

The Kent Economic Board (KEB)

Business Advisory Board

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

November 2009

Ivan Perkovic

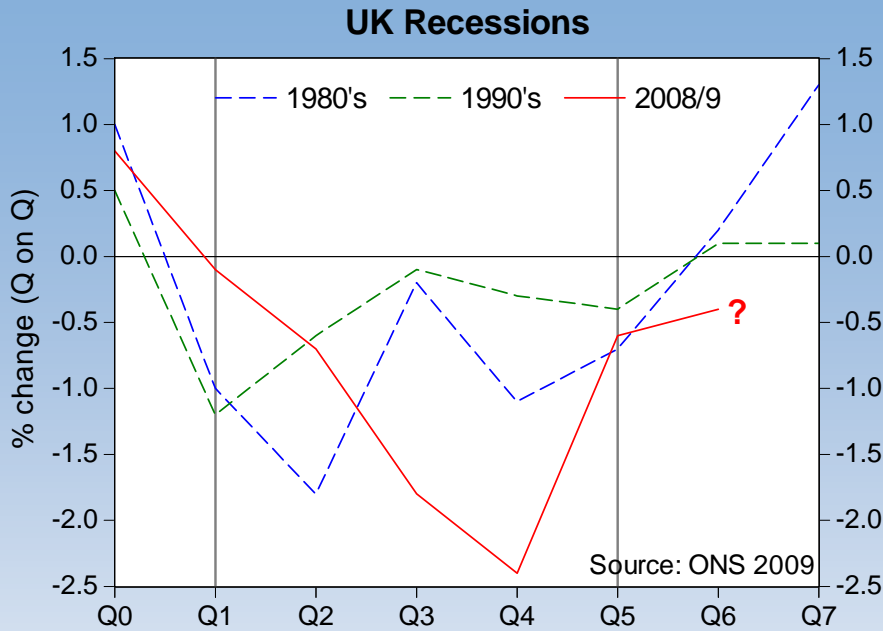
Head of Economic Research

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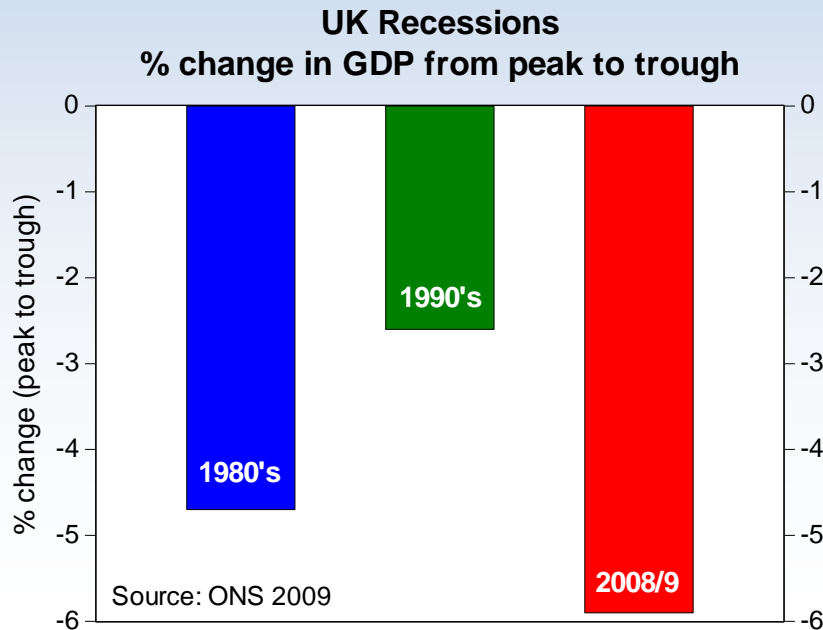
The story so far

- Liquidity squeeze and the most synchronised contraction in economic activity we have ever seen.
- First global recession since WWII.
- Heavy use of monetary and fiscal policy prevented global financial meltdown and global depression.
- Manufacturing and construction activities affected more than any other sector.
- Over the past six months recession spread across all service sector activities.
- Strong evidence that growth is returning to the global economy.
- Significant risks to the recovery remain.

