

South East ERDF Competitiveness Programme Monitoring Committee

Changes in Economic Conditions

January 2009

Ivan Perkovic
Head of Economic Research

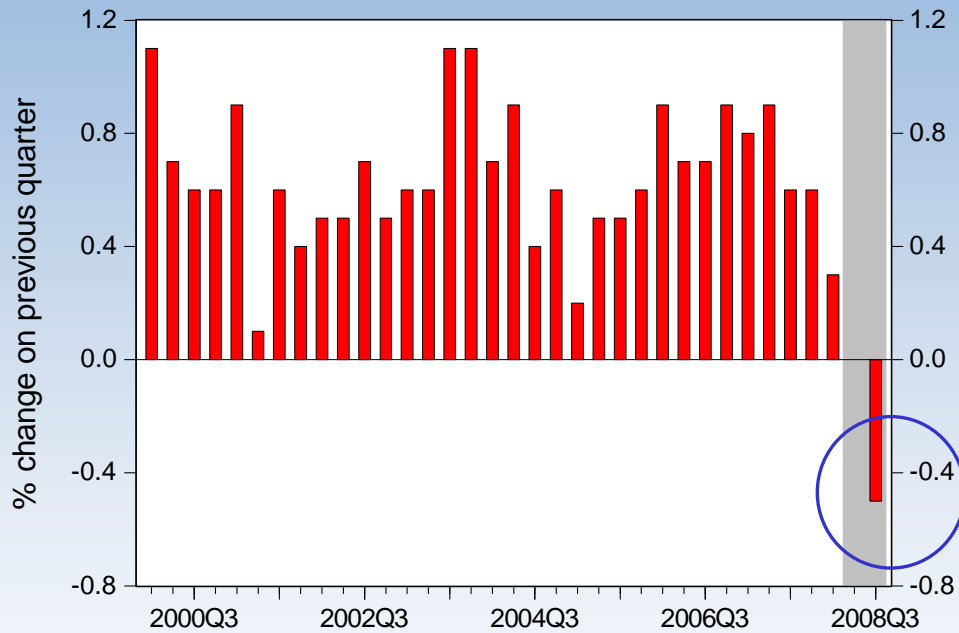
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The story so far

- Demand shock from the liquidity squeeze.
- Supply shock from rising inflationary pressures, followed by ...
- A large fall in asset prices (from housing to commodities)
- Worst performance in equity prices in decades (falls c.30-40% in UK, US, Eurozone and Japan)
- Major industrial economies contracting, ... a sharp slowdown in developing economies.
- Global monetary and fiscal response ... scarcity of money is an issue.

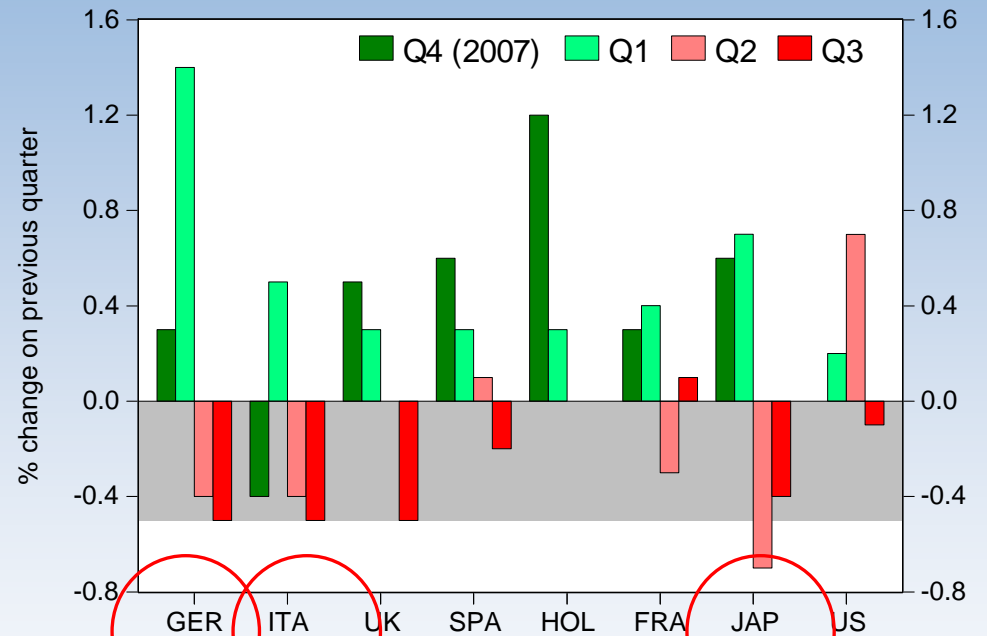
A Sharp Slowdown in GDP Growth

The end of 63 quarters of uninterrupted growth



Source: National Statistics 2008

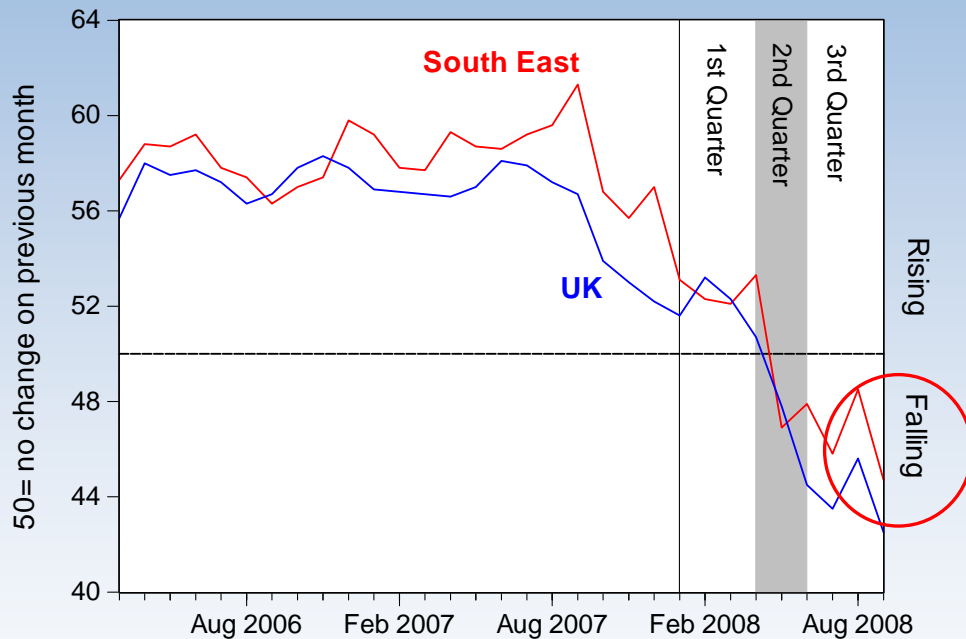
GDP growth - Developed Economies



Source: Eurostat 2008

South East Economy

New orders (incoming new business)



