

# **BT South East Regional Board**

## **South East Economy Review**

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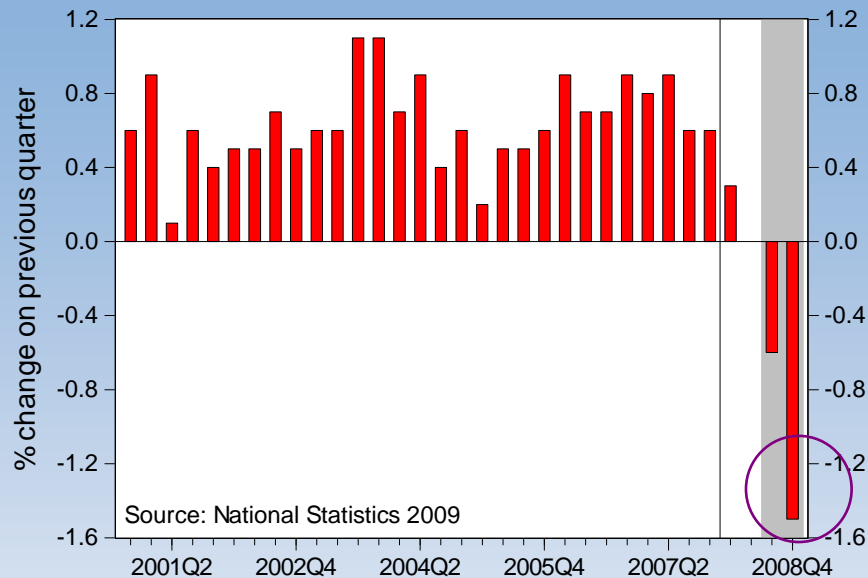
**SEEDA** SOUTH EAST  
ENGLAND  
DEVELOPMENT  
AGENCY  
*Working for England's World Class Region*

# Overview

- **Supply shock** from **rising inflationary pressures**, followed by ...
- **Demand shock** from the **liquidity squeeze**.
  - Fall in Asset Prices
  - A Sharp Fall in Industrial Production
  - Downturn in UK & Developed Economies
  - World Trade Slumps
  - Global Recession on the way (OECD, World Bank, IMF);
  - US recovery in late 2009 (US Treasury)?
  - Significant Wealth Destruction

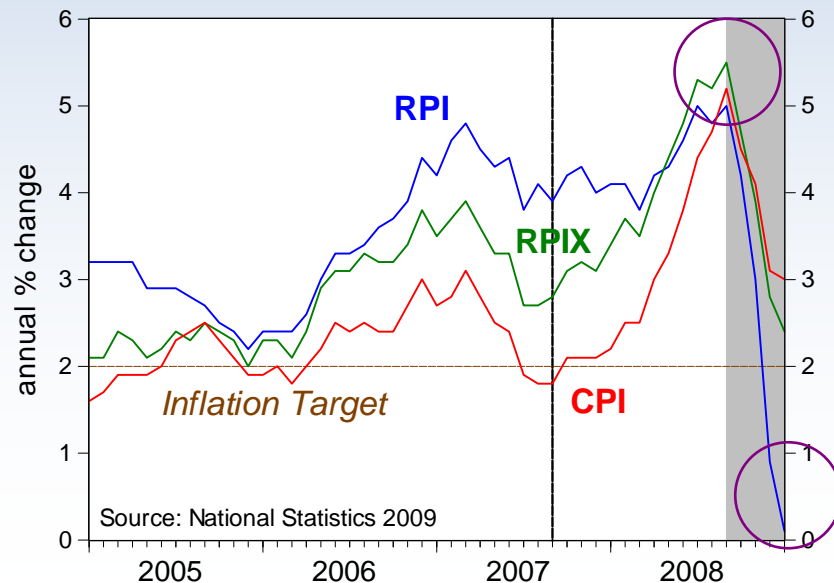
# A threat of prolonged deflation

## Sharp fall in UK GDP growth rate



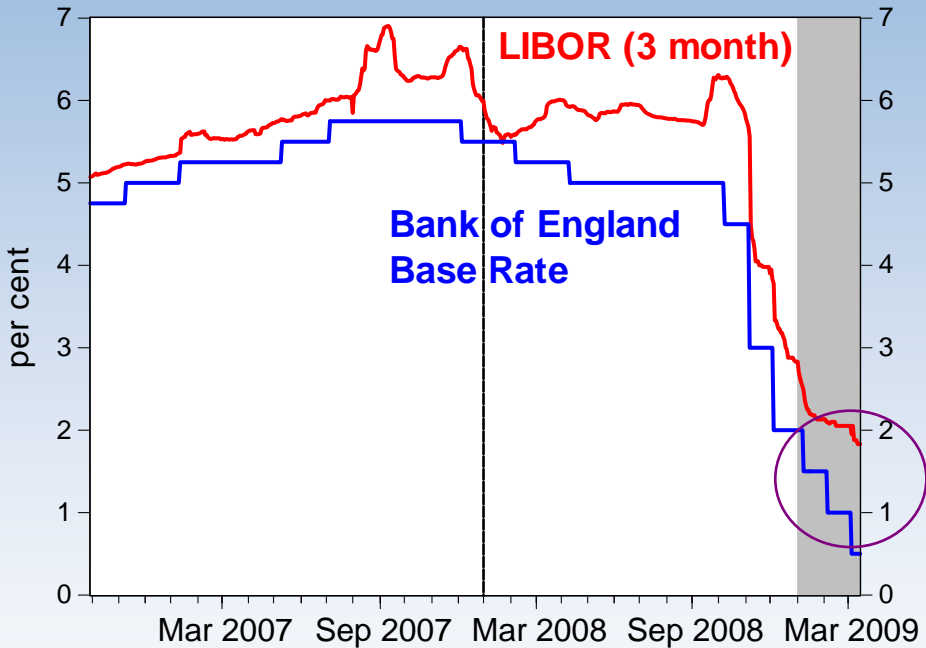
- A sharp fall in output
- RPI falling
- A threat of the Japanese style lost decade
- Government target measure for inflation = CPI
- Public expectations of UK inflation have fallen to their lowest level since May 2005