The UK recession

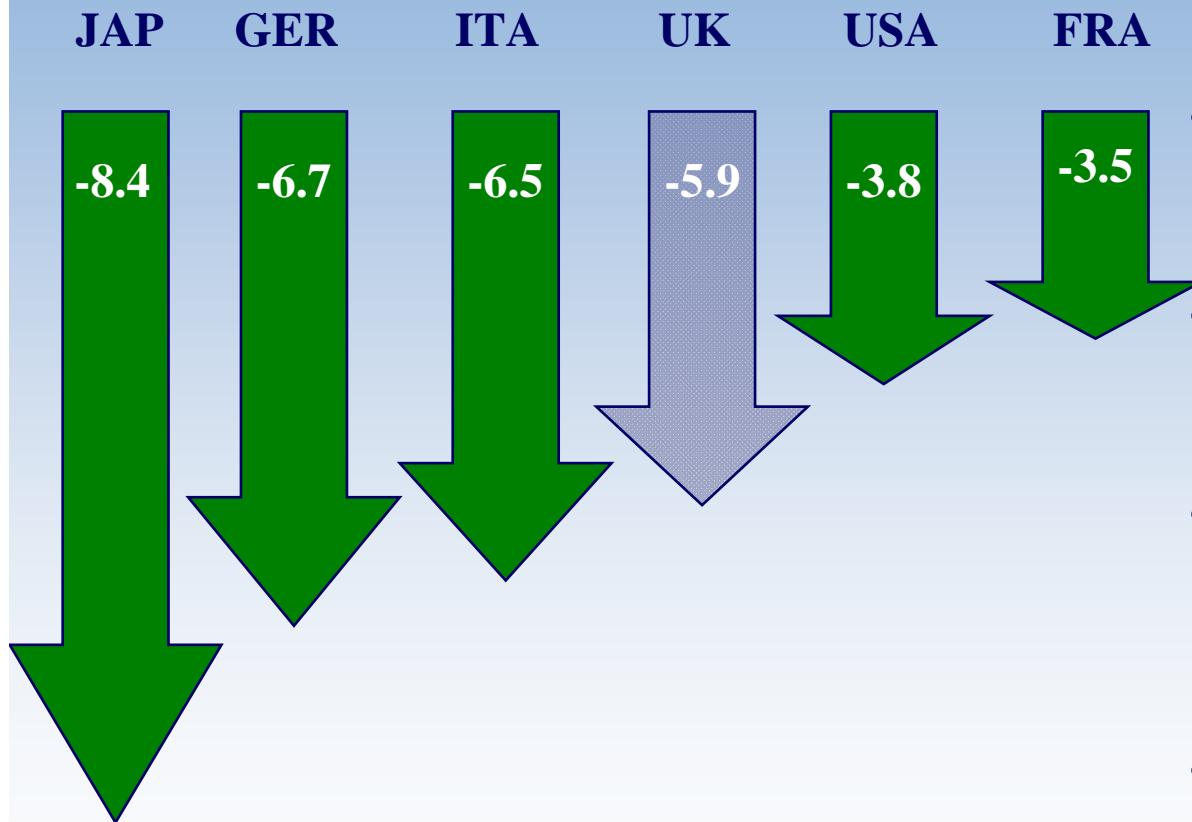


- The 6th consecutive decline in GDP growth in Q3.
- The longest recession since records began.
- By far the sharpest decline in output on record