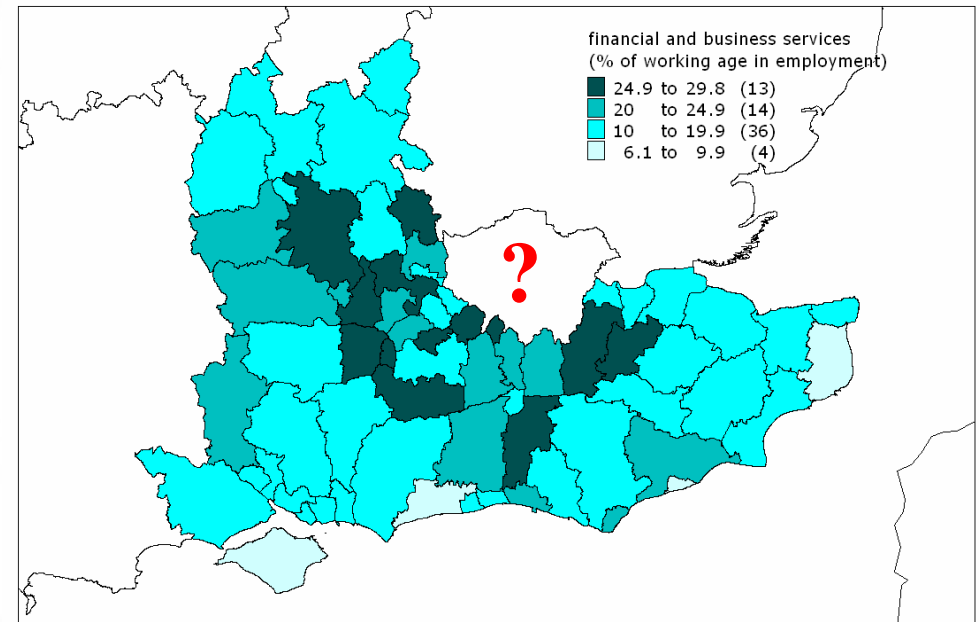
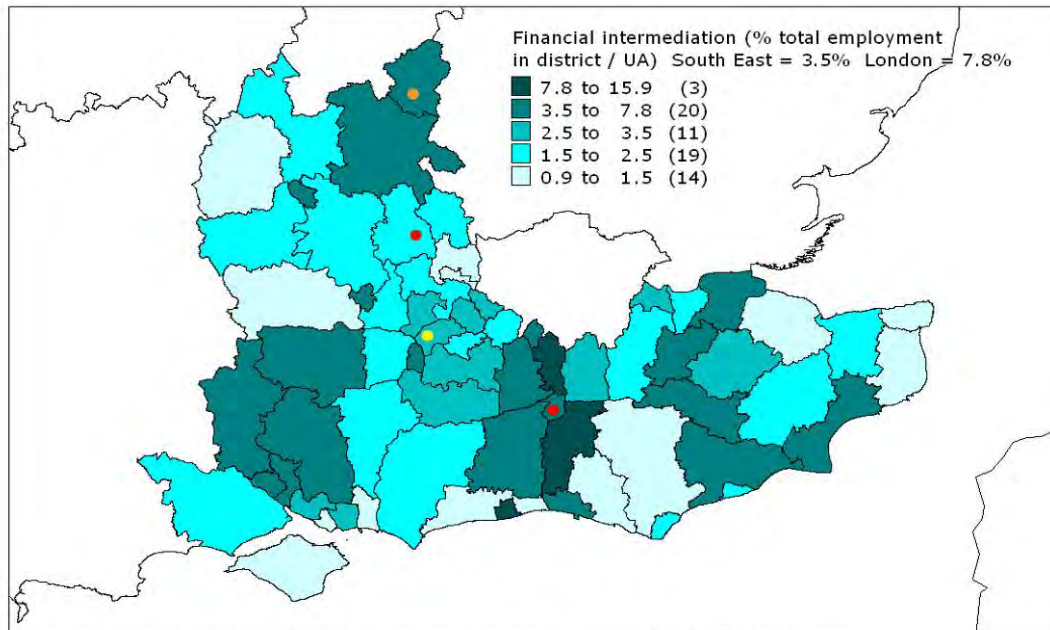
Source: RBS 2008

- Output volume deteriorates
- 63% of small businesses see a decrease in trade
- 63% of all companies in SE expect business climate to deteriorate (RDA NBS, forthcoming).

Financial Services

Financial Services employment as % of total employment in the area, (workplace)

Residents of working age employed in Financial & Business Services, % (residence)



