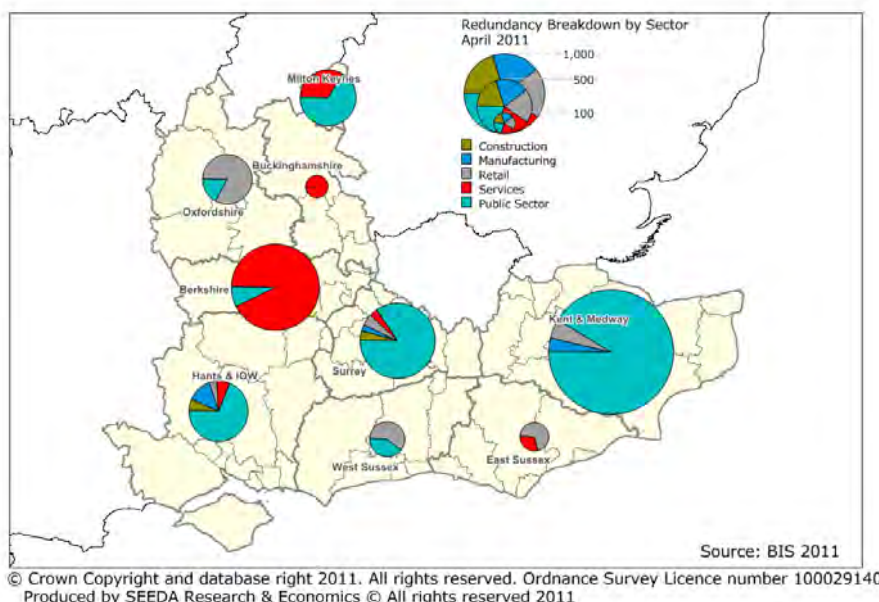
**Redundancy notifications<sup>1</sup>**

The number of potential redundancies rose significantly in April to 6,725 from the 4,829 reported in March. The April figure includes 2,920 staff placed at risk at five universities across the region. Each of universities has given the reason for redundancies as 'completion of contract'. In each case, it is unclear whether these are genuine redundancies or the result of contracts coming to their planned completion date with new contracts issued to staff for the start of the new academic year.

For the second month in a row the public sector accounted for the greatest proportion, with over half of all notifications in this sector. The service sector made a significant contribution with 26% of all notifications. A further 12% of potential redundancies were in the retail sector, which has seen a rise in staff placed at risk since the beginning of the year. The number of potential redundancies in the manufacturing sector dropped by over half to 4% of all redundancies in April. Redundancies in the construction sector accounted for 1% of notifications reported this month and have remained below 100 for the past three months.

Kent and Medway, Surrey, Berkshire and Oxfordshire all saw a rise in the number of employees affected by redundancy in April, with the increases mainly in the service and public sectors. The share of the total number of HR1 notifications in the South East attributed to Kent and Medway was 34%; Surrey 15%; Berkshire 18% and Oxfordshire 7%. All sub regions, except Buckinghamshire reported potential redundancies in the public sector and seven of the nine sub regions had companies submitting notifications in the service sector.

**Redundancy notifications by sub-region, volume and sector April 2011 (Source: HR1 data via BIS)**



<sup>1</sup> Please note that 'April' data refers to a one-month period from 20/03/2011 to 19/04/2011. The HR1 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. 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 2011/2012; 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.