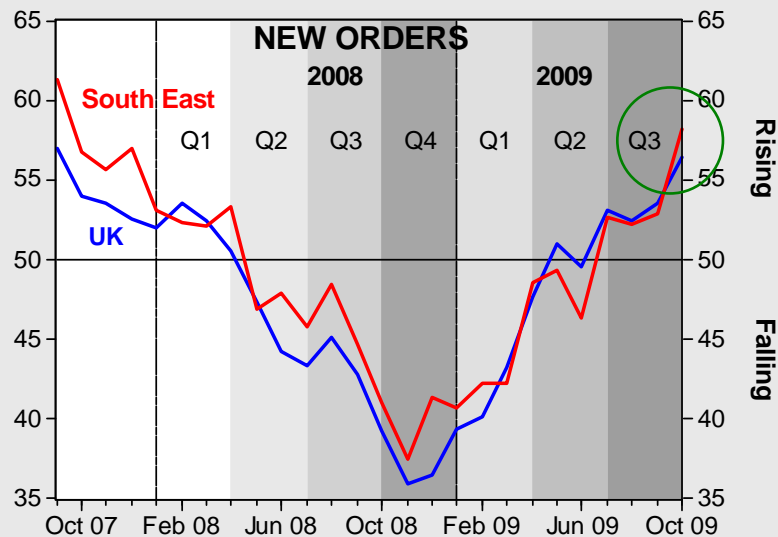
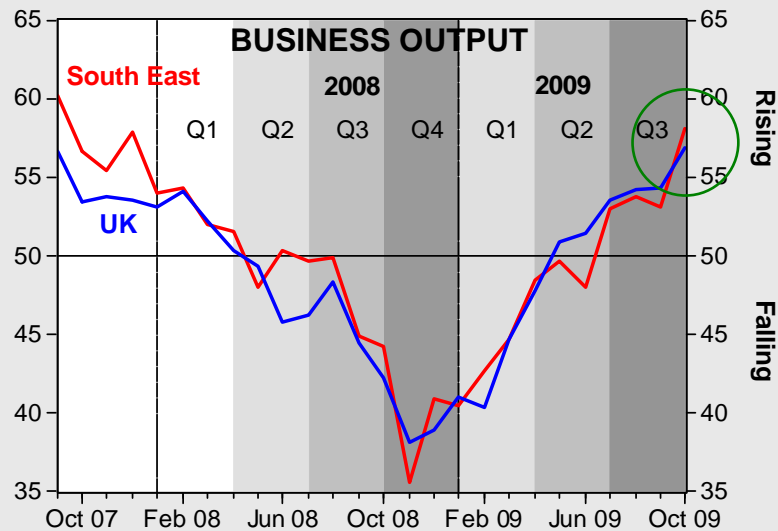
Global economy emerging from recession

Peak to trough fall in GDP



- A sharp fall in output in the UK but not as sharp as in a number of advanced economies.
- Global financial markets have stabilised.
- Confidence is gradually returning.
- Recovery underway in most of the advanced developed economies.
- Increasing evidence that gradual recovery is underway in the UK.

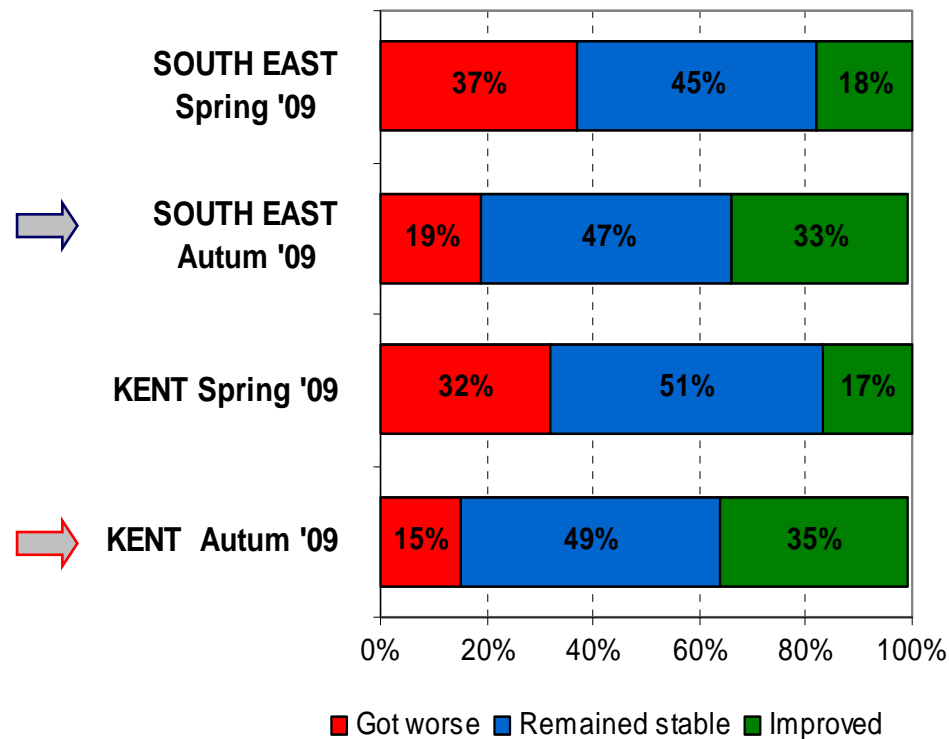
South East Economy starting to emerge from recession



- Business activity increased for the 4th consecutive month.
- Business orders are beginning to recover.
- Decrease in the proportion of businesses operating below full capacity.
- Business and consumer confidence is recovering.
- More companies plan to increase overall investment in the next three months but capacity is an issue.
- Pressure on profit margins continues.

