

RES Steering Group Meeting

**The South East Economy
Update**

September 2008

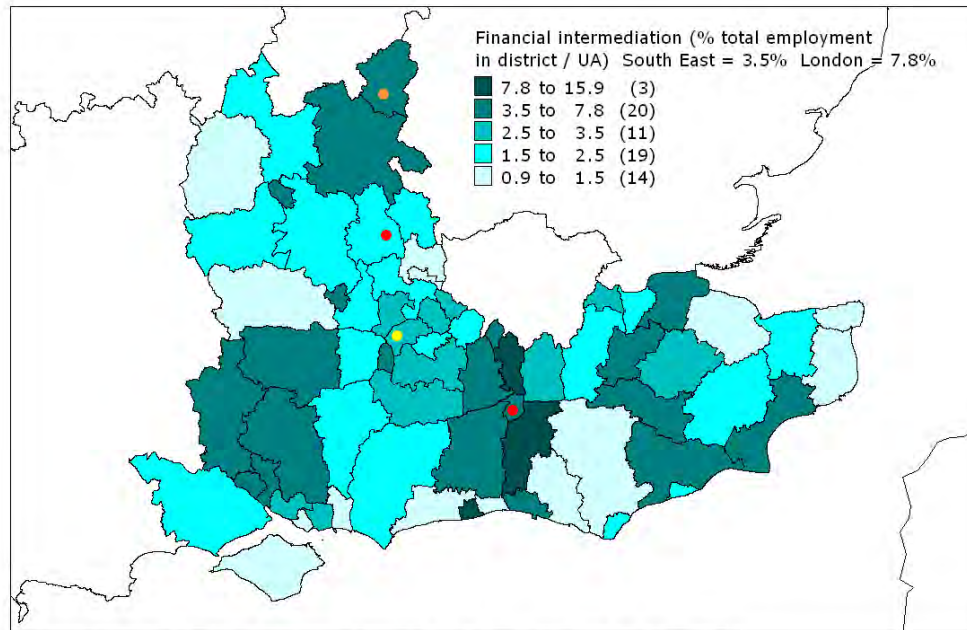
**Ivan Perkovic
Head of Economic Research**

'Credit crunch' gets worse...

- Volume of lending between UK banks declines
- Cost of borrowing goes up in Europe
- **Major turmoil in US financial market:**
- US government 'rescues' largest mortgage lenders
- Large US financial institutions struggle to raise cash:
 - Bear Stearns '**bailed out**' in March 2008
 - **Collapse** of Lehman Brothers
 - Morgan Stanley '**bailed out**'
 - AIG Insurer '**bailed out**' this morning!

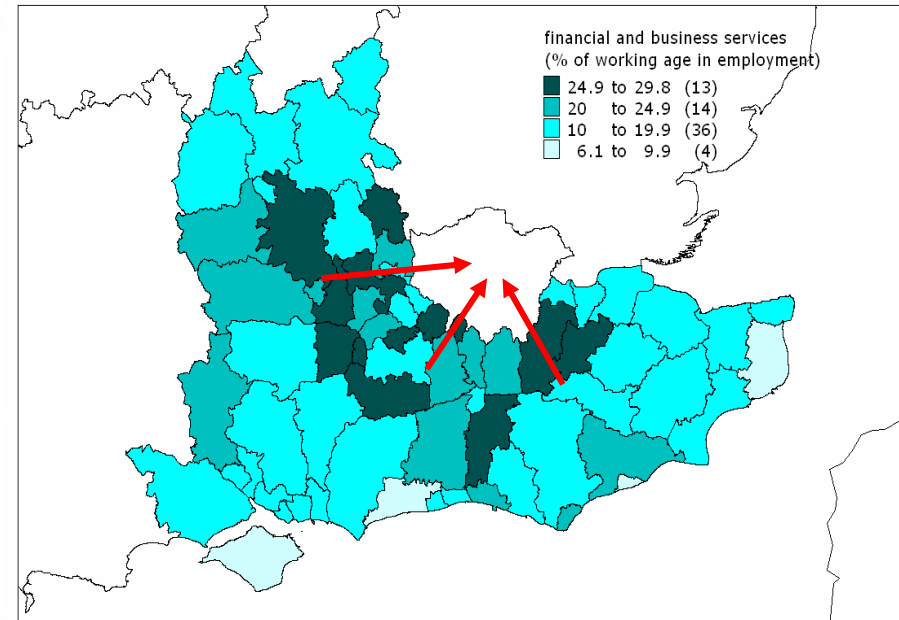
...impacts on Financial Services...

