Economic Downturn: A South East Perspective

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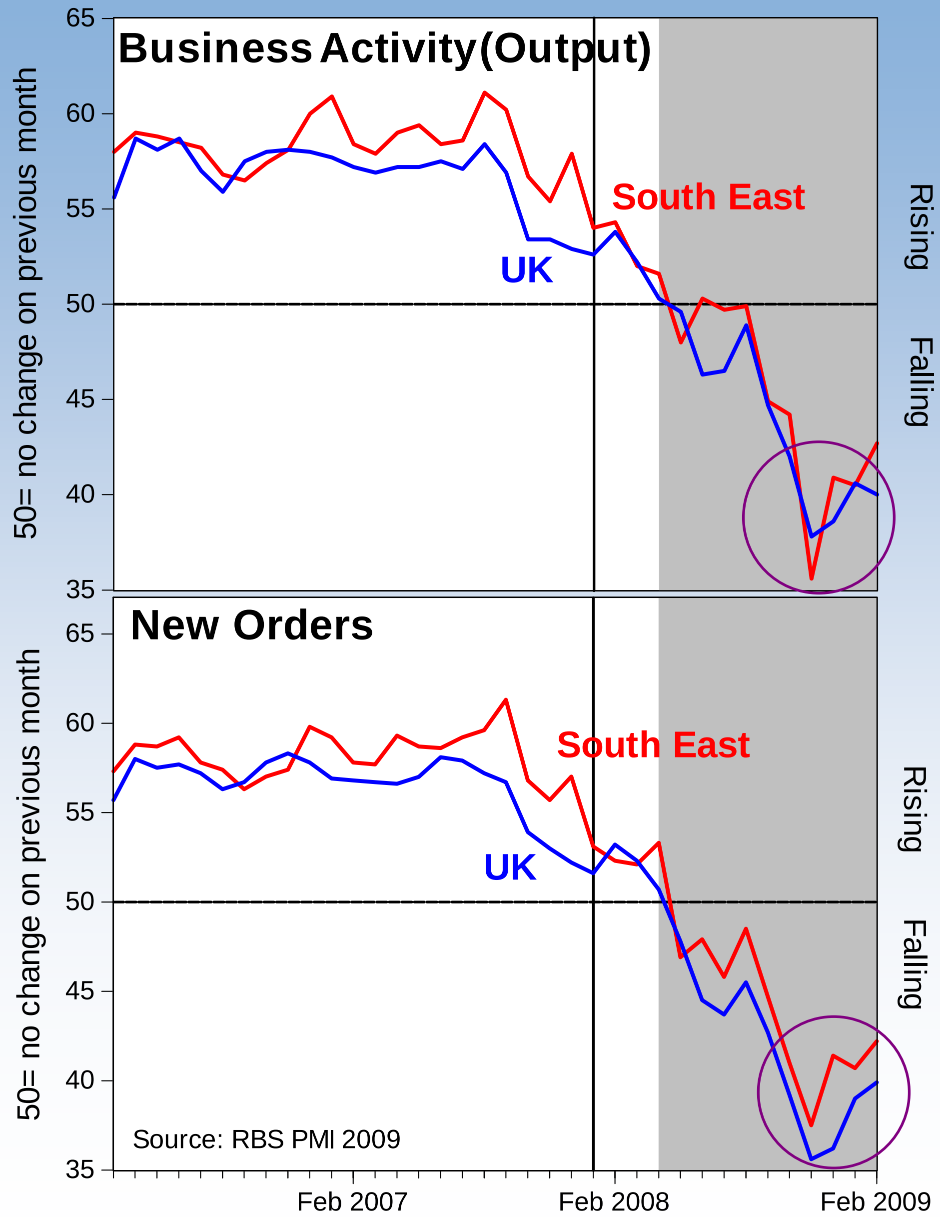
Overview

- A Sharp Downturn in UK & Developed Economies
- World Trade Slumps
- Global Recession on the way (OECD); US recovery in late 2009 (US Treasury)?
- Significant Wealth Destruction
- From Inflation to Deflation
- Bank of England Base Rate hits historic low
- Liquidity Squeeze Persists
- Unorthodox Measures – Quantitative Easing

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.