Kent Economy – business performance has improved

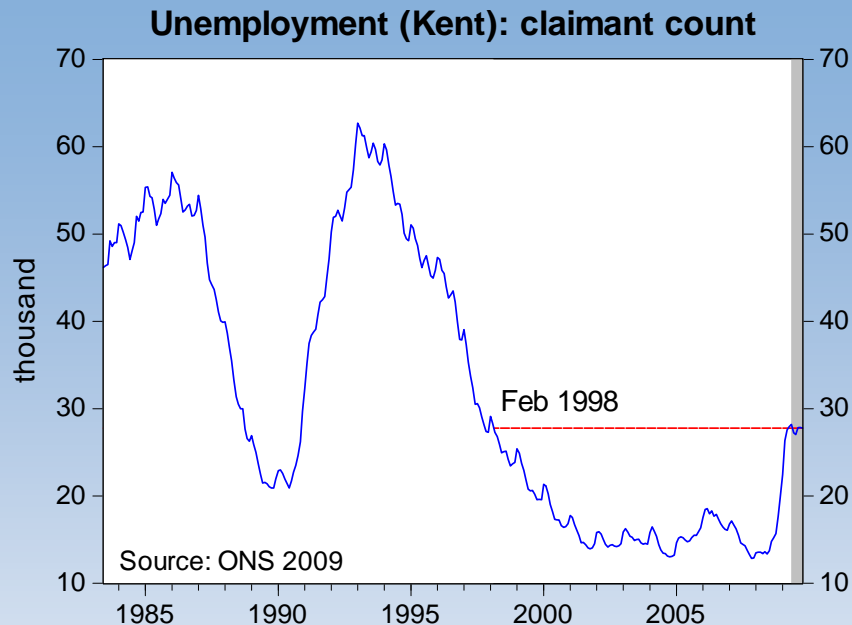
Overall Business Performance in the past 3 months...



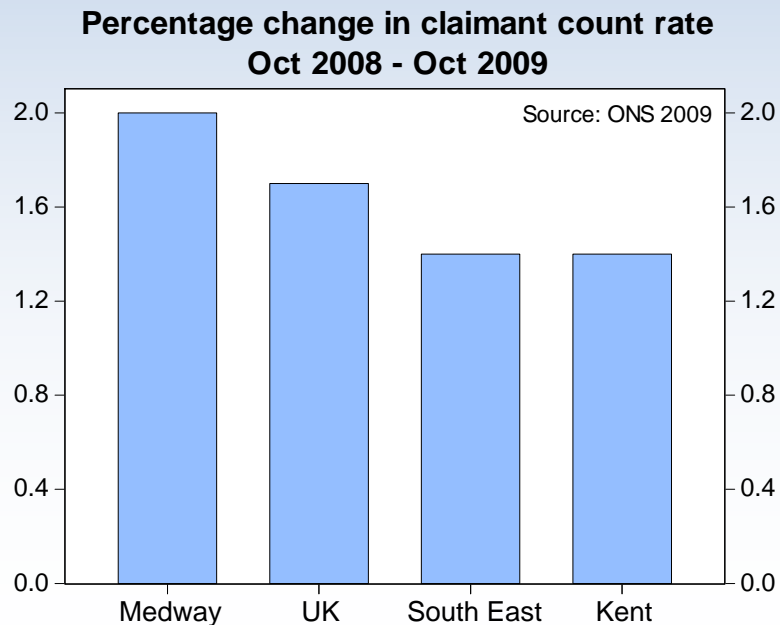
- **Output** 👍
 - Lower: 15% Kent vs. 20% SE
- **Exports** 👍
 - Higher: 10% Kent vs. 5% SE
- **Cash flow** 👍
 - Lower: 27% Kent vs. 31% SE
- **Employment** 👎
 - Higher: 7% Kent vs. 10% SE