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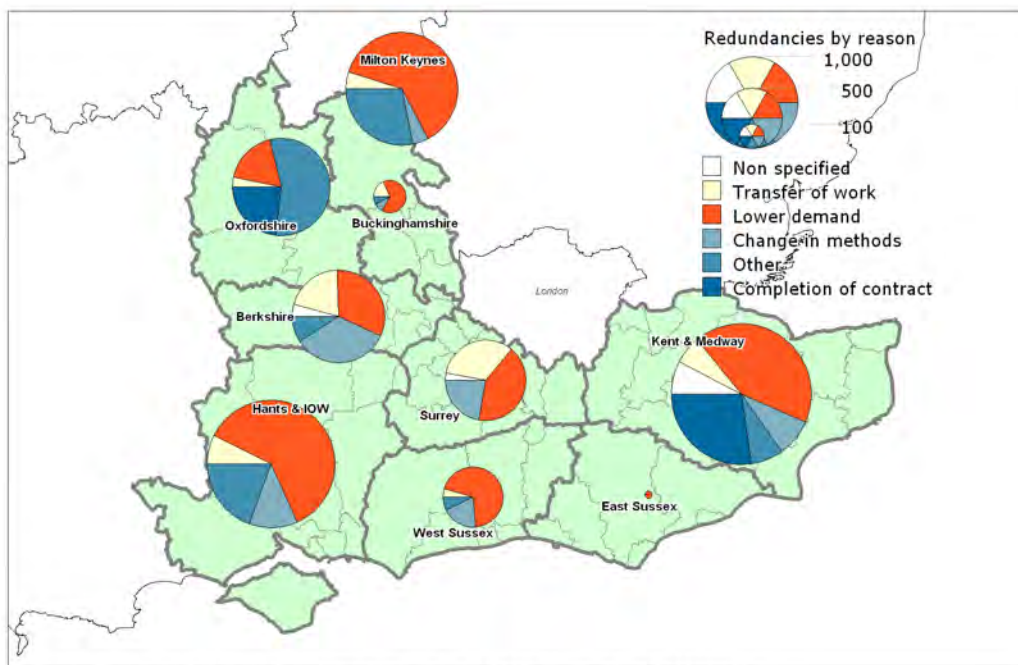
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Sectoral Impact

- Financial services – retrenchment, restructuring
- Tough trading conditions:
 - Housing & property related
 - Parts of manufacturing i.e. automotive
 - Transport
 - Retail sector
- Slowing demand impacts on growth across all sectors

Redundancies

1st October – 17 November



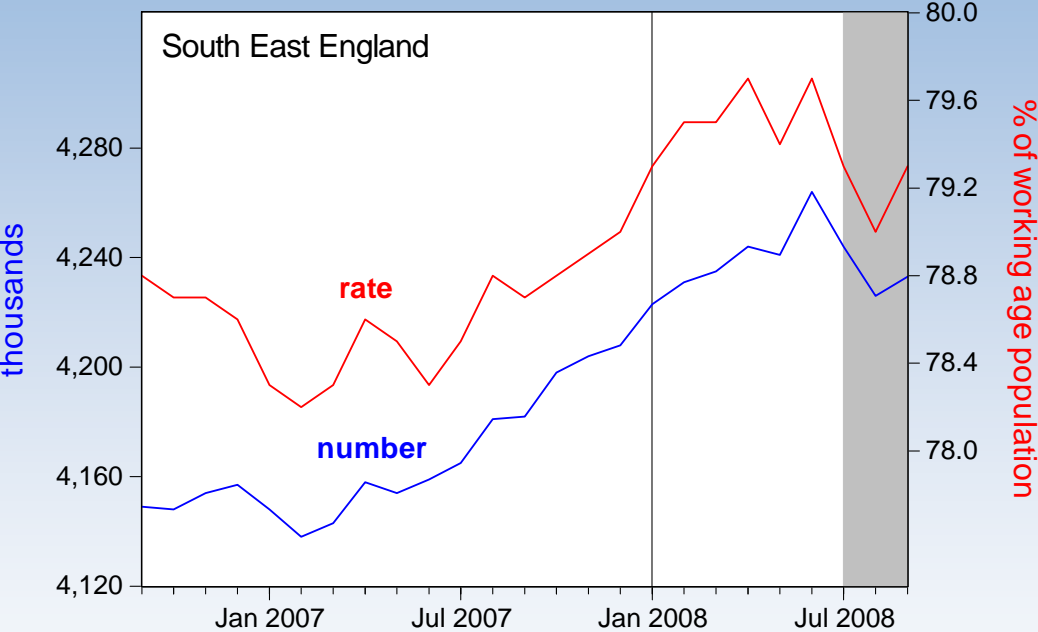
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- Milton Keynes
- Kent & Medway
- Oxfordshire, ...
- Manufacturing
- Telecommunications
- Transport
- Construction
- Financial Services, ...

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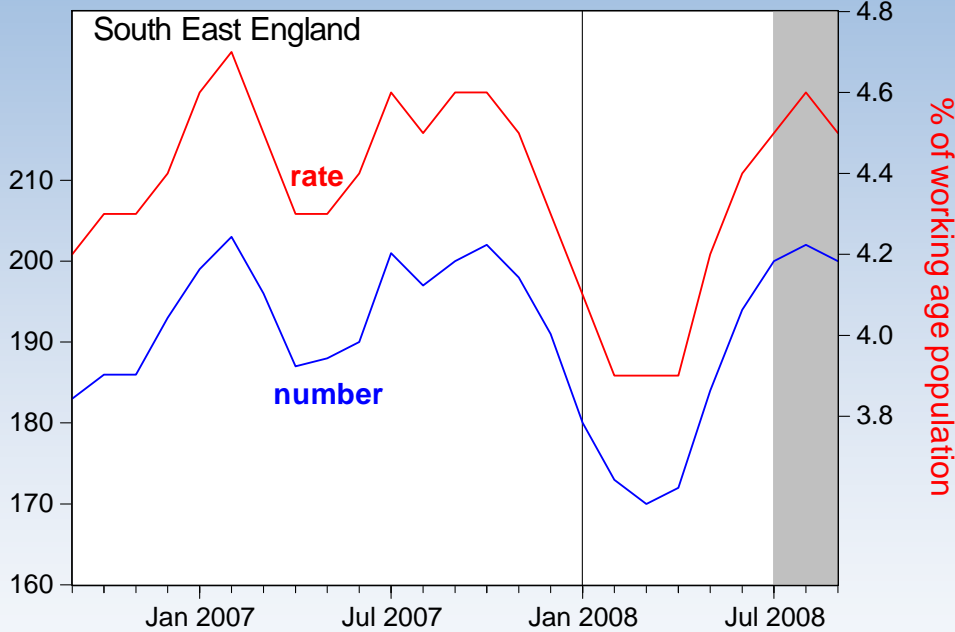
Labour Market Indicators