## UK Consumer Price Indices



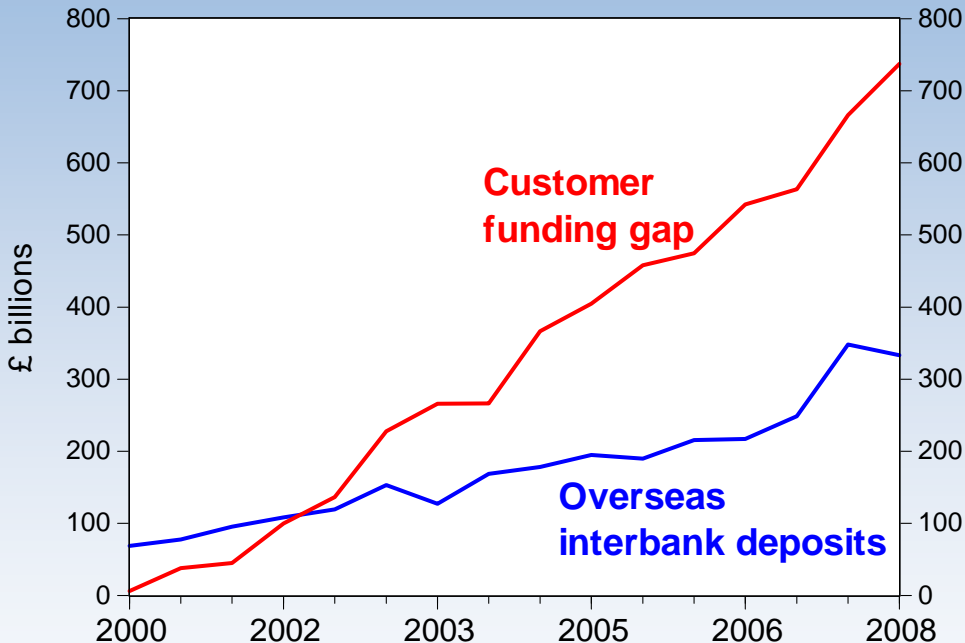
# Interest rate cuts not doing their job

**Cost of borrowing**



Source: Bank of England 2008

**Major UK banks' customer funding gap**



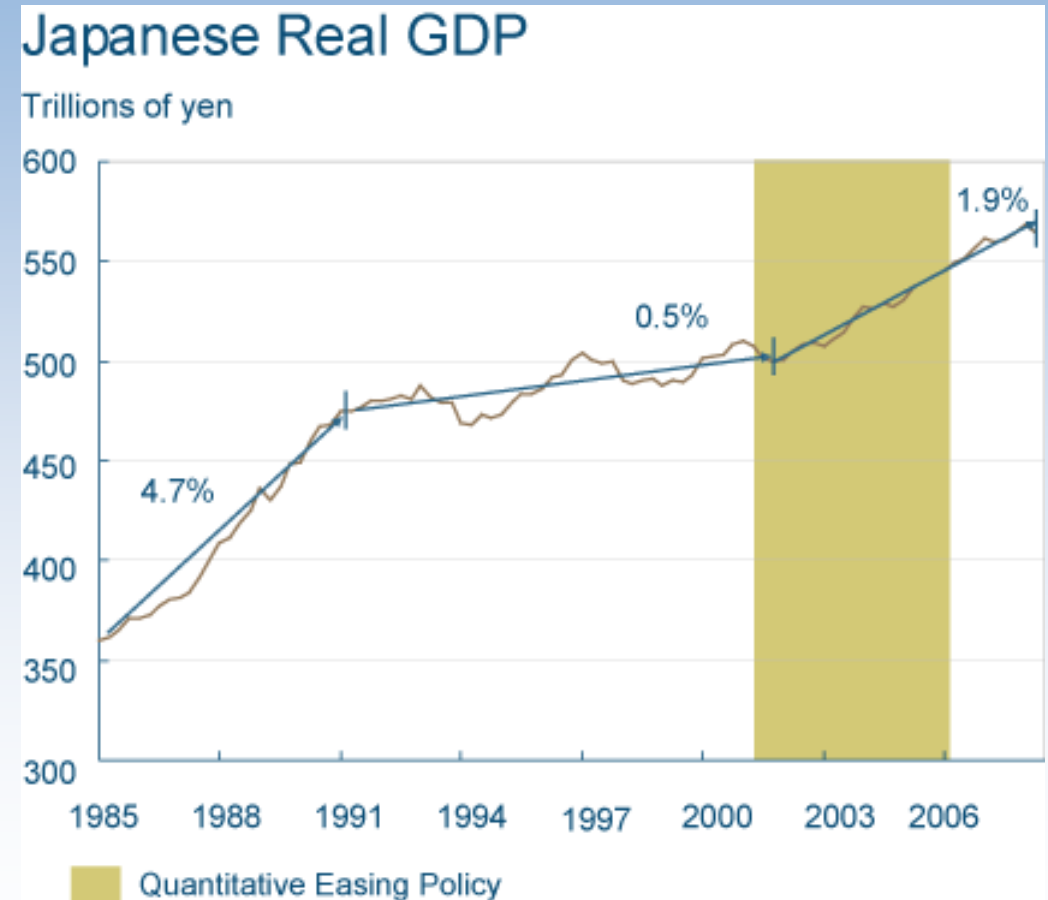
Source: Bank of England 2008

# “Quantitative easing” to the rescue

- = creating new money
- Increase the supply of money
- Drive the cost of credit for households and firms
  - Depends on which assets are purchased

