

Kent Economic Board (KEB)

Business Advisory Board

**Review of current economic  
conditions – a focus on Kent**

January 2009

Ivan Perkovic

Head of Economic Research

[WWW.SEEDA.CO.UK](http://WWW.SEEDA.CO.UK)

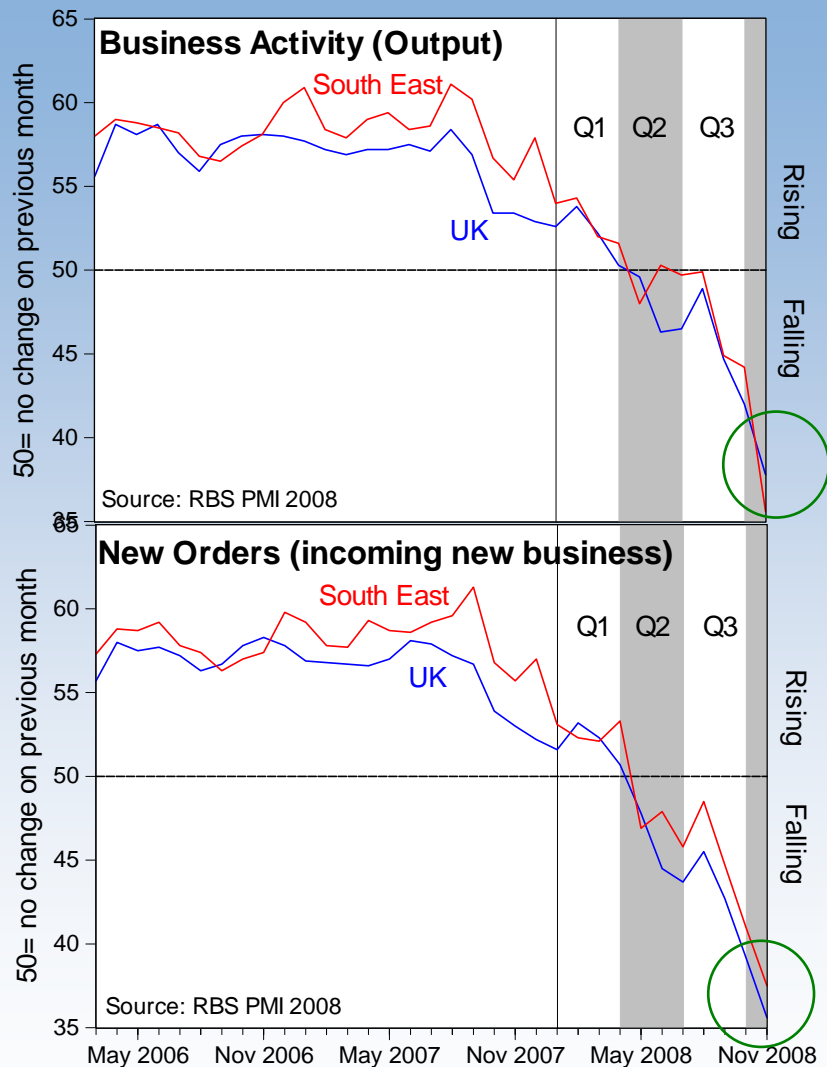
# The story so far

- Supply shock from rising inflationary pressures, followed by ...
- Demand shock from the liquidity squeeze.
  - 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).
  - Even greater falls in emerging markets.
  - Major industrial economies contracting, ... a sharp slowdown in developing economies.
- Global monetary and fiscal response ... scarcity of money is an issue.

# Sectoral Impact

- Financial services – retrenchment, restructuring
- Tough trading conditions:
  - Construction & property related
  - Automotive and the rest of Manufacturing
  - Transport and Telecommunications
- Slowing demand impacts on growth across all sectors
  - Retail in Q1, etc.