Employment



Source: National Statistics 2008

Unemployment



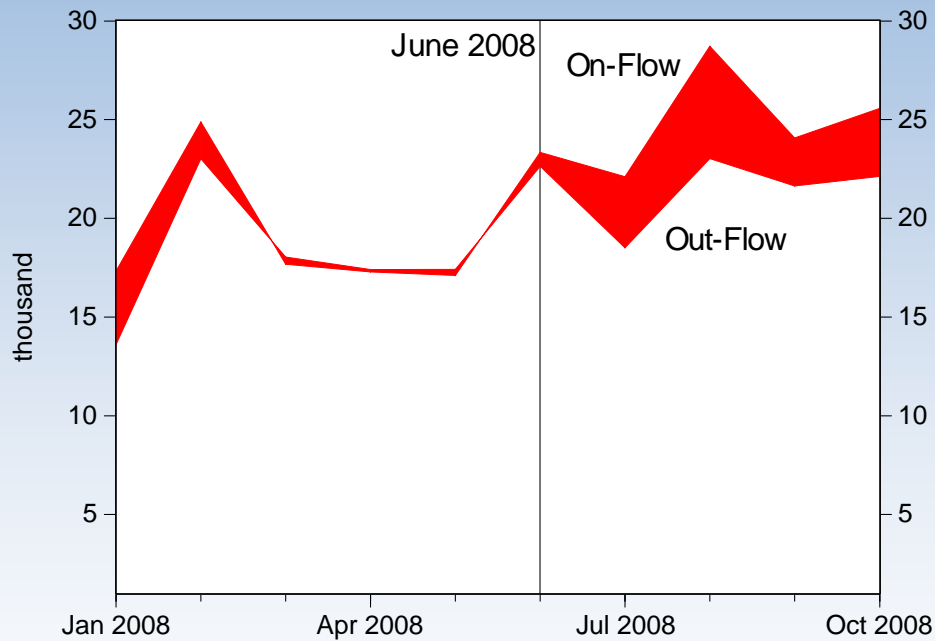
Source: National Statistics 2008

Claimant Count Unemployment

Change in claimant count rate

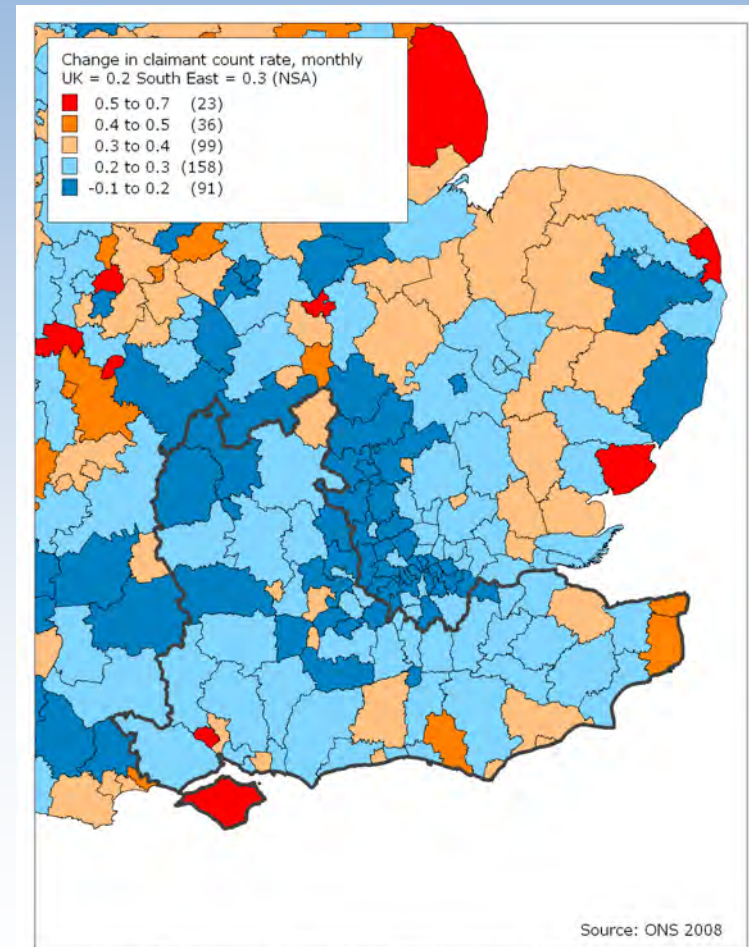
Oct'08-Nov'08

Claimant Flows



Source: National Statistics 2008

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Source: ONS 2008

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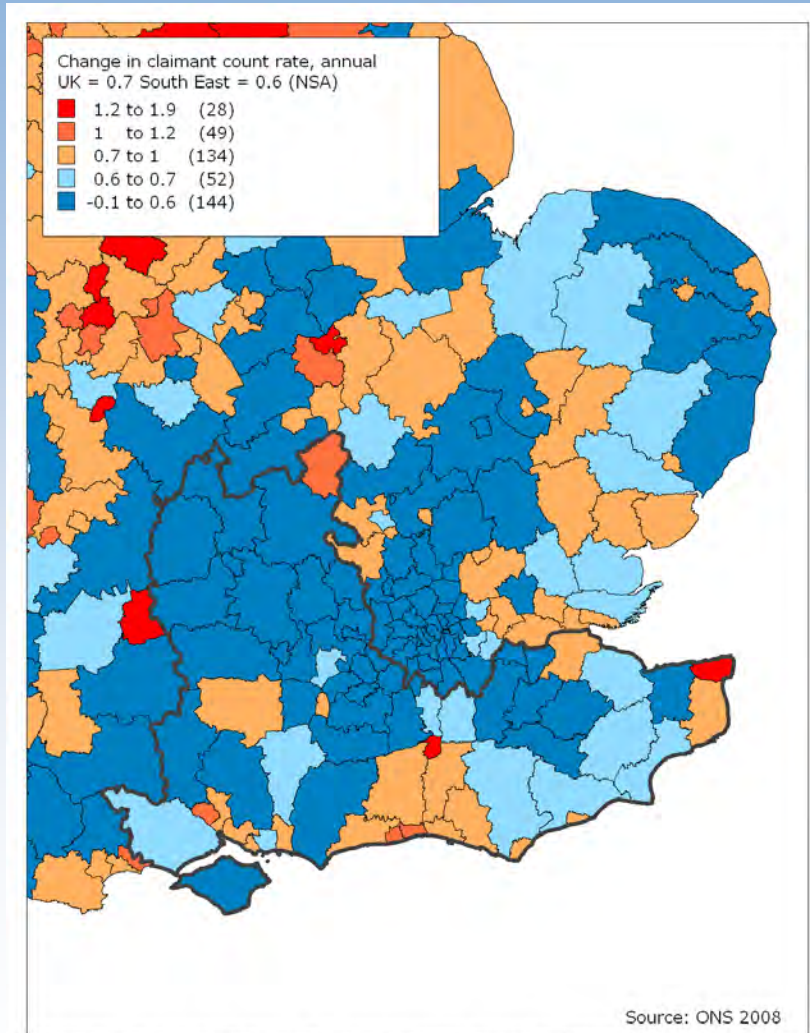
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Claimant Count Unemployment