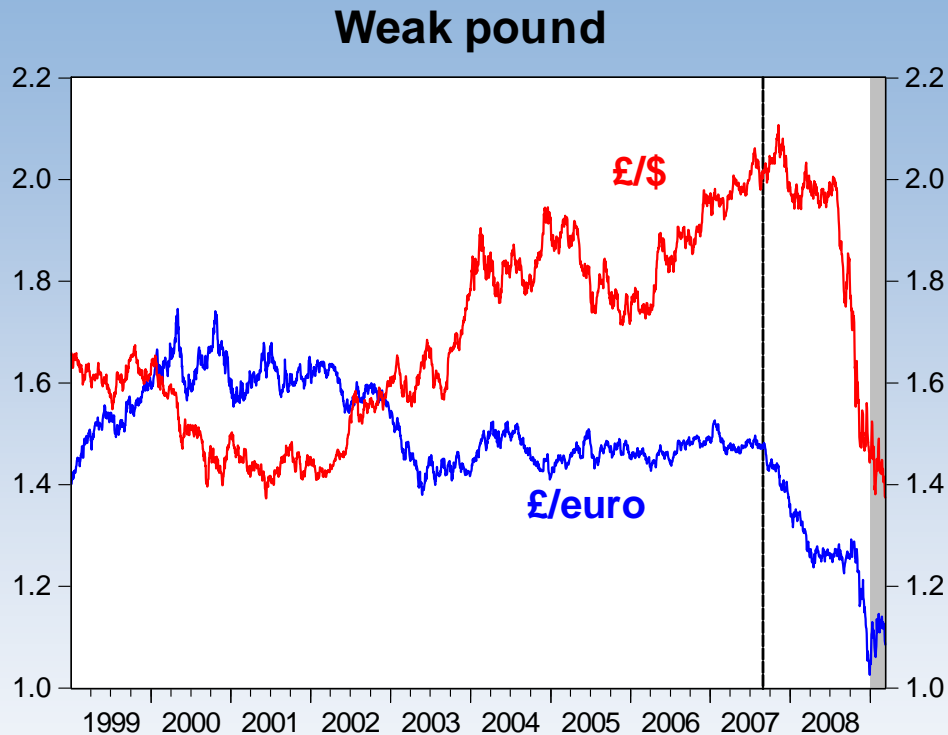
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## The Japanese Experience, 2001-2006



Source: International Monetary Fund, *International Finance Statistics Database*, October 2008.

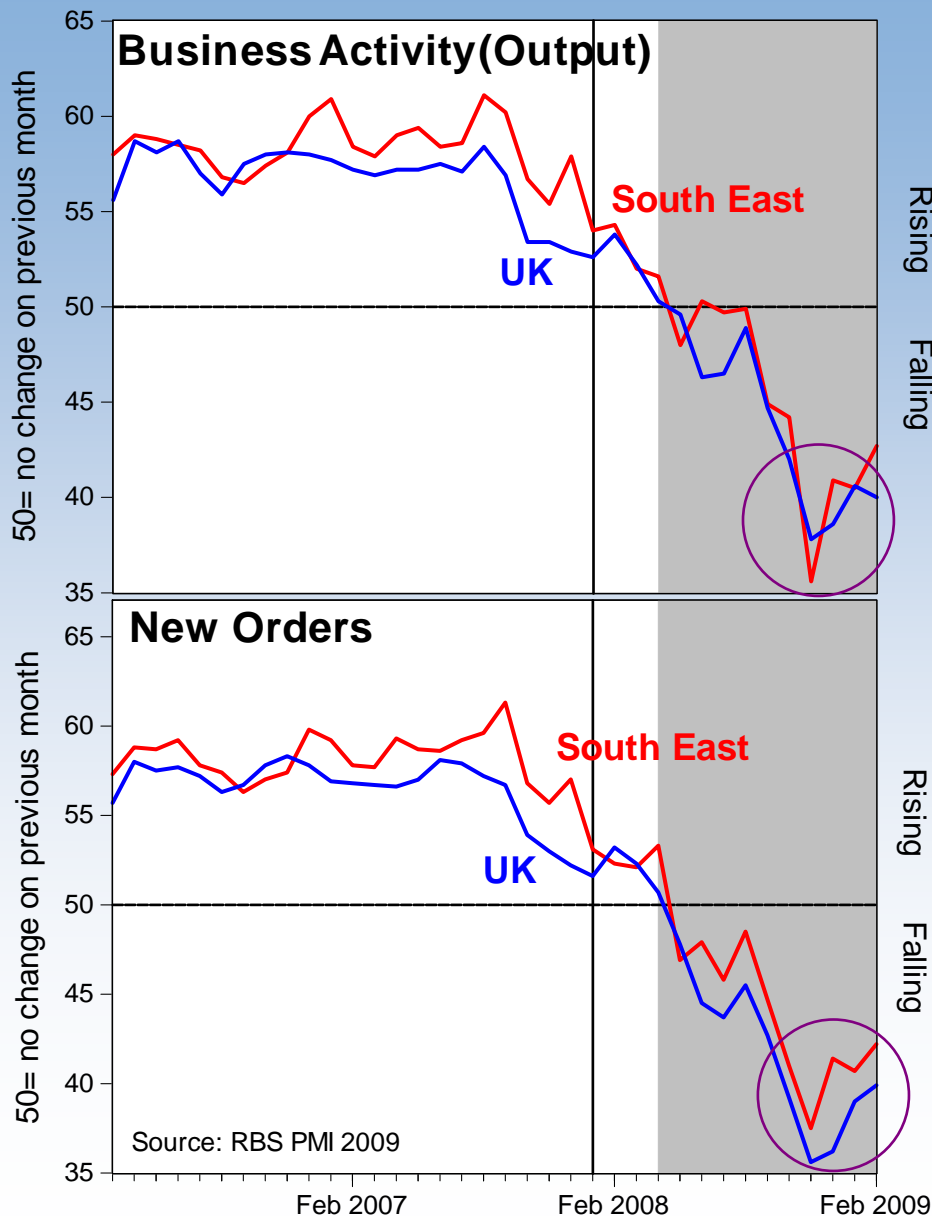
# Exiting “quantitative easing”