Source: SEEDA Business Survey, Oct '09

Labour market

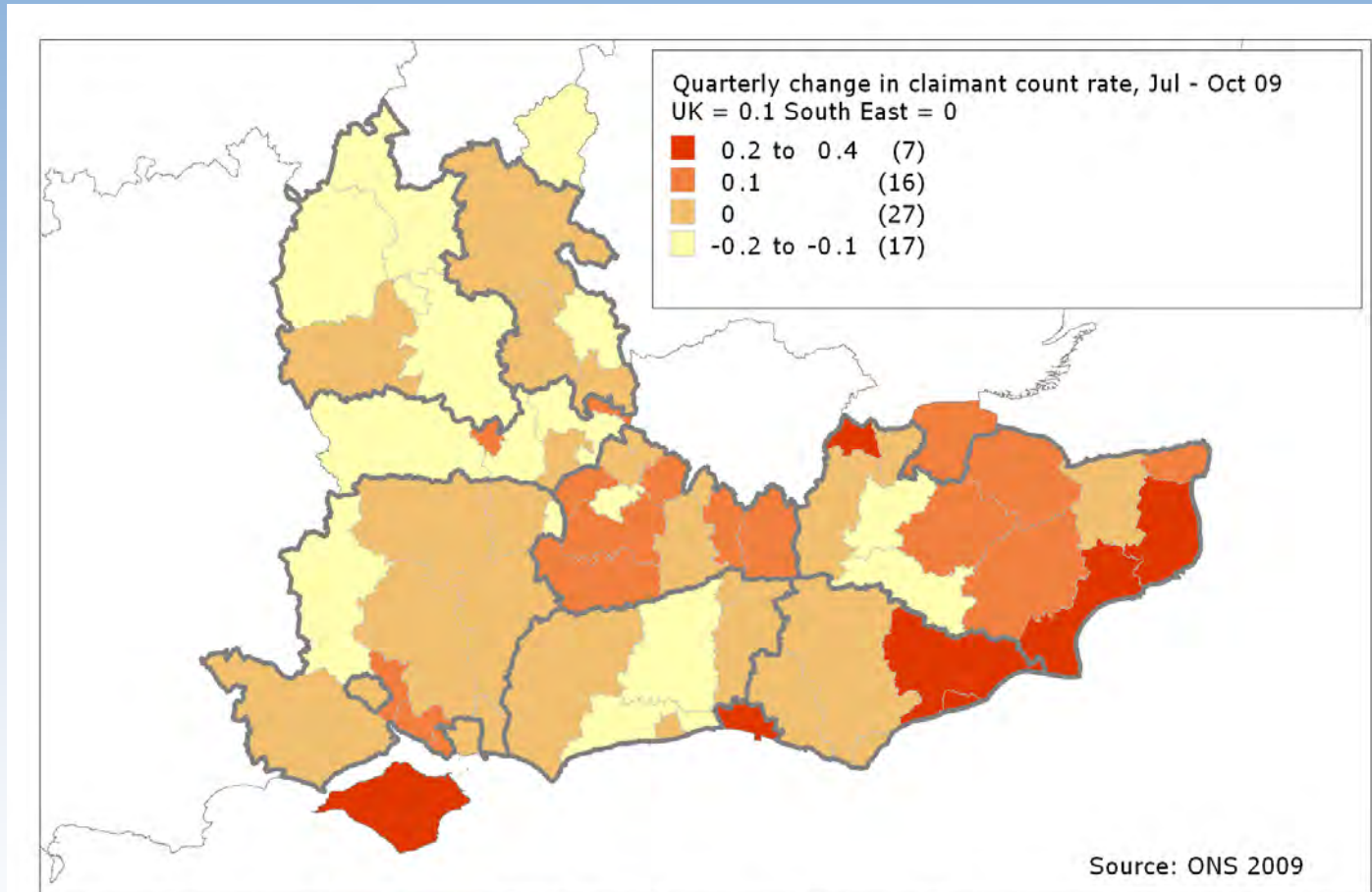


- Fall in employment lower than the fall in output.
- A sharp increase in unemployment but not as high as expected.
- A more flexible workforce.
- Staff more willing to alter working hours and pay than in the past.