Change in claimant count rate

Nov'07-Nov'08

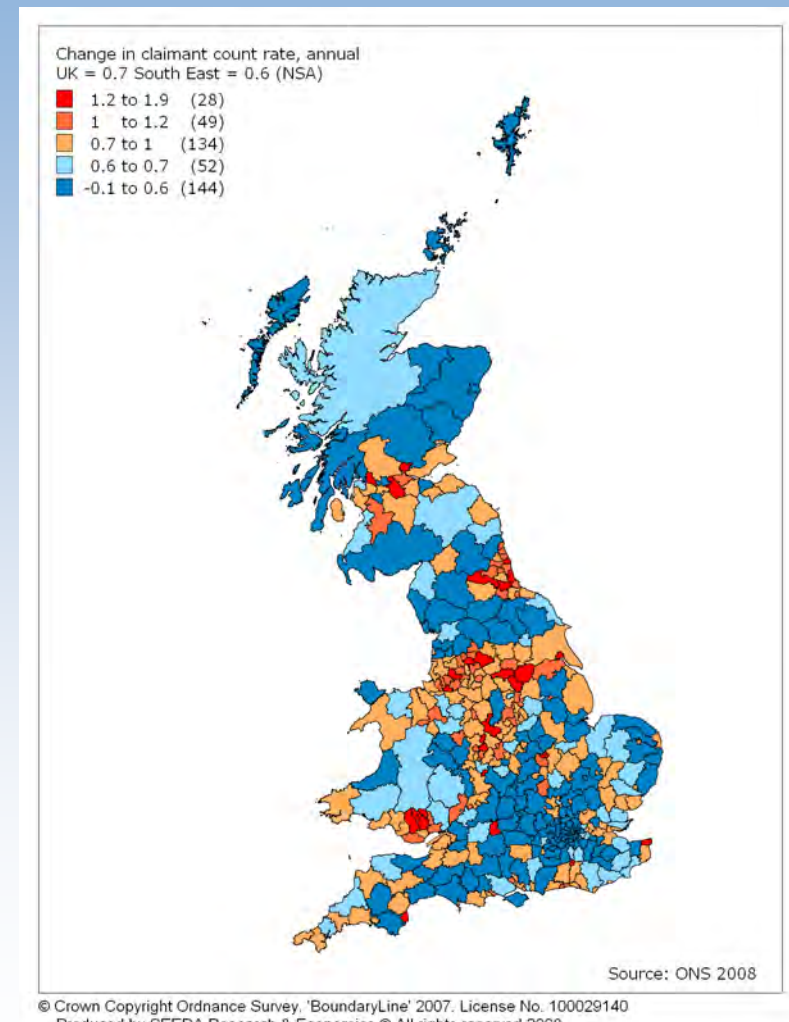


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Change in claimant count rate

Nov'07-Nov'08



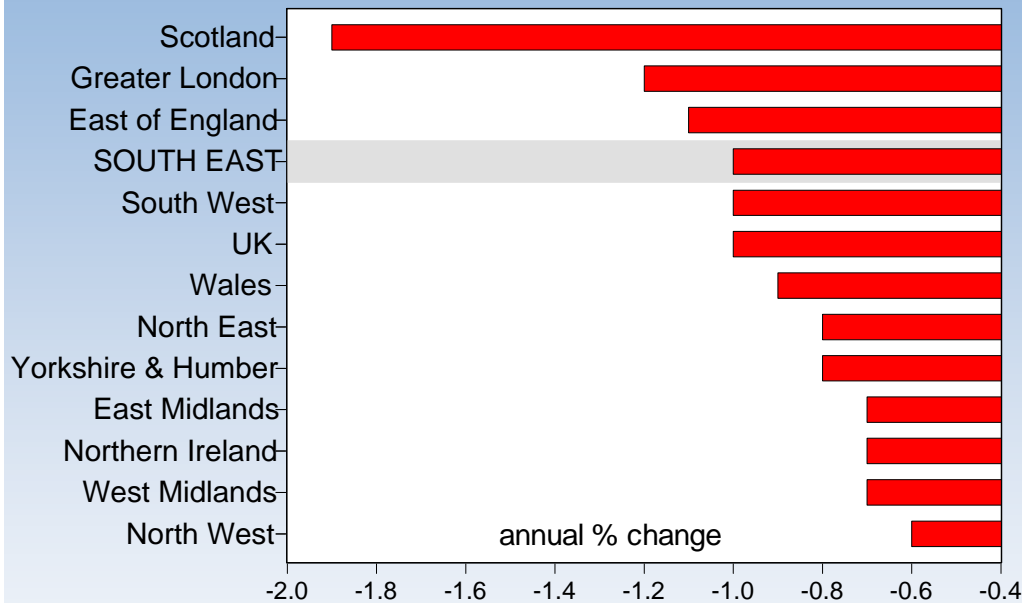
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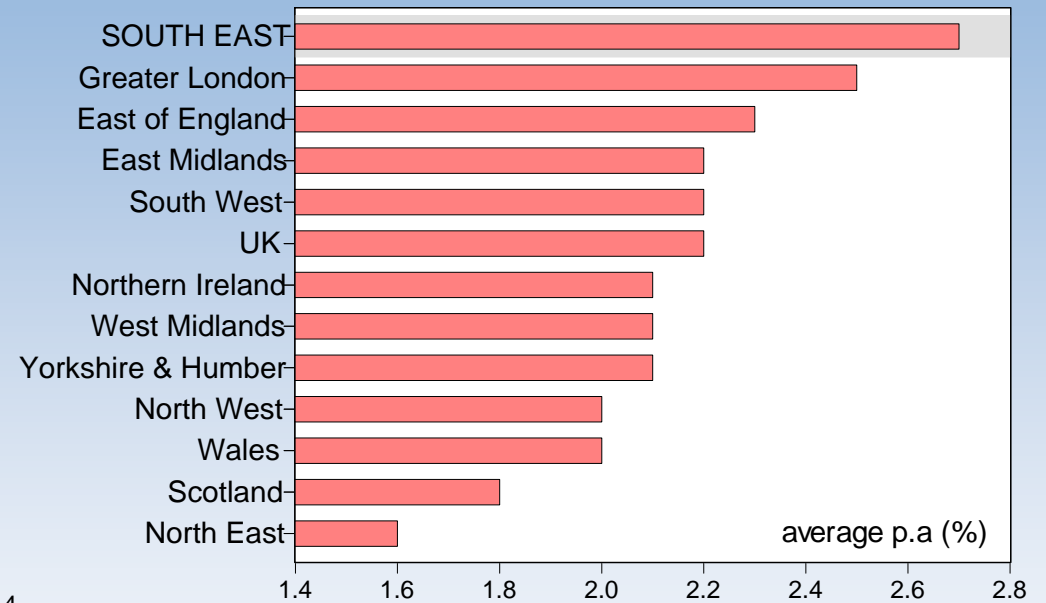
South East Outlook for 2009 and Beyond?