Source: National Statistics 2009

- Re-emergence of inflation? - ‘Too much money chasing too few goods’
- Aided by weak currency
- Need to drain excess money from the economy
- Reversing QE too early!
  - economy back into recession
  - Depressed prices and increase in cost of credit

# South East - Falling Business Activity

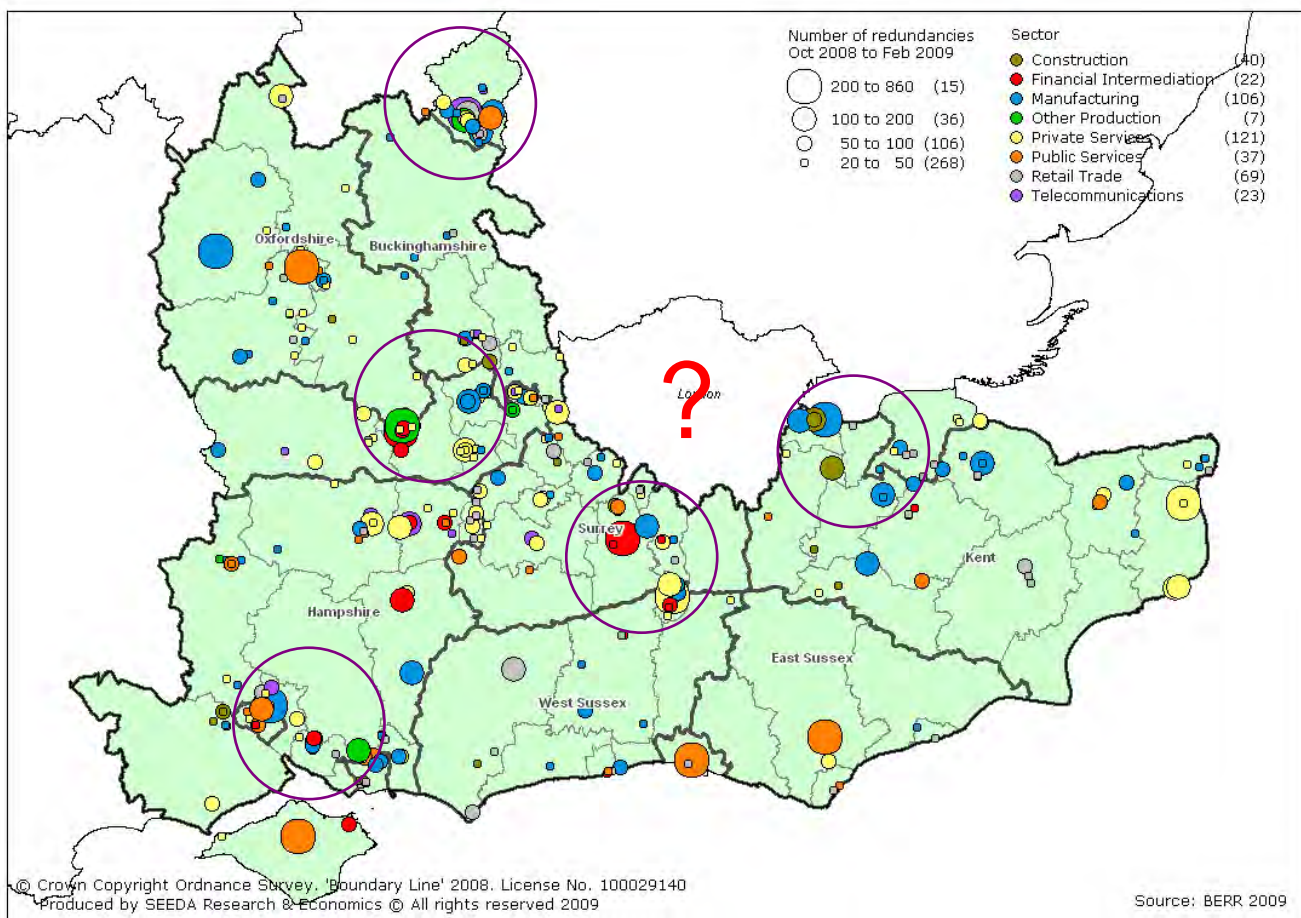


- Rate of decline has slowed down?
- Destocking is starting to ease?
- Energy and raw material costs – high, but falling.
- Profit margins and cashflow!
- Investment.

Source: SEEDA 2009, Regional Intelligence Snapshot for the South East – February 2009.