# South East Economy

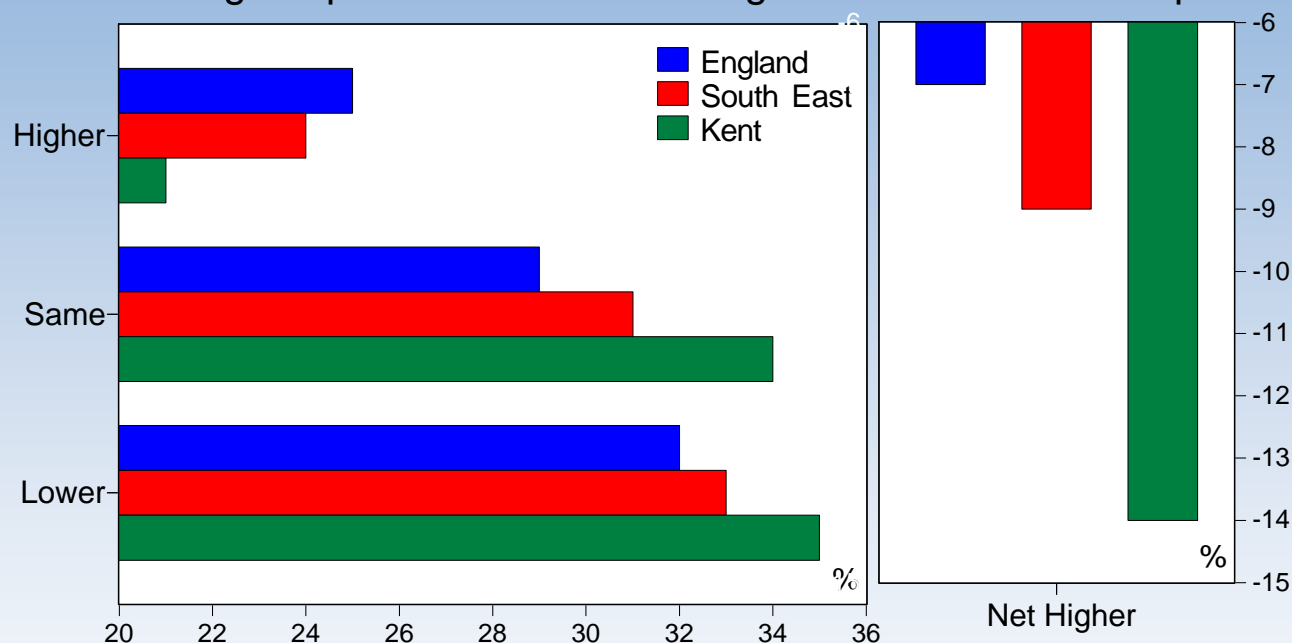


- A further weakening of economic conditions in December.
- A significant weakening in manufacturing.
- Lower employment levels and an increase in unemployment.
- Lower consumer prices and profit margins.
- Cashflow positions have worsened.
- Investment remains mostly flat (lower in some cases).

Source: SEEDA 2009, Regional Intelligence Snapshot for the South East - December

# Kent Economy

Excluding seasonal variations, what has been the trend during the past 12 months with regards to Volume of Output