Output growth in 2009



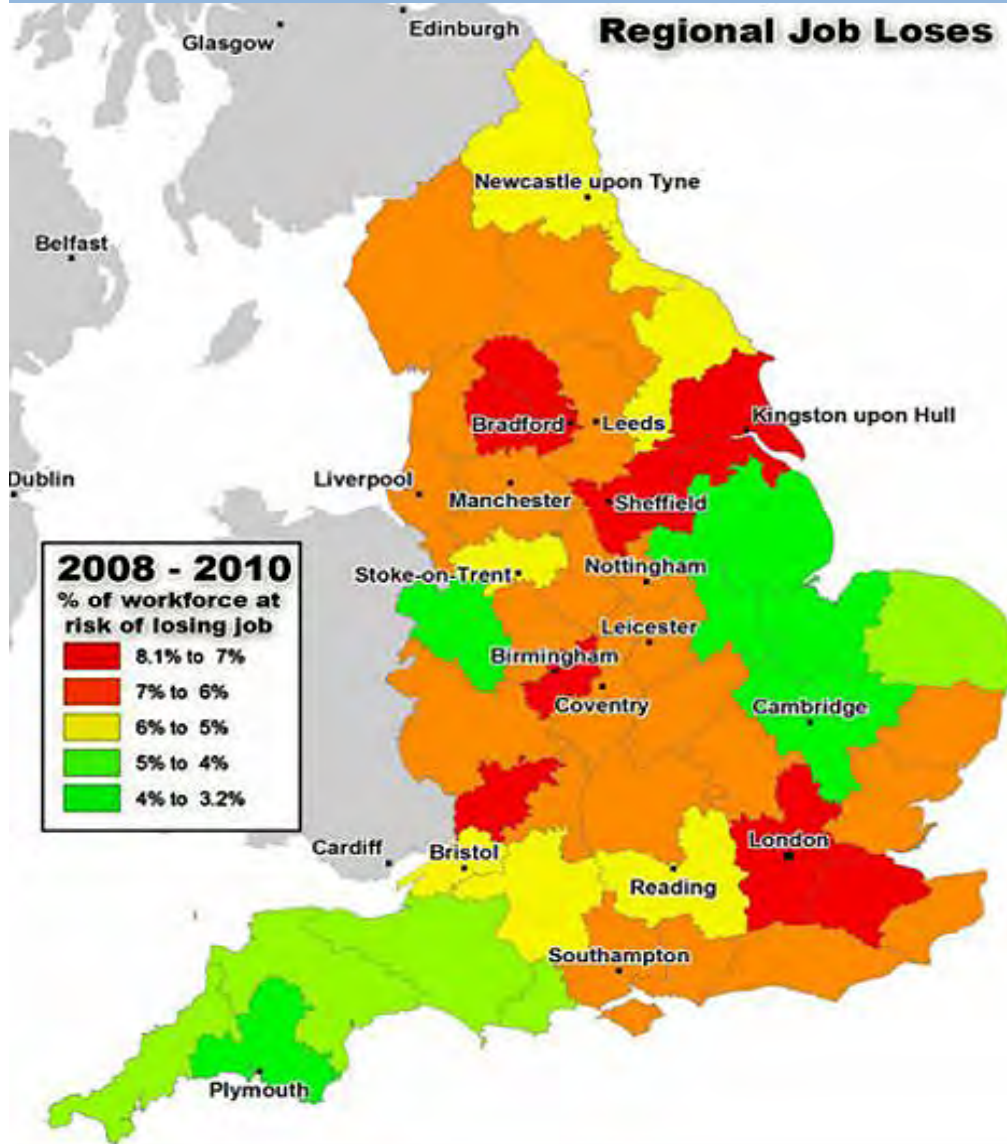
Source: Experian, Autumn 2008

Output growth 2010-2016



Source: Experian, Autumn 2008

Labour Market Outlook



Job losses by region

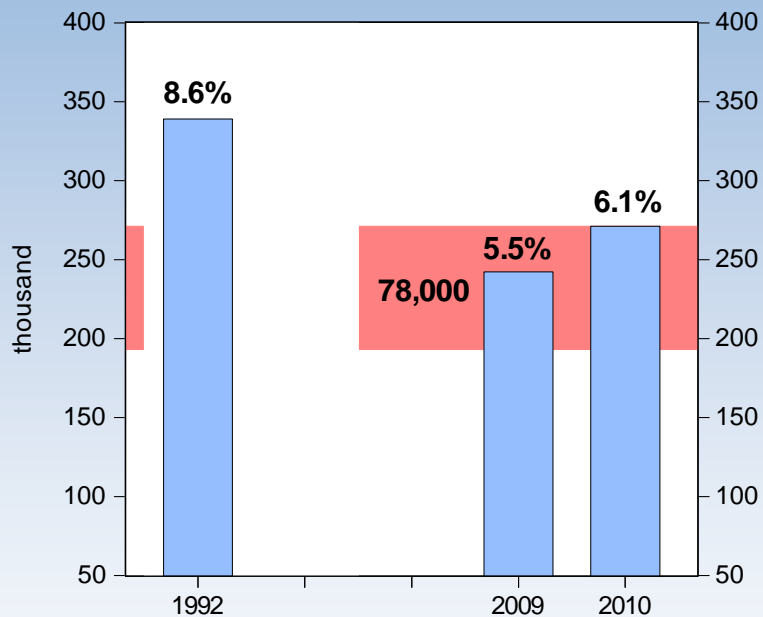
370,000 London	170,000 East
280,000 South East	130,000 East Midlands
230,000 North West	130,000 South West
180,000 West Midlands	70,000 North East
170,000 Yorkshire & Humberside	