# Manufacturing harder hit than services

## Redundancy Notifications (Oct'08-Feb'09)

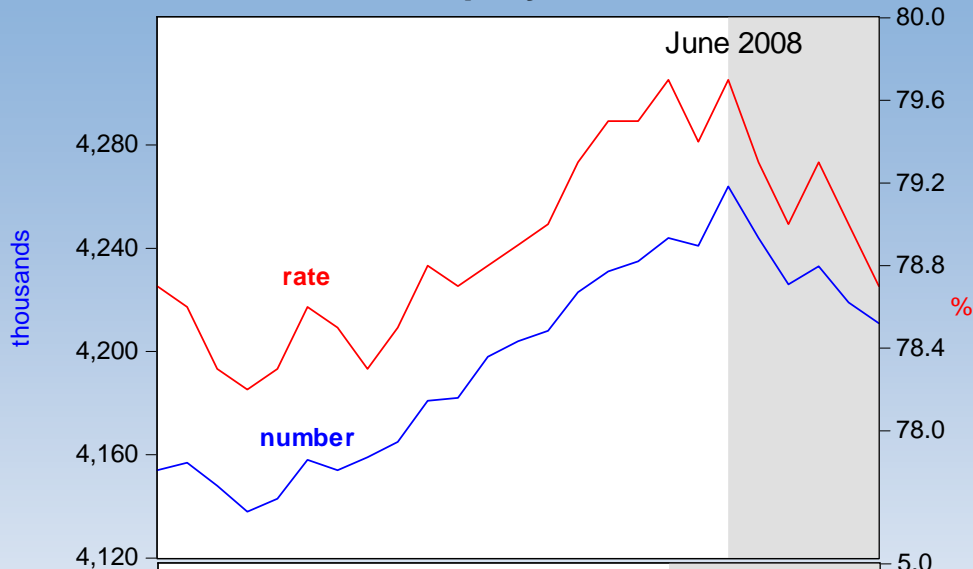


- **South East**  
26,400  
Manufacturing 28.8%  
Transport 9.7%  
Retail 9.4%  
Other Bus. Act. 8.9%  
Telecomms. 6.8%
- **February**  
5,400  
Manufacturing  
Transport  
– Hampshire  
– W. Sussex