Unemployment

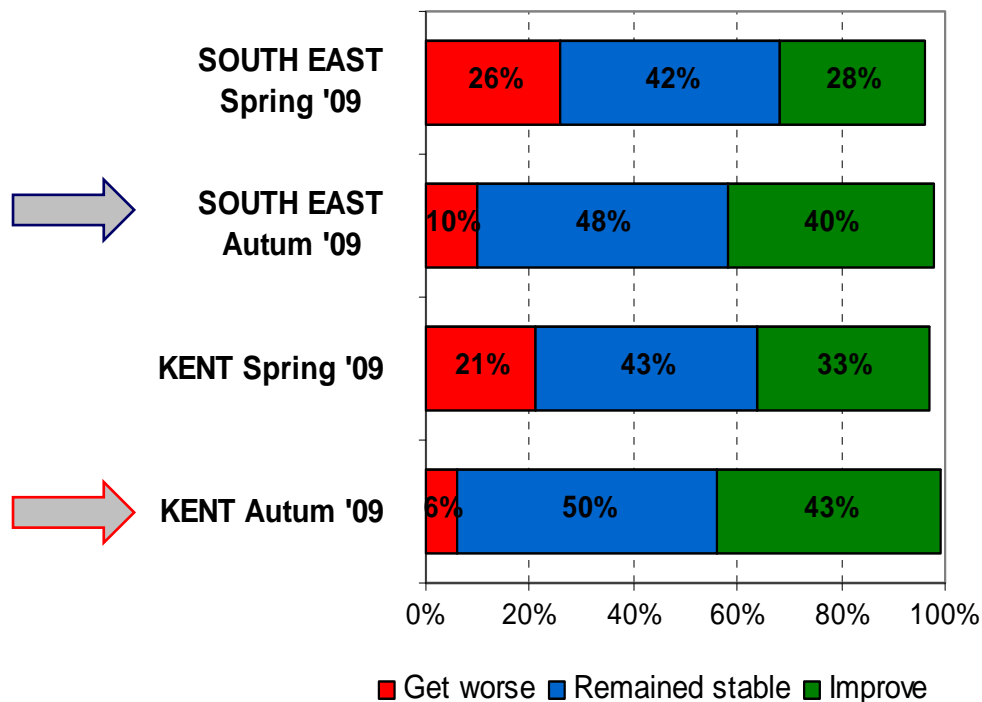
Change in unemployment rate Jul-Oct 2009



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Kent Economy – business outlook has improved

Anticipated changes in business climate (next 3 months)

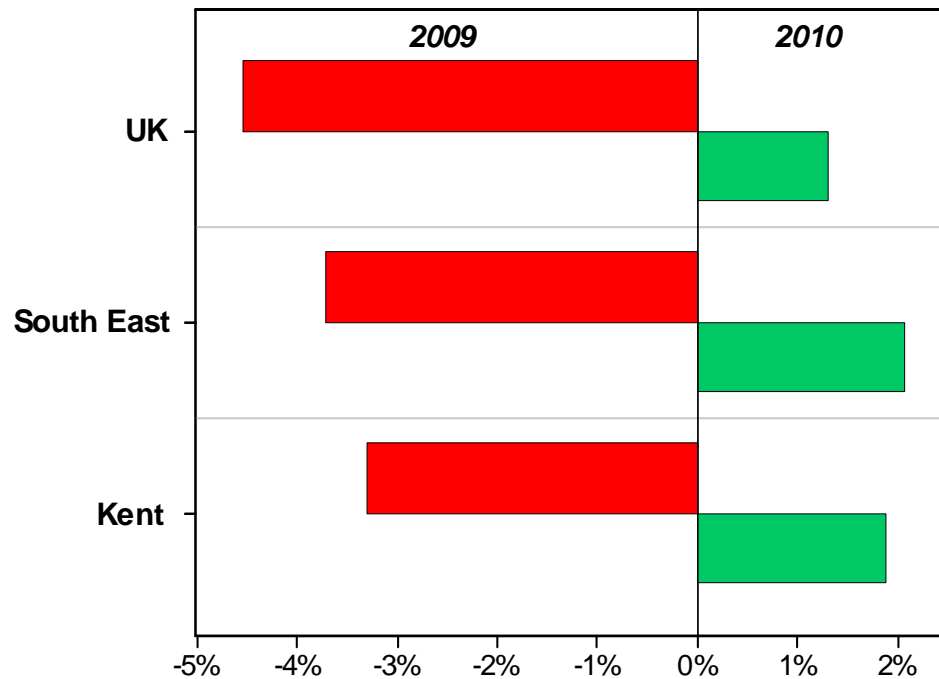


- **Exports** 👍
 - Higher: 12% Kent vs. 6% SE
- **Employment** 👍
 - Higher: 17% Kent vs. 11% SE
- **Staff Costs** 👎
 - Higher: 21% Kent vs. 15% SE
- **Cash flow** 👎
 - Lower: 17% Kent vs. 14% SE