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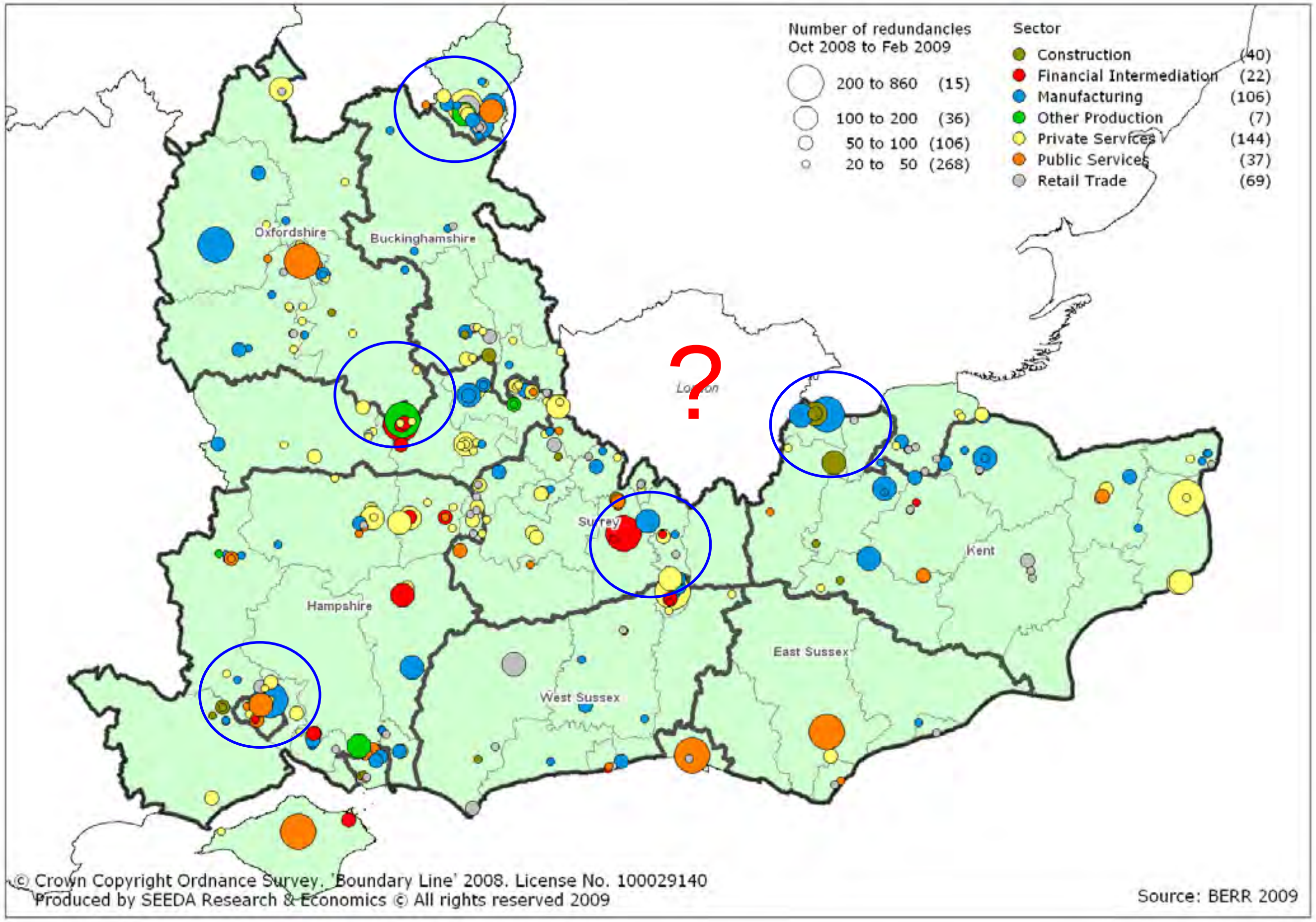
Manufacturing harder hit than services

Redundancy Notifications (Oct'08-Feb'09)



- **South East**
  26,400
  Manufacturing 28.8%
  Transport 9.7%
  Retail 9.4%
  Other Bus. Act. 8.9%