Source: Ipsos MORI for SEEDA (2009), forthcoming

- **Output**

- Lower: 35%  
Kent vs. 1/3 SE
- Net higher: -14%  
Kent vs. -9% SE

- **Profit margins**

- Lower: 64%  
Kent vs. 55% SE

- **Cashflow**

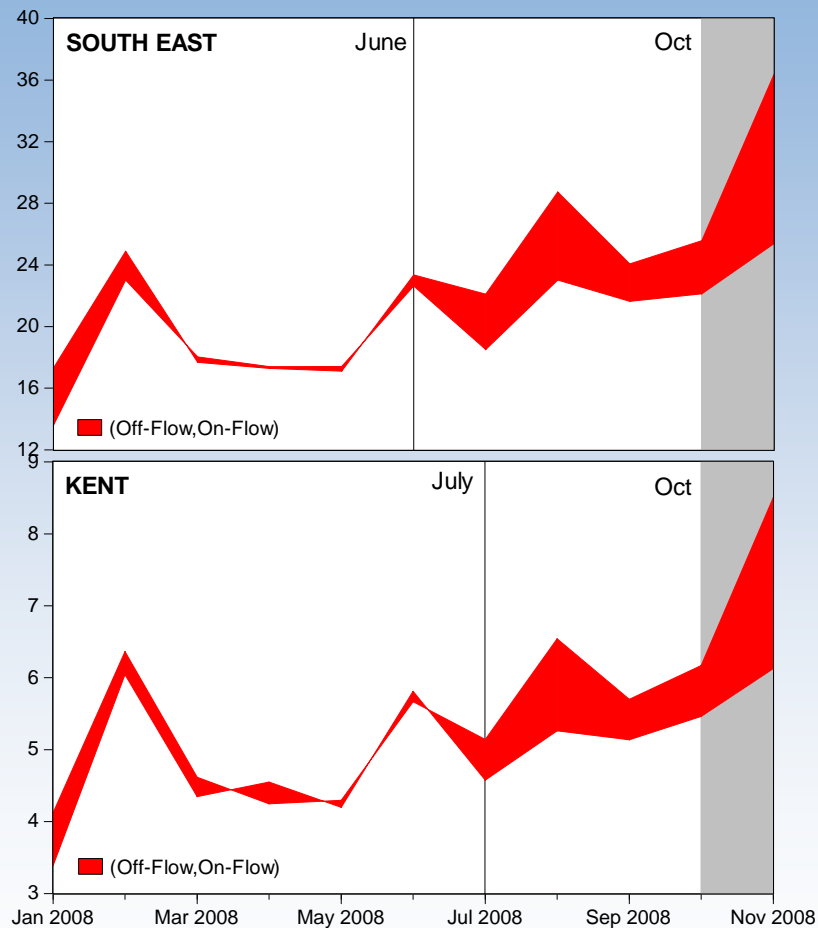
- Lower: 54%  
Kent vs. 48% SE

- **Net employment**

- Broadly flat

# Claimant Count Unemployment

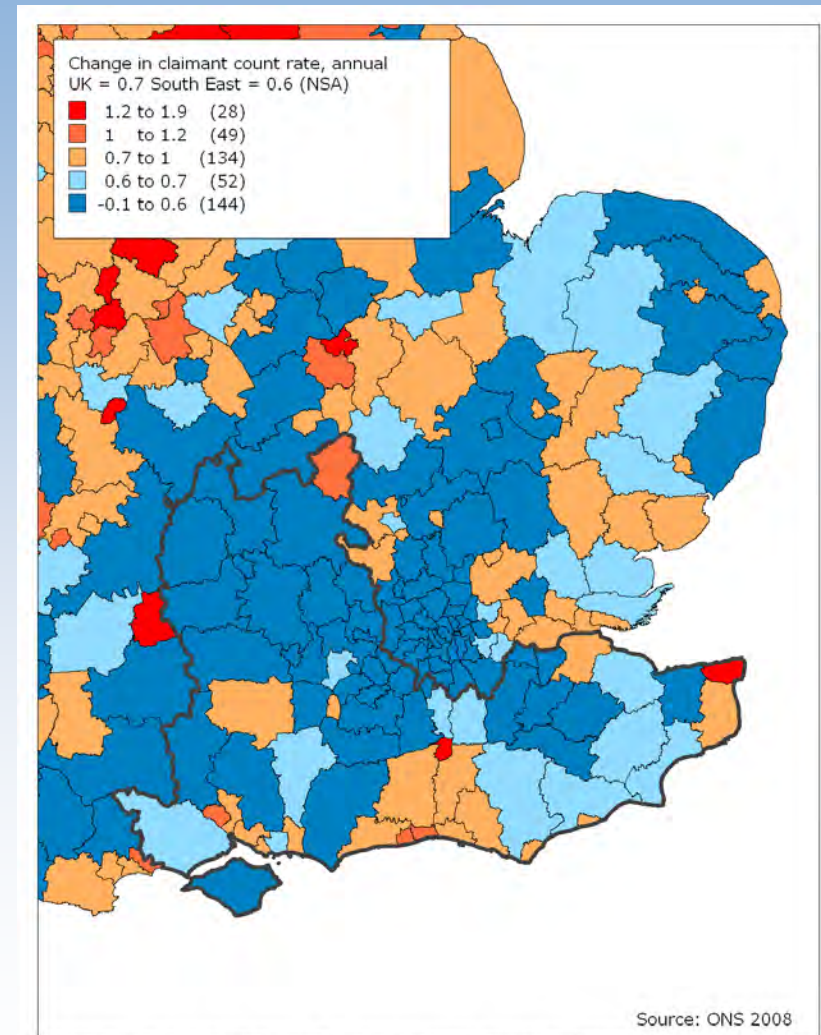
## Claimant Flows



Source: National Statistics 2008

[WWW.SEEDA.CO.UK](http://WWW.SEEDA.CO.UK)

## Change in rate Nov'07-Nov'08



© Crown Copyright Ordnance Survey. 'BoundaryLine' 2007. License No. 100029140  
Produced by SEEDA Research & Economics © All rights reserved 2008