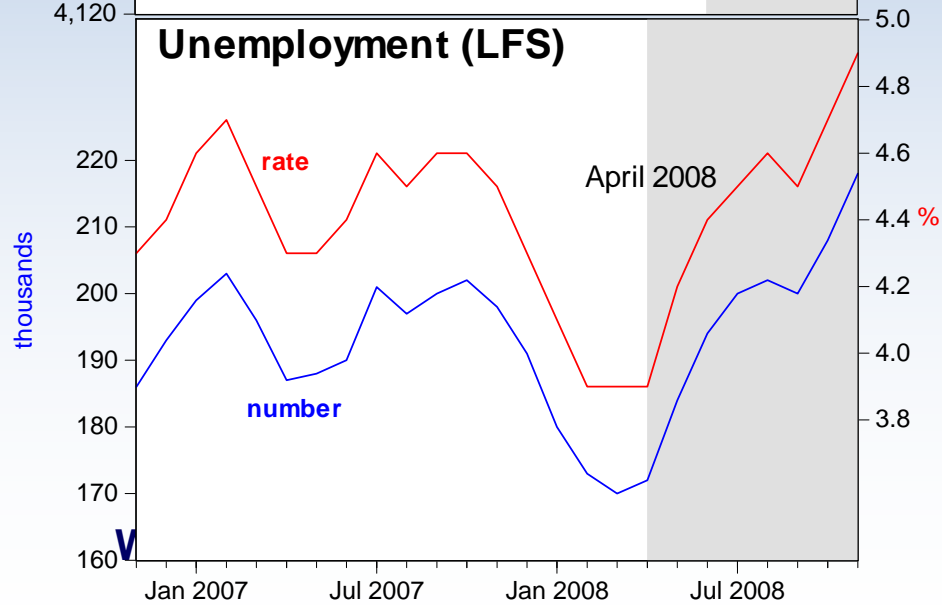


# Labour market weakening ...

## Employment

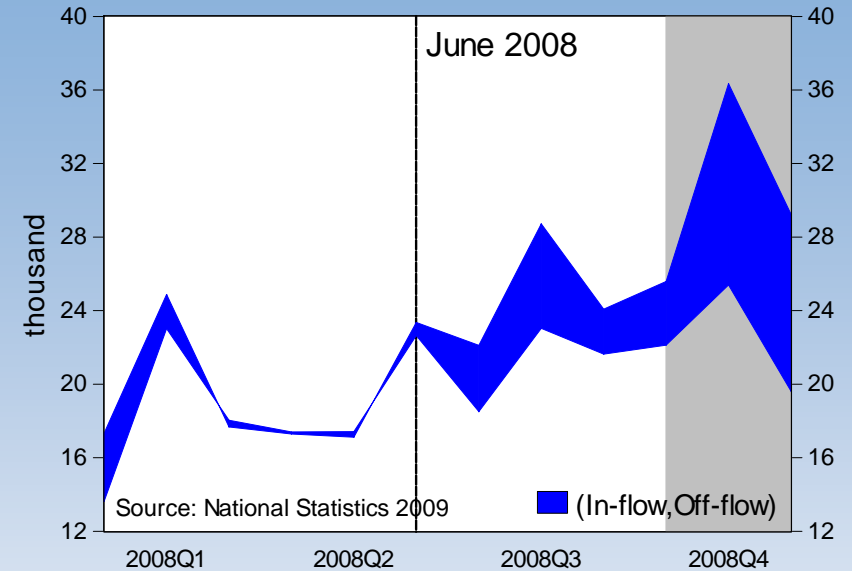


## Unemployment (LFS)

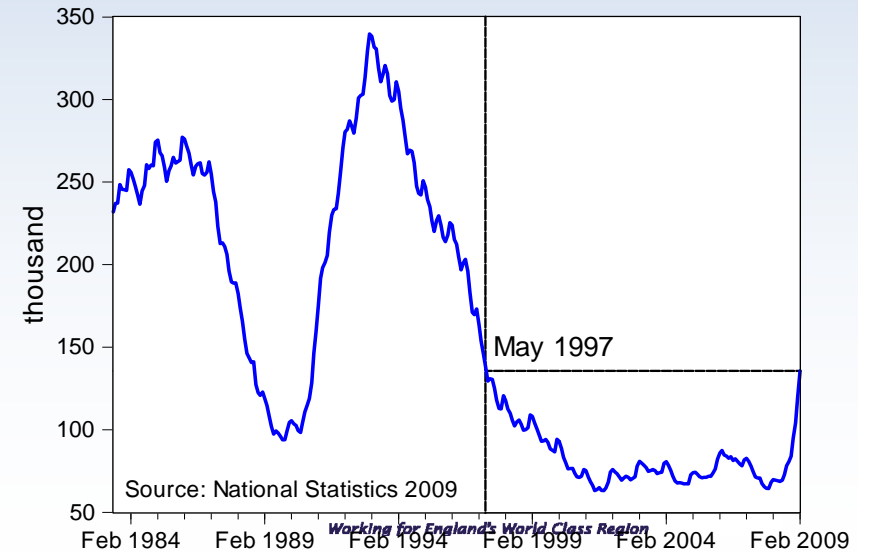


Source: National Statistics 2009

## Claimant Flows

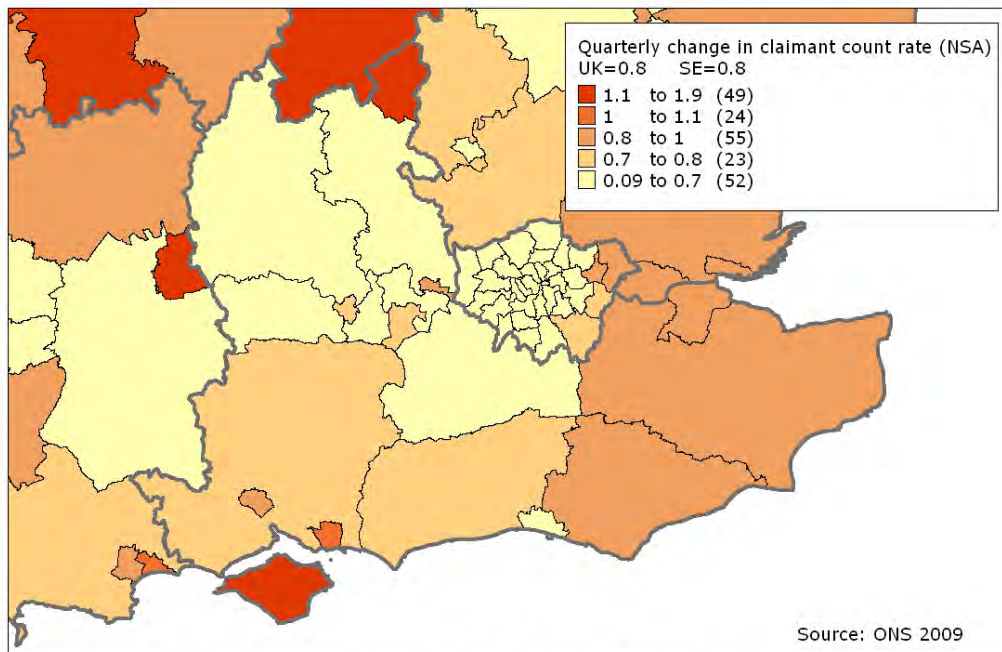


## Claimant Count Unemployment



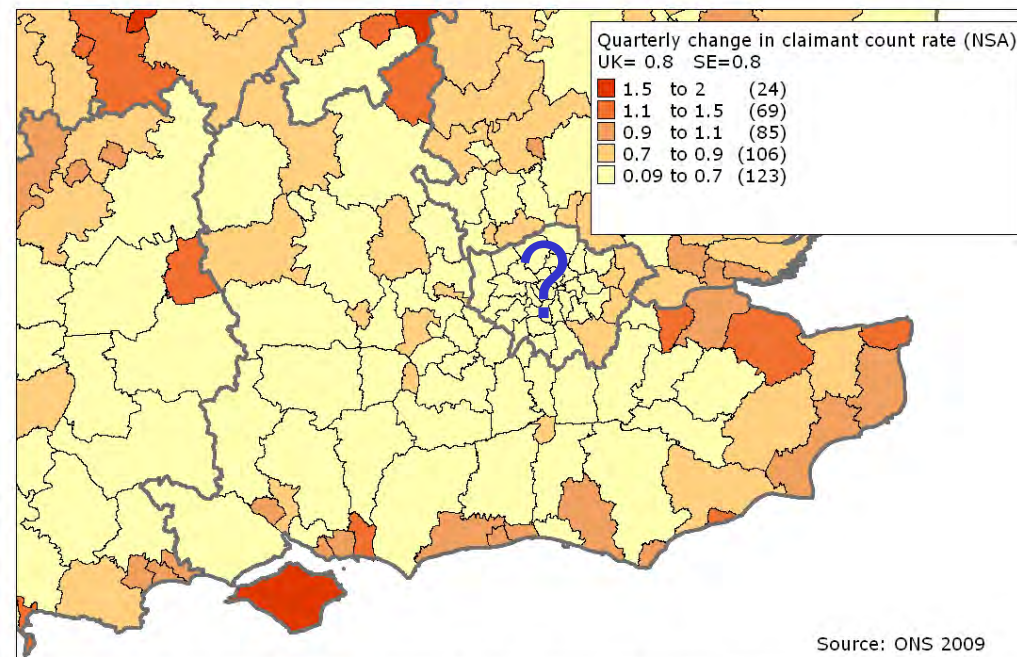
# ... coastal economies hit harder?