- **February**
  5,400
  Manufacturing
  Transport
  – Hampshire
  – W. Sussex

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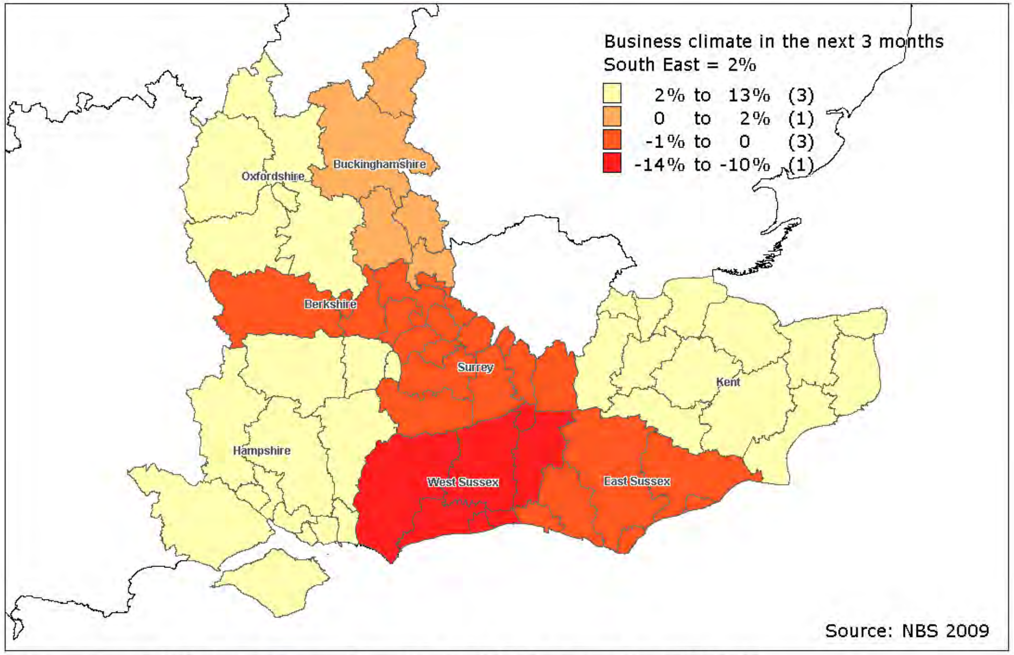
Business expectations over the next 3 months

Do you expect the Business Climate in which your business operates to deteriorate…



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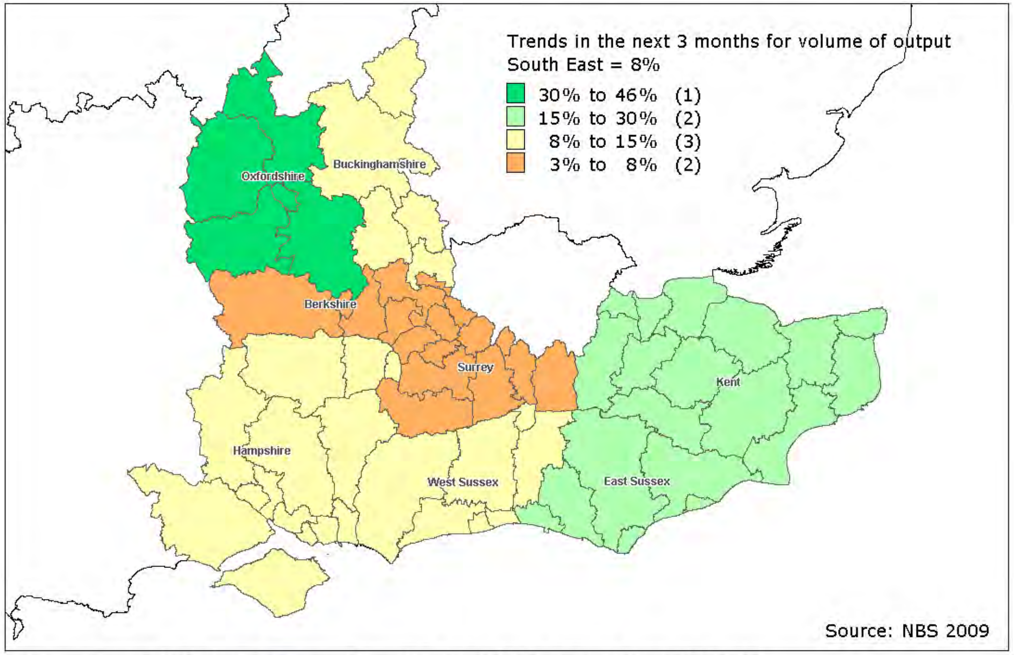
… expected trends for the next 3 months, with regard to Volume of Output (net balance)