Source: Snapshot Business Survey, Oct '09

Growth outlook for 2009 - 2010

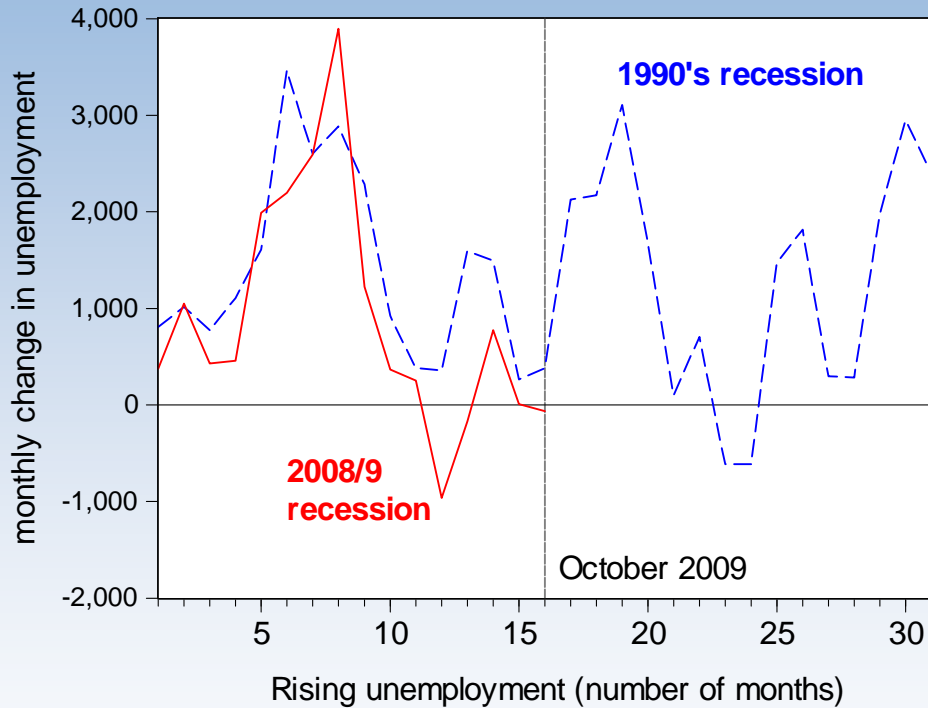
GVA Growth Rates, Forecast 2009-2010



- Production Sector is likely to lead the growth in the UK and SE as demand in developed economies (e.g. Germany) recovers.
- Exports of pharmaceuticals and chemicals will support manufacturing sector growth in Kent.
- Transport, business services, hotels and catering.