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Source: Local Government Association

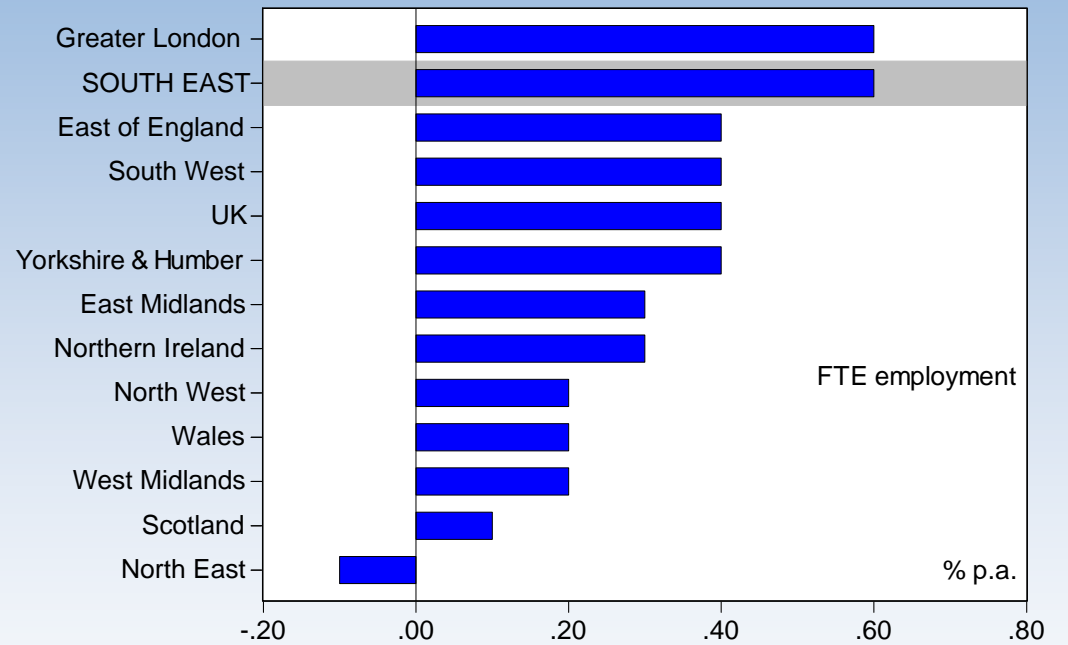
Labour Market Outlook

South East Unemployment: 2009 and 2010



Source: National Statistics and Experian 2008

Employment Growth: 2010-2016

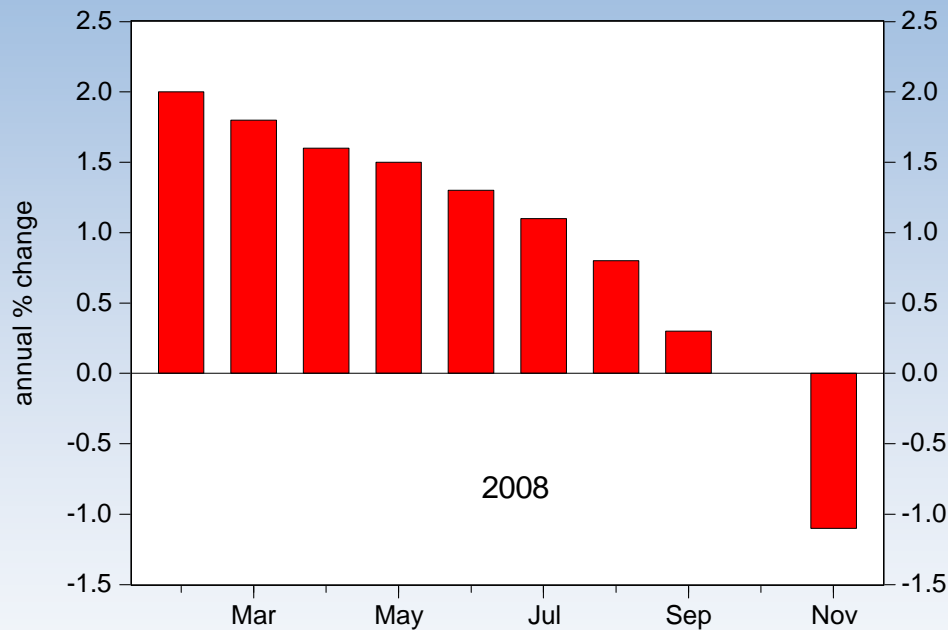


Source: Experian, Autumn 2008

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The Outlook - Confused Forecasters?