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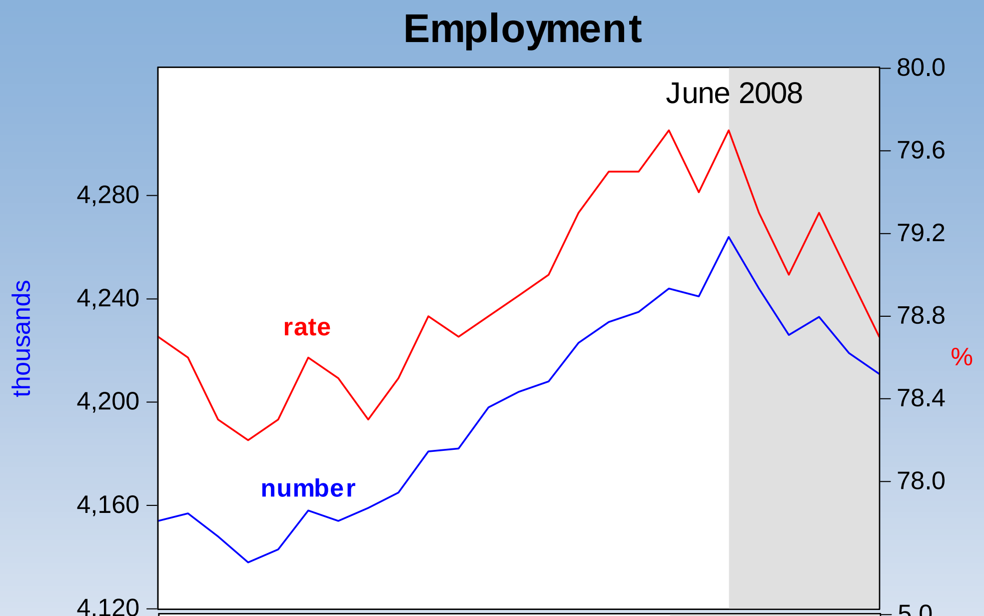
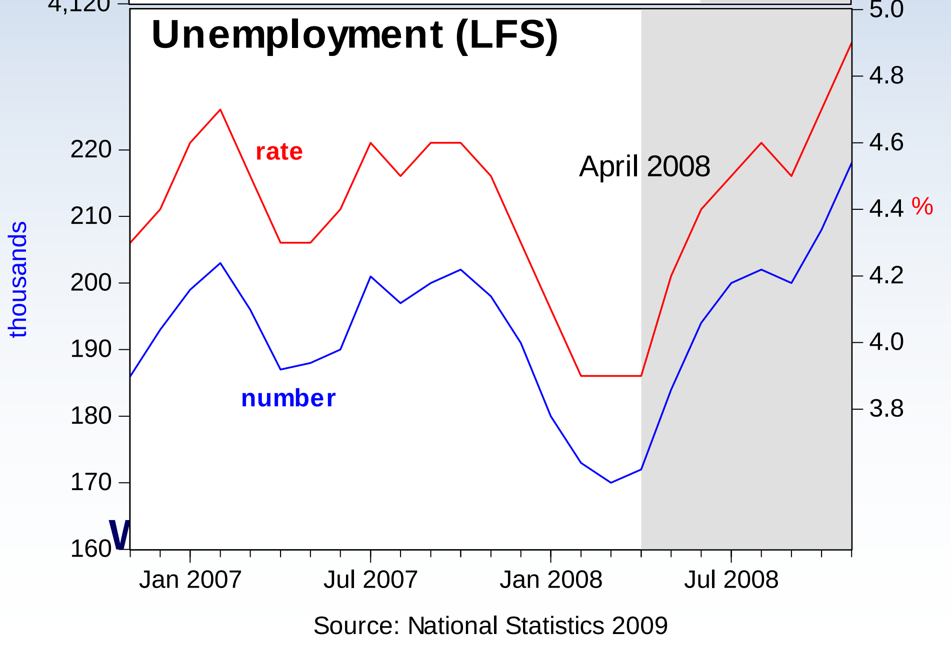
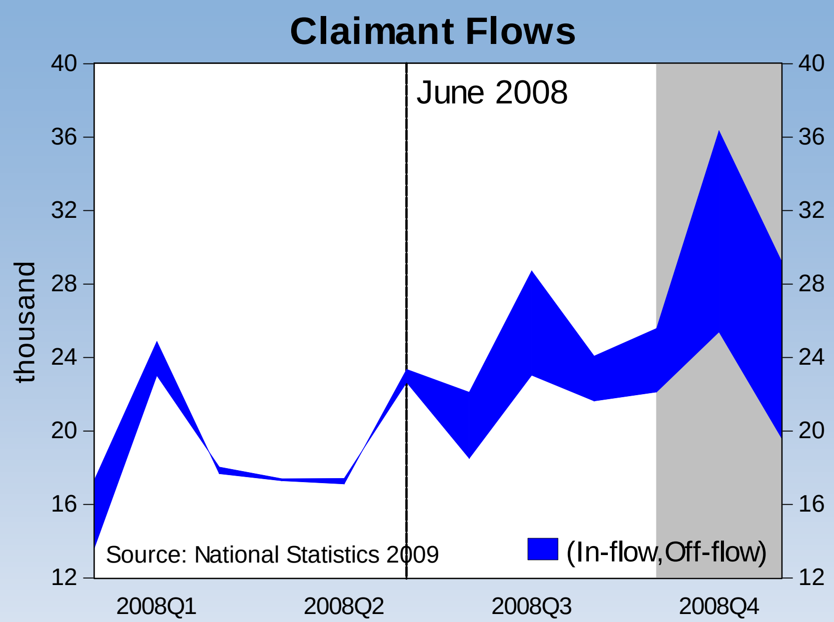
Key Challenges for SMEs