Fig 1A: Financial Services employment as % of total employment in the area, (workplace)



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

Fig 1B: Residents of working age employed in Financial Services, % (residence)



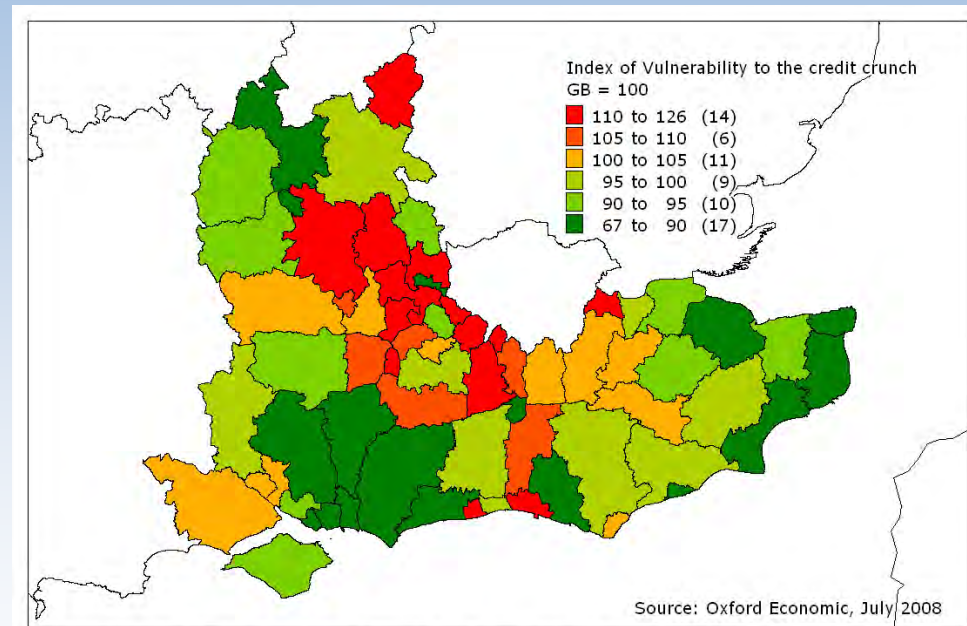
© Crown Copyright Ordnance Survey, 'Boundary Line' 2007. License No. 100029140
Produced by SEEDA © All rights reserved 2008

... impacts on growth prospects in the South East

- Research by Oxford Economics shows:
 - Inner South East most vulnerable
 - Gatwick and Brighton & Hove Diamonds

NB. Index of vulnerability includes some Financial & Business sectors, Air travel, Construction and Consumer related activities

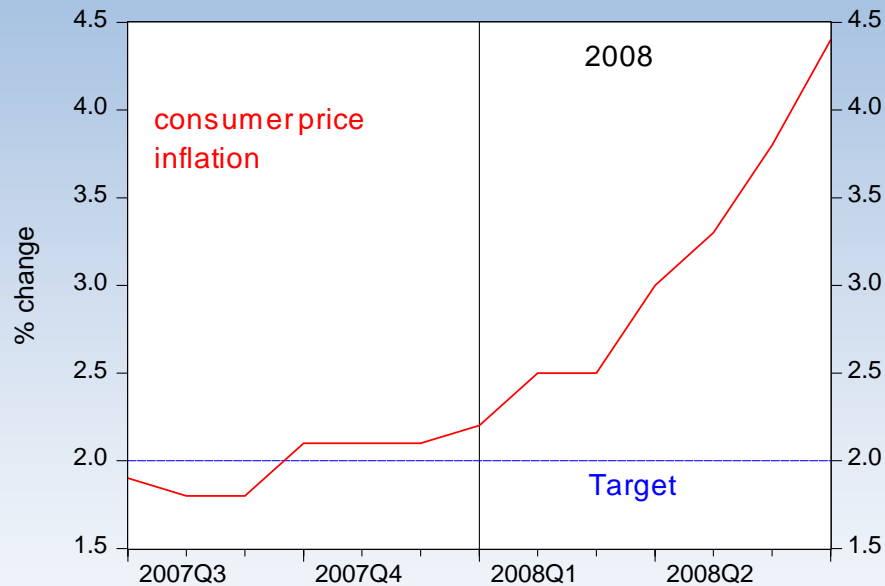
Figure 1C: Who is vulnerable?