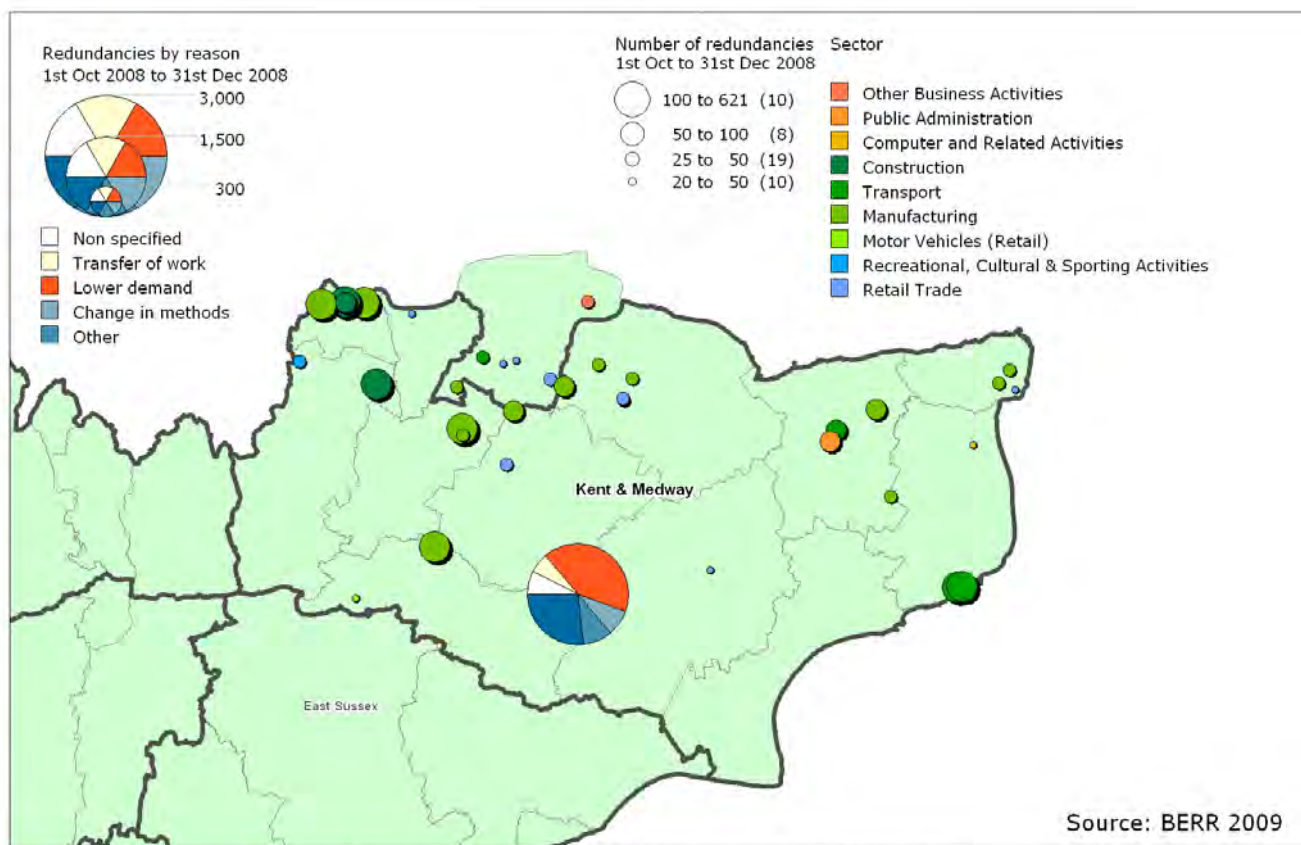
Ref:

EAST  
D  
P  
M  
E  
N  
T

# Redundancies

## Q4 2008

- **Sector**
  - Manufacturing (47%)
  - Construction (30%)
  - Transport (11%)
- **Cause**
  - Lower Demand (42%)
  - Completion of contract (27%)
- **Town**
  - Dartford
  - Dover