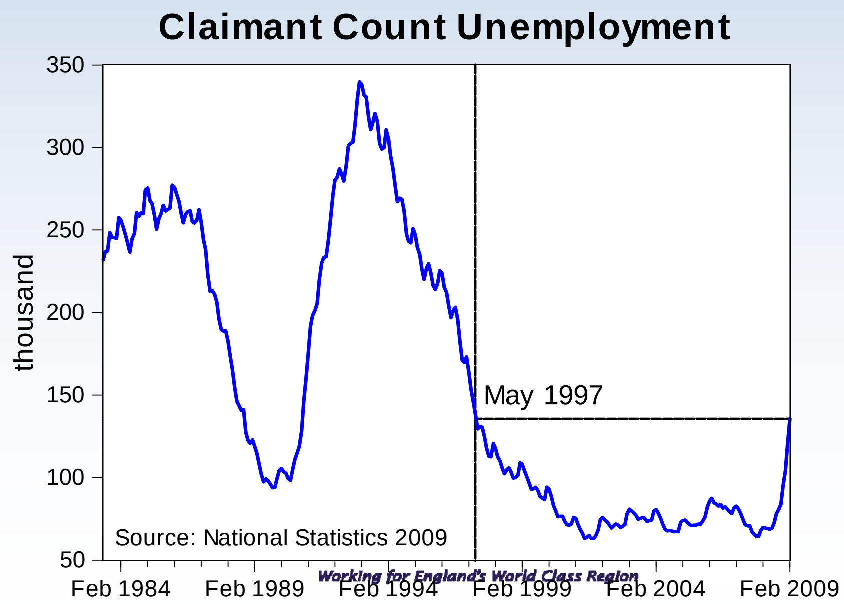
- **Cost of credit insurance** increased for 52% of small businesses in the South East. Source: *FSB Feb'08*
- Some **credit insurers** now refusing to insure some businesses. Concern about the ability of companies in **supply chain** to withstand recession. *Source: SEEDA 2009, Regional Intelligence 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 an issue.**