Quarterly change



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Quarterly change



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# Who will get out first?

Recessions	1980s	1990s
Agriculture	0	0
Health & Social Work	0	0
Education	0	0
Other services	n/a	0
Wholesale & Retail	4	4
Electricity, Gas & Water	4	0
Mining & Quarrying	3	1
Public Admin	1	0
Transport & Com.	3	3
Hotels & Rest.	3	7
Manufacturing	5	5
Financial Inter.	n/a	7
Real Estate	n/a	7
Construction	8	13
<b>Total (GVA)</b>	<b>5</b>	<b>5</b>

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Is it going to be different this time?

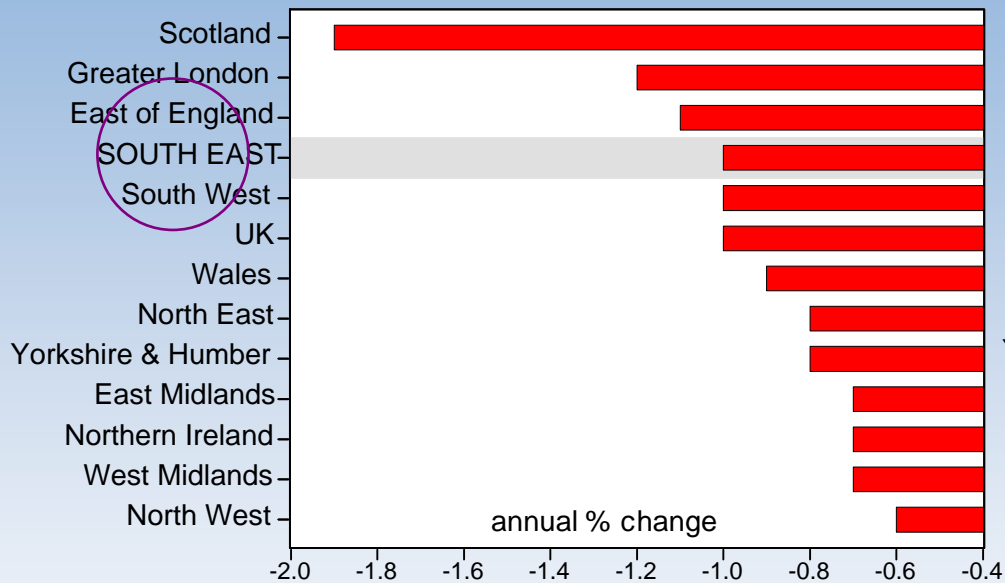
We're in new territory (financial meltdown, global downturn)!

Economies have a tendency to recover!

Source: RBS 2009

# Forecasters confused ...

Output growth in 2009  
(Autumn 2008)



Source: Experian, Autumn 2008

Output growth in 2009  
(Spring 2009)



Source: FT/OE, Spring 2009

# ... and National Statistics

Employment change	Over the past year		Aug/Oct-Nov/Jan	
	000's	%	000's	%
North East	-17	-1.2	-5	-0.1
North West	-36	-1.3	34	0.6
Yorkshire & the Humber	-35	-1.7	-15	-0.6
East Midlands	19	0.3	0	-0.2
West Midlands	-52	-1.7	1	-0.1
East	13	-0.4	21	0.7
London	80	1.0	46	0.8
<b>South East</b>	<b>-6</b>	<b>-0.5</b>	<b>-32</b>	<b>-0.8</b>
South West	-2	-1.2	7	-0.3
Wales	-12	-1.3	-19	-1.0
Scotland	-10	-1.3	-13	-0.6
Northern Ireland	-18	-1.6	-23	-2.0
United Kingdom	-75	-0.7	2	-0.1

# Business Surveys are more optimistic

- If compared to the gloomy views regarding business trends in the last three months, **businesses in the South East look more optimistic when asked about the expected trends over the next three months.**
  - Over 70% of business expect the business climate in which they operate to either remain stable or improve, while 26% expect business climate to get worse.
  - **Over 80% of businesses expect to maintain the same number of people employed**, and only 9% expect to see a reduction in the number of people employed.
  - **Over 70% of businesses in the South East expect the volume of output to either remain stable or to increase in the next three months**, while 17% expect to see a reduction in the volume of output.

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# Key Challenges for Businesses

- **Cost of credit insurance**
- Some **credit insurers** now refusing to insure some businesses. Concern about the ability of companies in **supply chain** to withstand recession. *Source: SEEDA 2009, Regional Intelligence Snapshot for the South East*
- 2/3 of small businesses in South East have seen an increase in the overall cost of new credit in the past 2 months. *Source: FSB Feb'08*
- **Liquidity – scarcity of money is the most pressing issue.**

# On the positive side

- **Considerable stimulus to the economy:**
  - Easing in monetary and fiscal policy
  - Quantitative Easing
  - Decline in inflation and increase in real earnings
  - Consumption not as bad as feared?
  - A substantial fall in sterling
  - Business Surveys less gloomy than three months ago?
  - Global response
- **South East specific:**
  - Industrial mix
  - Strength of private sector economy
  - High economic activity and employment
  - High business start-up and survival, etc.