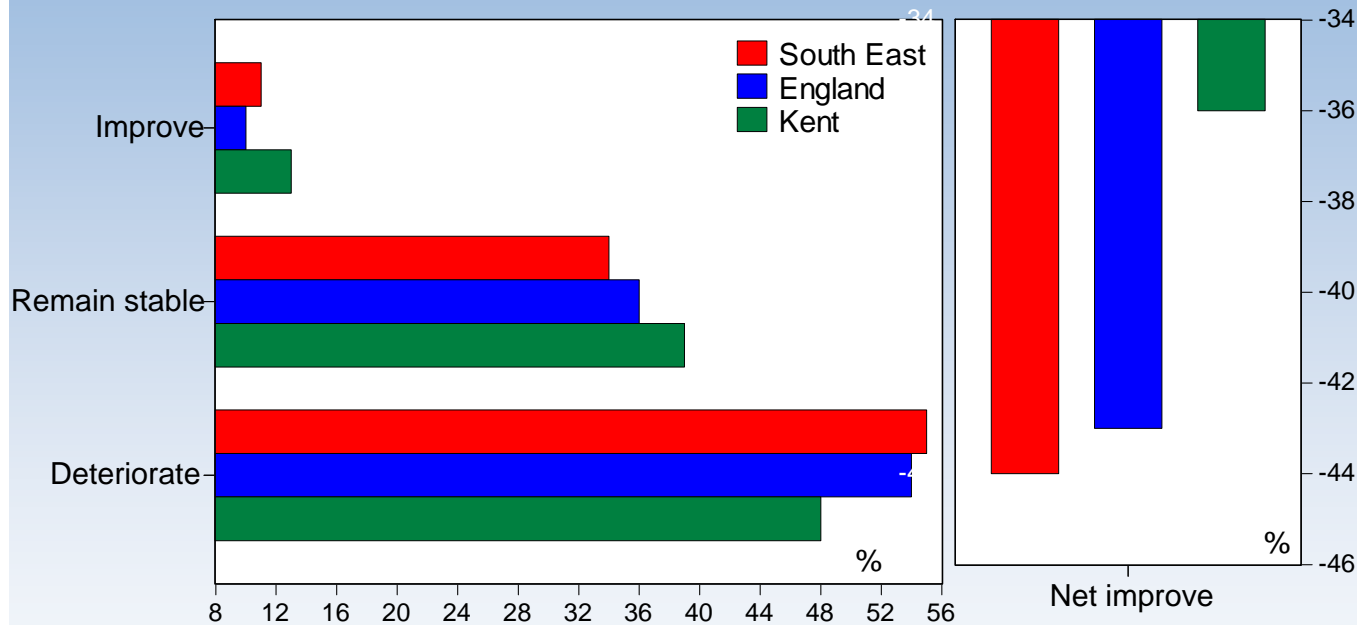


© Crown Copyright Ordnance Survey. 'Boundary Line' 2007. License No. 100029140  
Produced by SEEDA Research & Economics © All rights reserved 2009

[WWW.SEEDA.CO.UK](http://WWW.SEEDA.CO.UK)

# Business expectations for 2009

Over the next 12 months do you expect the business climate in which your business operates to generally ...?