Labour Market weakening …



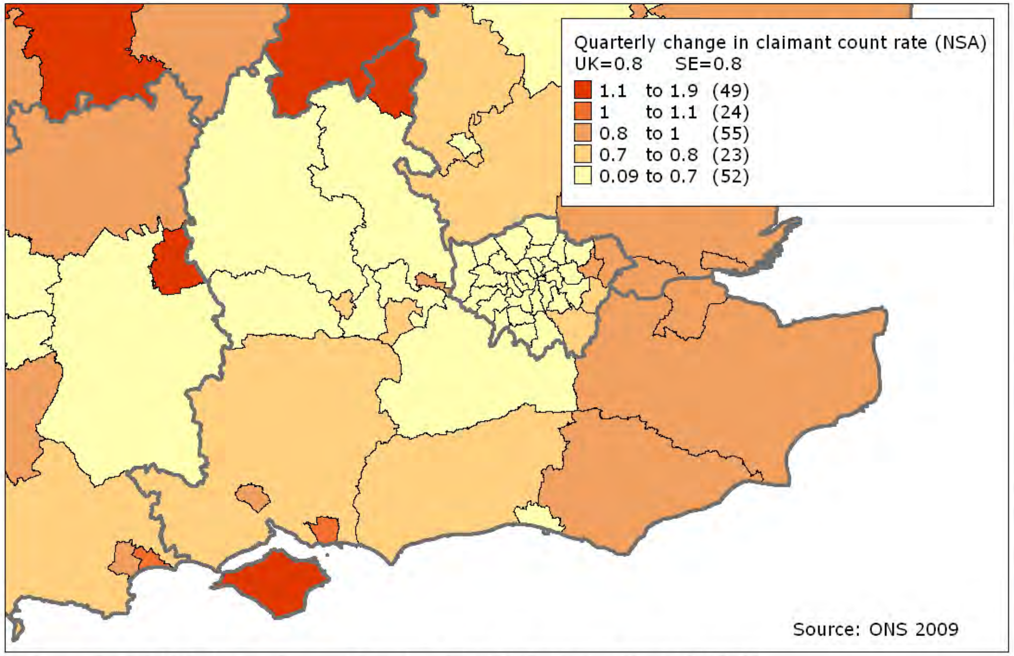






… coastal economies hit harder?

Quarterly change



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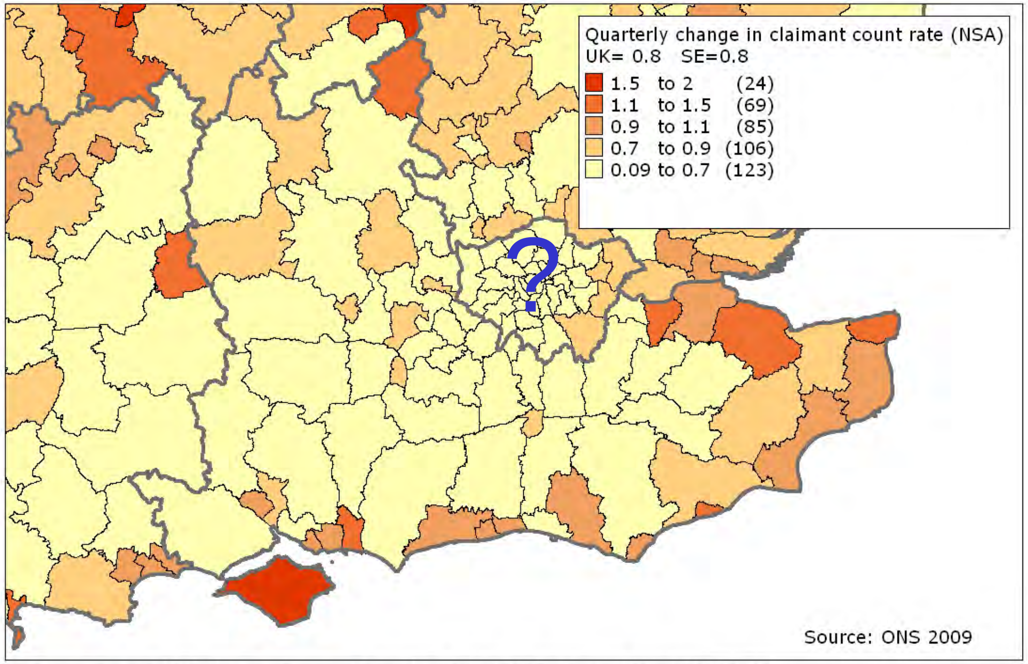
Quarterly change



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Falling Employment

	Over the past year 000's	%	Aug/Oct-Nov/Jan 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
South East	**-6**	**-0.5**	**-32**	**-0.8**
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

On the positive side

- Considerable stimulus to the economy:
  - Easing in **monetary and fiscal policy**
  - Quantitative Easing
  - **Global response**
  - Decline in inflation
  - **Increase in real earnings**
  - A substantial fall in sterling
- Business Surveys less gloomy than three months ago?

Will some sectors do better than others?

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
Total (GVA)	**5**	**5**

Is it going to be different this time?

How long is it going to last?

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

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Source: RBS 2009

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The impact on public services

- …… falling incomes
- Increase in demand for public services
- Childcare provision
- Private providers withdrawing from the market?

Thank you

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