# South East England Development Agency (SEEDA) Organisation Chart Board Members & Directors



**James E. Bradshaw CBE**  
CHAIRMAN



**Keith Bagg**  
Board Member



**Peter Jones**  
Deputy Chairman



**Zanna Atkins**  
Board Member



**Solene Flynn CBE**  
Board Member



**Les Swales CBE**  
Board Member



**Robert Salazar**  
Board Member



**Keith Mitchell CBE**  
Board Member



**Professor Bill Welton**  
Board Member



**Jimmy Birch**  
Board Member



**Pamela Challenor**  
Board Member



**Loretta Parsons**  
Board Member



**Sue John**  
Board Member



**Alan Pratt CBE**  
Board Member



**Phil Wood**  
Board Member



**Pam Alexander**  
Chief Executive  
01483 492268

## Competitiveness & Growth



**Jeff Alexander**  
Executive Director Competitiveness & Growth  
01483 520733

Area Team for Surrey & Berkshire and Thames Gateway

Business Finance, Manufacturing Advisory Service, Designing Demand, Sector Consortia, Tourism and Broadband

Enterprise support including Business Link and Business Support Simplification

Innovation & Creativity (including Lead Role)

International Business (including Foreign Direct Investment) and Investor Development

Knowledge Transfer, Collaborative Research & Development and Innovation Skills

## Skills & Sustainable Prosperity



**Sara Mulrood CBE**  
Executive Director Skills & Sustainable Prosperity  
01483 470350

Area Team for Milton Keynes, Oxfordshire & Buckinghamshire

Cultural & Creative Industries & Social Economies

Ecological Footprint, Resource Efficiency & Renewable Energy / Energy Policy

Employability & Skills (including Lead Role for Skills and relationship with the Department for Innovation, Universities & Skills and the Department for Work & Pensions)

European Regional Development Fund / European Social Fund

Rural Economy

2012 Games

## Chief Operating Officer



**Robert Crawford**  
Chief Operating Officer  
01483 507392

Area Team for Hampshire & the Isle of Wight

Enabling Infrastructure & Development

Facilities

Finance

Human Resources

Internal Audit

Organisational Performance & Development

Performance Management

Procurement & Compliance

Technology Services

## Enabling Infrastructure & Development



**Leo Amor**  
Executive Director Enabling Infrastructure & Development  
01483 494323

Area Team for Kent & Medway

Asset Management

Housing & Urban Renaissance

Infrastructure

Physical Development

Sustainable Built Environment

Transport

## Strategy & Communications



**Paul Lacey**  
Executive Director Strategy & Communications  
01483 494322

Area Team for Sussex

Area Policy

Board Secretariat

European Policy & Representation

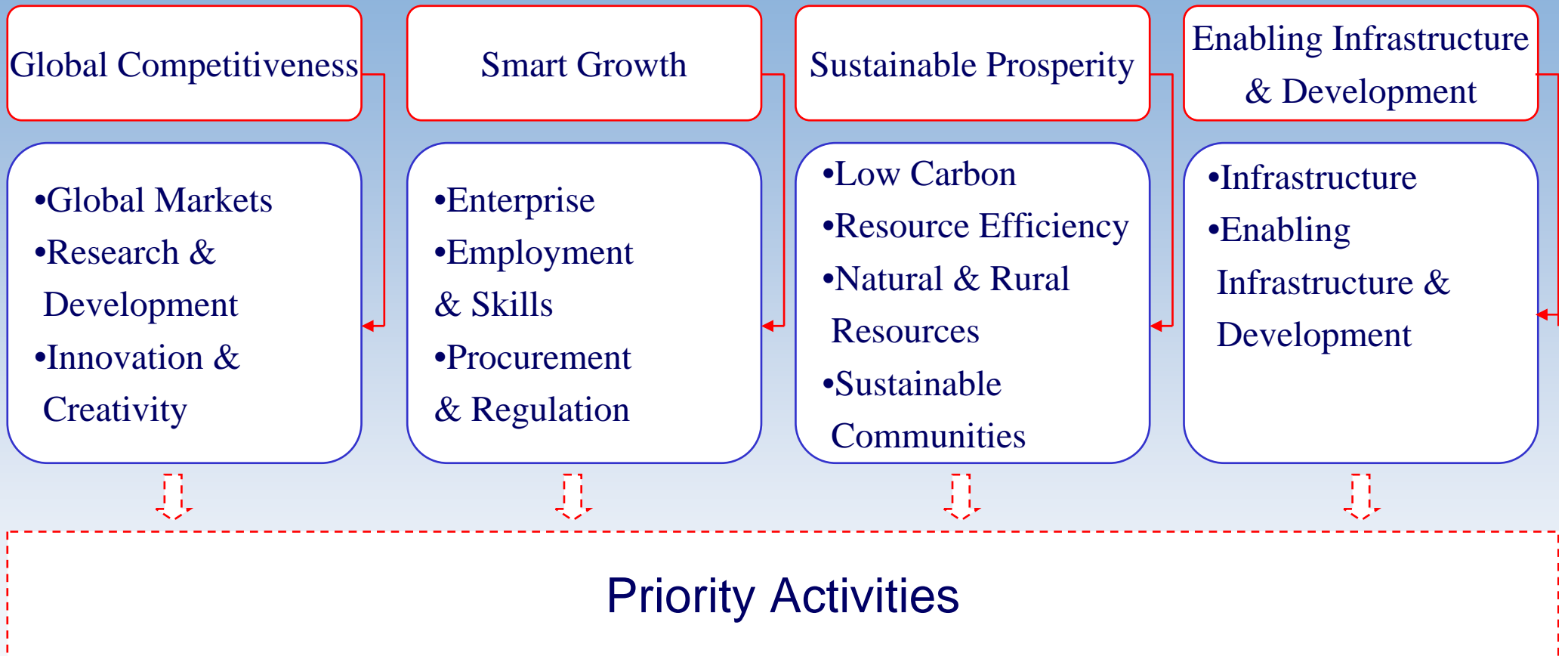
Internal & External Communications

Regional Economic Strategy & Corporate Planning

Research

Spatial Planning

# SEEDA Corporate Plan Portfolios



**Thank you**

**SEEDA Research & Economics**

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