Source: Ipsos MORI for SEEDA (2009), forthcoming

- **Size**

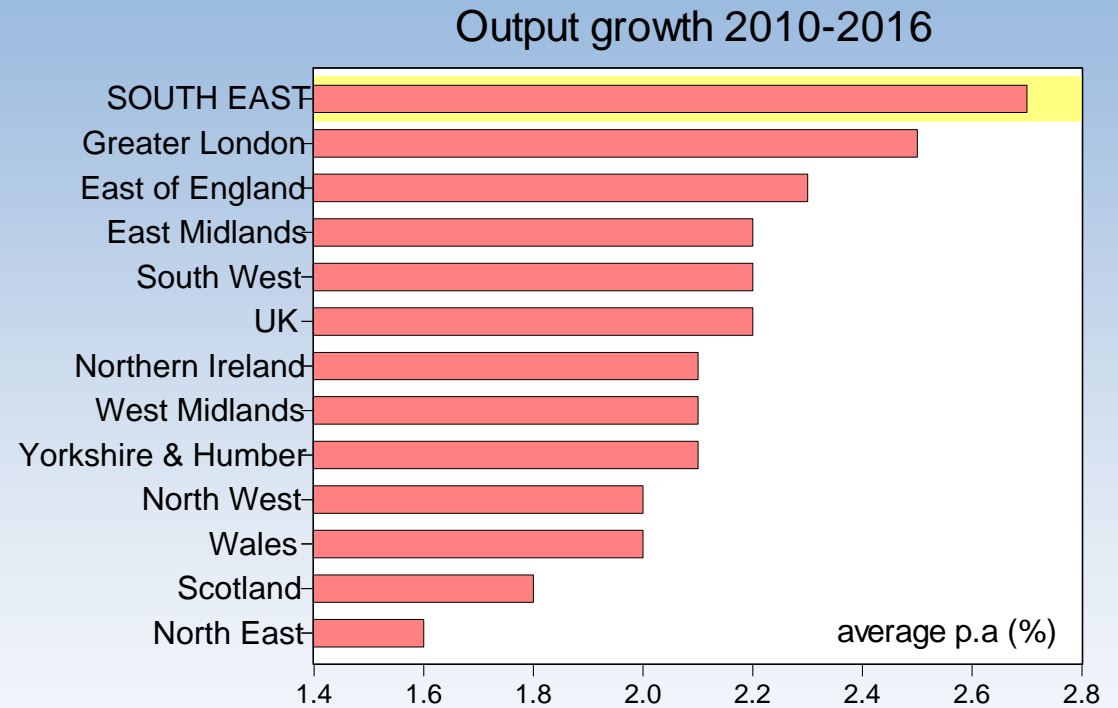
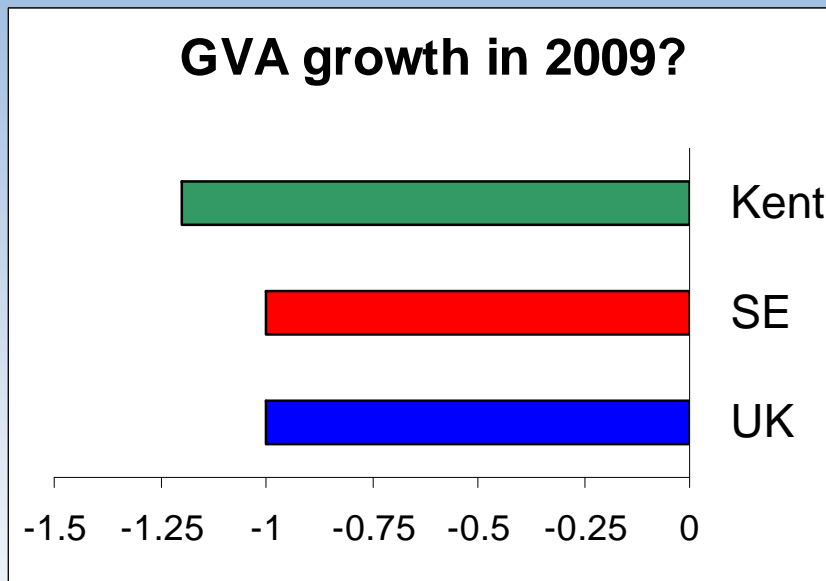
- 1-9 (-46%)
- 10-49 (-43%)
- 50+ (-24%)

- **Sector**

- Constr. (-72%)
- Manuf. (-55%)
- Distrib. (-55%)
- Finance (-43%)