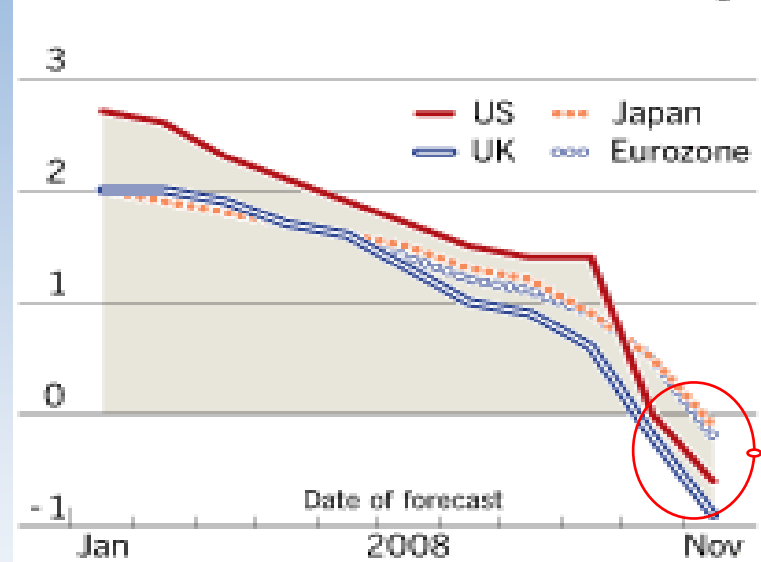
HM Treasury: Average of Independent Forecasts for UK GDP growth in 2009



Source: HM Treasury 2008

In need of revision

Forecasts for 2009, annual % real GDP change



Source: Consensus Economics

Policy Response

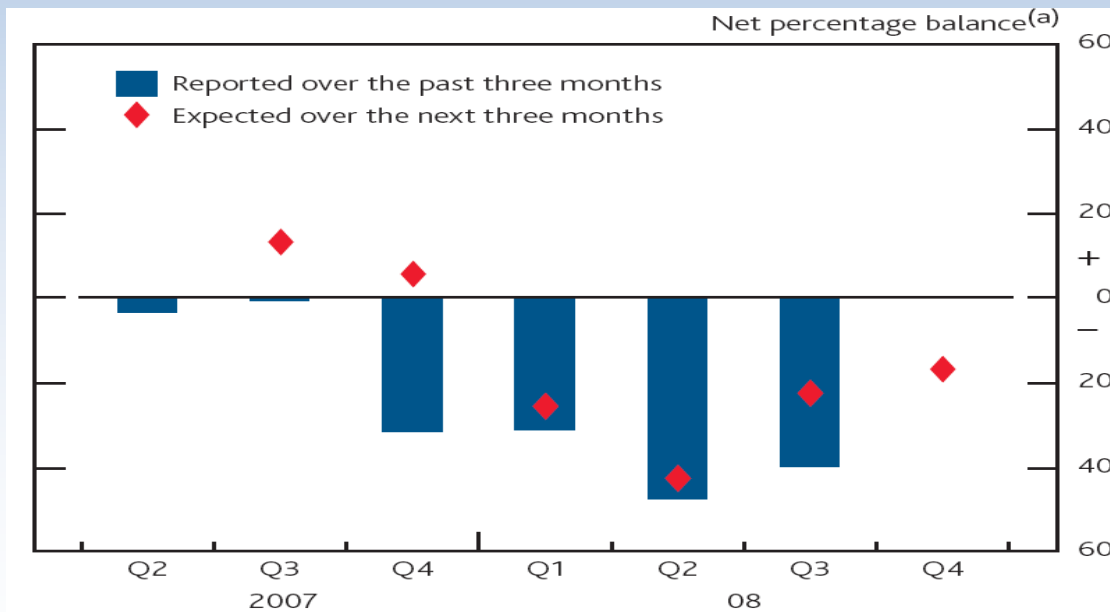
- Global Financial Crisis
- Global Keynesian Recession
- UK interest rate - down to 2%; more cuts to follow.
- Eurozone rate – down to 2.5%.
- “Monetary policy, trade policy, all that is not enough, ... If there has ever been a time in modern economic history when fiscal policy and a fiscal stimulus should be used, it's now.” **IMF Managing Director, D. Strauss-Kahn.**
- UK fiscal stimulus = 1.3% of GDP
- Eurozone fiscal stimulus
- US fiscal stimulus
- ‘Quantitative easing’ on the way?
 - US Treasury buying long-term government securities.

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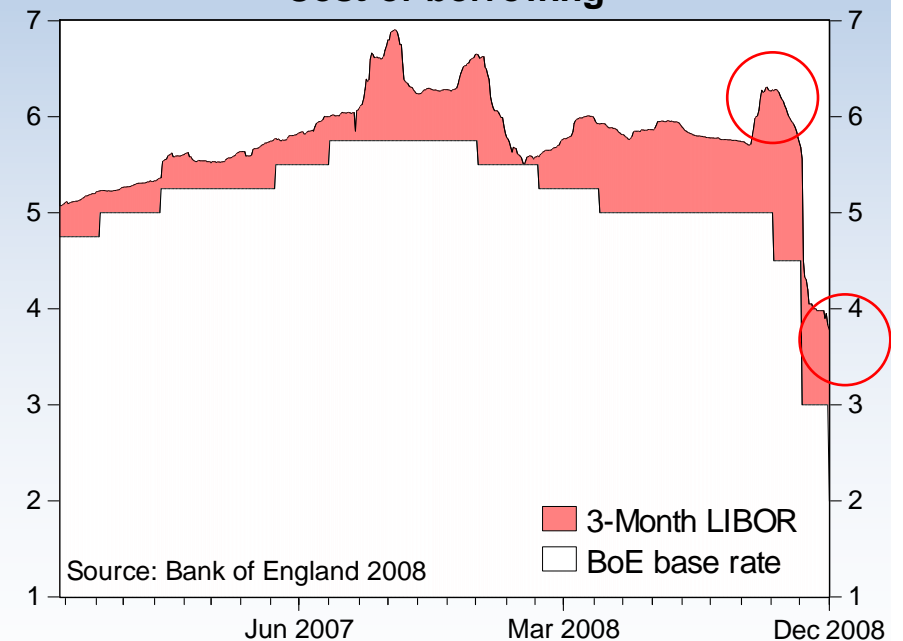
Will it Work?

- Restore liquidity in the financial markets – scarcity of money is an issue
- Return of the Consumer
- Global response

Expected credit conditions



Cost of borrowing



Preparing for the Upturn

- Currency depreciation
 - Advanced manufacturing
 - More employees in High & Medium Technology sector than any other UK region
 - Highest manufacturing output in the country
 - Highest manufacturing productivity
 - Largest exporting region in England (value of goods)
- Highest employment rate
- Alongside London, largest private-sector economy in the country
- High business start-up and survival rates
- Contribution to the Exchequer – SE performance crucial to the UK economy.

Thank you

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