Labour market outlook

**Kent - Claimant count unemployment
in the current and the 1990's recession**

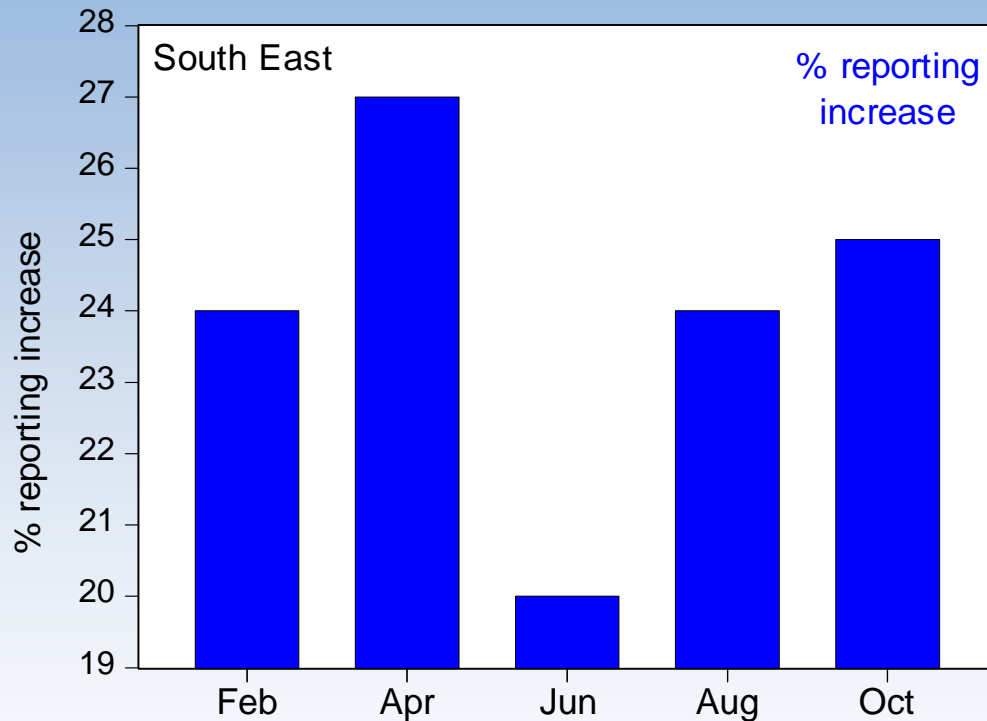


Source: SEEDA 2009 estimates derived from ONS data

- Rise in unemployment but not as much as expected.
- Claimant count unemployment peaked in May 2009?
- A lagging indicator of activity, seasonal factors etc.
- Halfway through if compared to previous recessions.
- Is it going to be different this time?

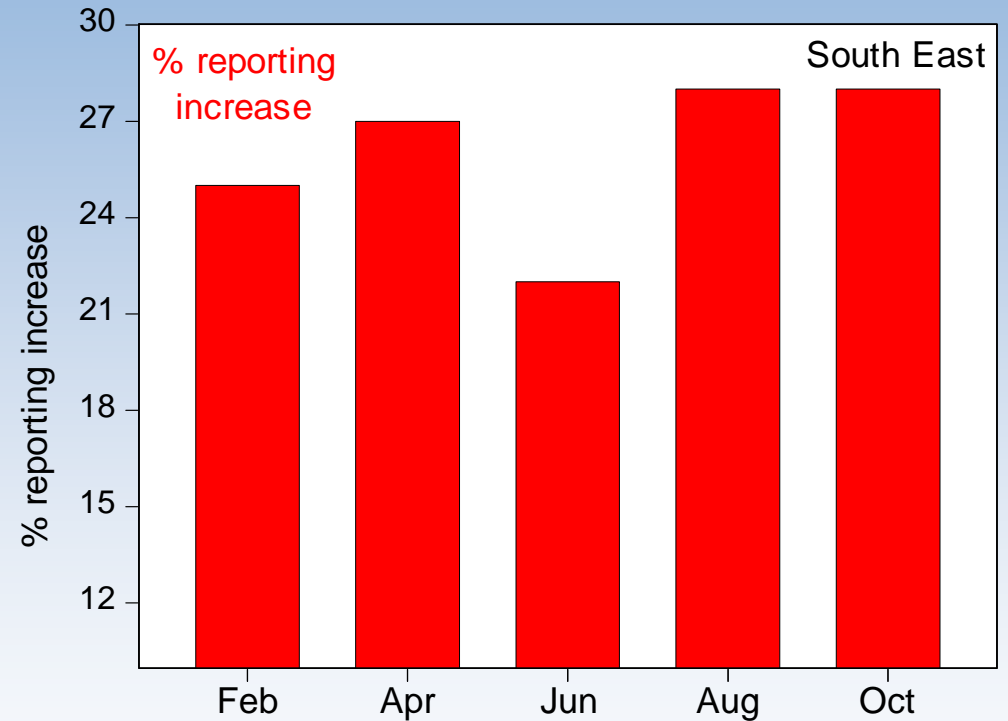
Access to finance still difficult for many SMEs

Have you seen an increase in the overall cost of new credit in the past 2 months?



Source: FSB Snap Poll Surveys 2009

Have you seen an increase in the cost of existing finance in the past 2 months?



Source: FSB Snap Poll Survey 2009

Are we seeing a return to growth?

- The ingredients for a UK upturn in Q4 and in 2010:
 - Record low interest rates
 - The fall in the pound
 - £200bn quantitative easing
 - A return of global growth
- Factors that will hold down growth during the recovery period:
 - Credit conditions
 - Tax increases
 - Public sector cuts
 - Balance sheet adjustment (companies and households)
 - Inflationary pressure (?) and a rise in interest rates

SEEDA Response

- **Enhanced Business Link**
 - Business health checks, access to finance advice, and resource efficiency programme, Train to Gain Service
- **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)

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Thank you

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