# Outlook for 2009 and Beyond?

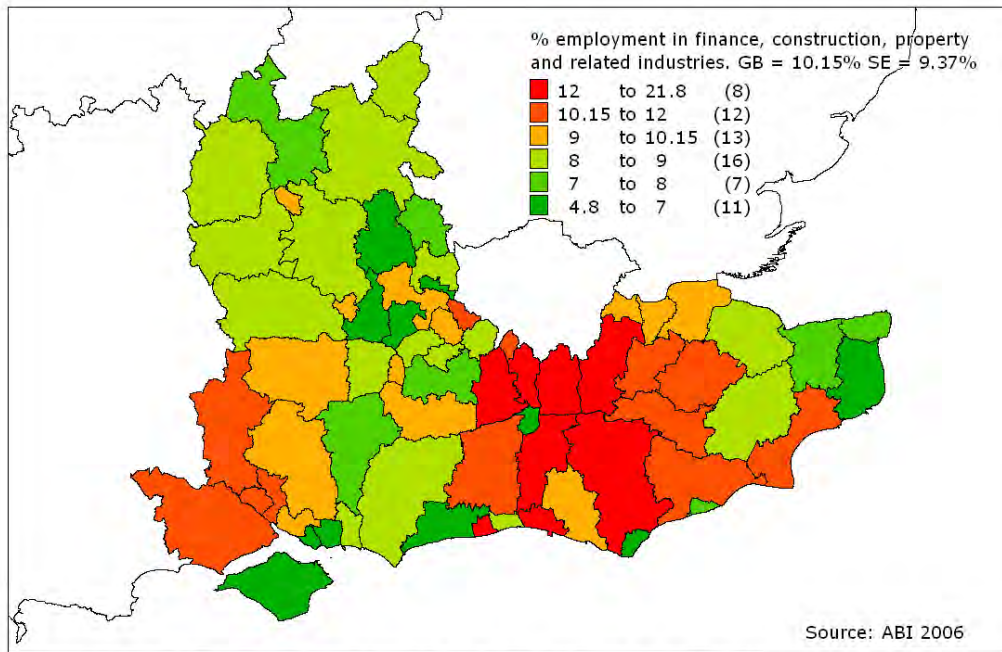


Source: Experian, Autumn 2008

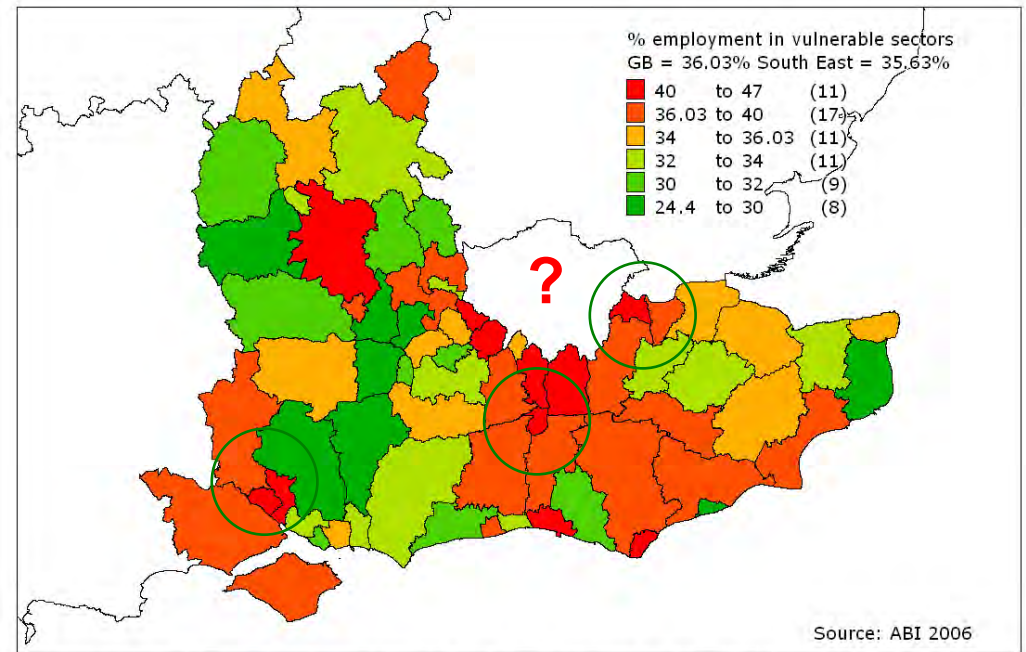
# Sectoral distribution

**% of employment in finance, construction and property related activities**

**% of employment in sectors exposed to Credit Crunch and consumer spending**



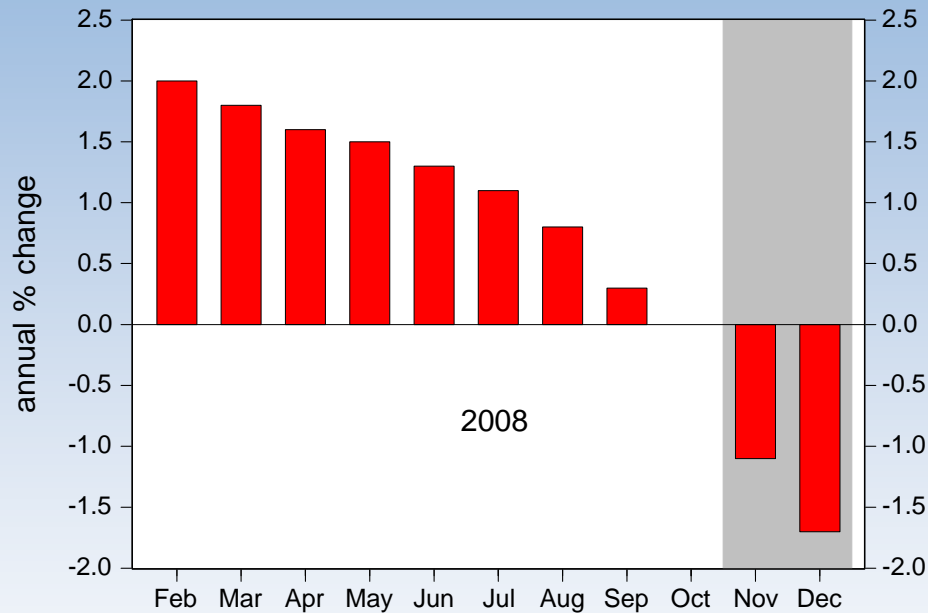
© Crown Copyright Ordnance Survey, 'Boundary Line' 2007, License No. 100029140  
Produced by SEEDA © All rights reserved 2008



© Crown Copyright Ordnance Survey, 'Boundary Line' 2007, License No. 100029140  
Produced by SEEDA © All rights reserved 2008

# The Outlook - Confused Forecasters?

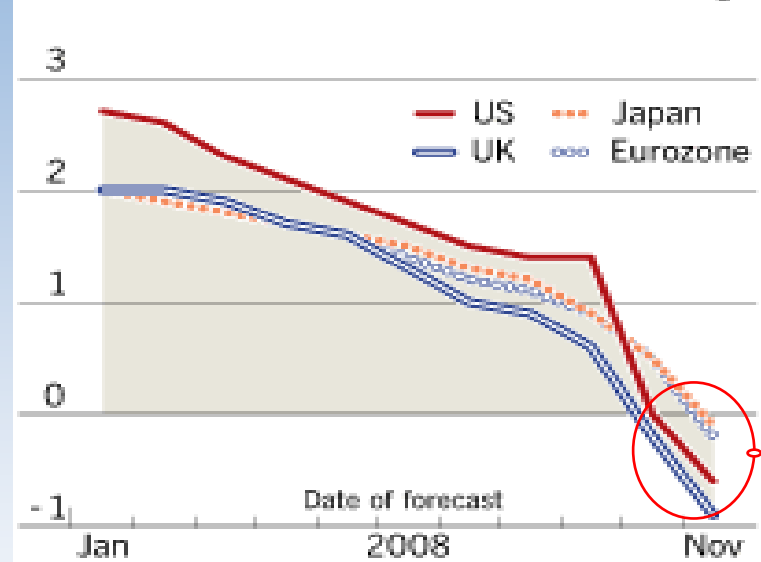
HM Treasury: Average of Independent Forecasts for UK GDP growth in 2009



Source: HM Treasury 2008

## In need of revision

Forecasts for 2009, annual % real GDP change



Source: Consensus Economics

1945

# Policy Response

- **Monetary Policy in heavy use**
  - UK interest rate: down to 1.5%, ... more cuts to follow?
  - Eurozone rate: down to 2.5%, more cuts to follow
  - US rate: 0 - 0.2%
- “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.**
- **Fiscal Stimulus**
  - UK fiscal stimulus = 1.3% of GDP
  - Eurozone and US fiscal stimulus
  - OECD, need for 2% of global GDP
- **Unorthodox measures on the way**
  - ‘Quantitative easing’ (US Treasury buying long-term government securities).

# SEEDA Response

- **Enhanced Business Link**
  - Business health checks, access to finance advice, and resource efficiency programme, Train to Gain Service e
- **Helping Businesses to Access Finance**
  - Transition Loan Fund, Commercialisation Fund (part of £20 million SE Funding Escalator), Government Equity Scheme, Small Business Guarantee Scheme.
- **Encouraging Investment**
  - Grant for Business Investment
- **Helping Businesses Trade Overseas**
  - Passport to Export
  - UKTI International Trade Advisors
  - Research Initiative
- **Support for Inward Investment**
- **Tackling Redundancy** (Continuous Employment Support Service).

[WWW.SEEDA.CO.UK](http://WWW.SEEDA.CO.UK)

# Will it Work?

- Recovery in consumer spending and business investment is needed
- Currency depreciation will help
- A major obstacle:
  - Scarcity of credit and cost of credit remain primary concern.
  - Some credit insurers now refusing to insure some businesses

*Source: SEEDA 2009, Regional Intelligence Snapshot for the South East – December*

- Lenders reduced the availability of credit to businesses and households in the three months to mid-December. A further fall was expected, BUT demand remains stable!

*Source: Bank of England Credit Conditions Survey, January 2009*

- Restore liquidity in the financial markets – scarcity of money is an issue!

- Considerable stimulus to the economy:
  - Easing in monetary and fiscal policy
  - A substantial fall in sterling
  - Decline in inflation
  - Further policy interventions on the way
- Global response
- Strength of private sector economy
- High economic activity and
- Employment
- In the end, policy response will work

**Thank you**

**SEEDA Research & Economics**

Email: [research@seeda.co.uk](mailto:research@seeda.co.uk)

Website: [www.seeda.co.uk](http://www.seeda.co.uk)

**WWW.SEEDA.CO.UK**