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

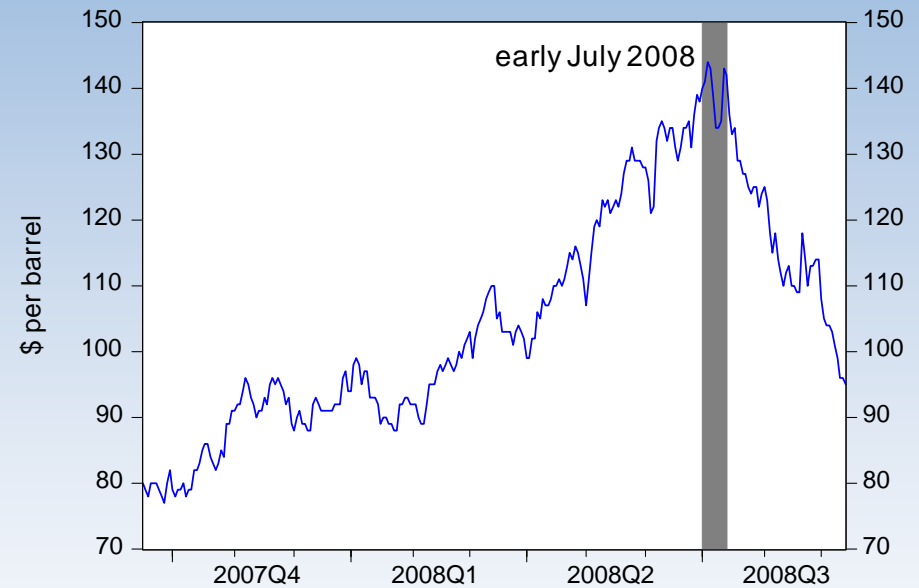
...a sharp increase in UK inflation ...

Figure 2: A sharp increase in UK inflation over the past 12 months ...



Source: National Statistics 2008

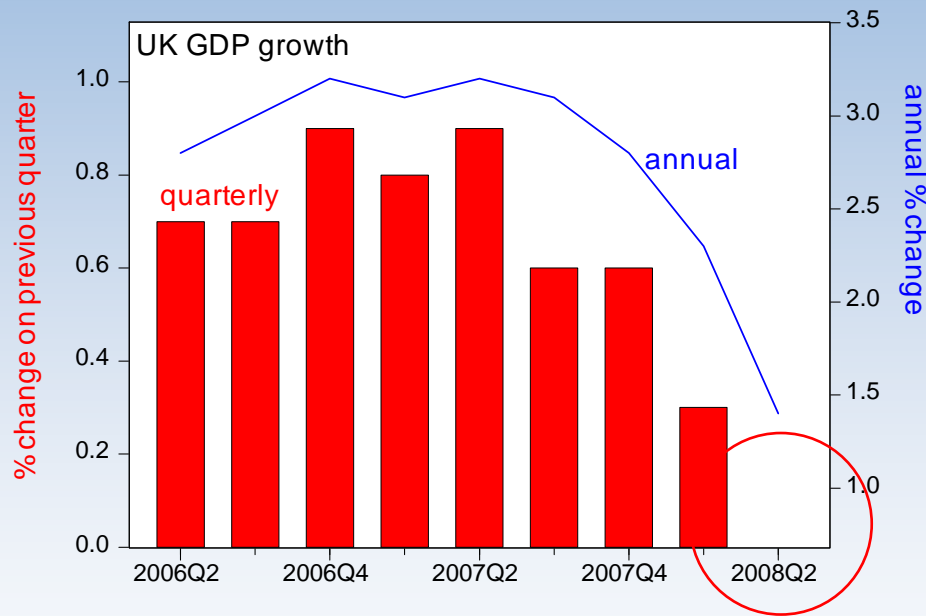
**Figure 3: ...Oil prices decline sharply...
...UK inflation peaks later this year?**



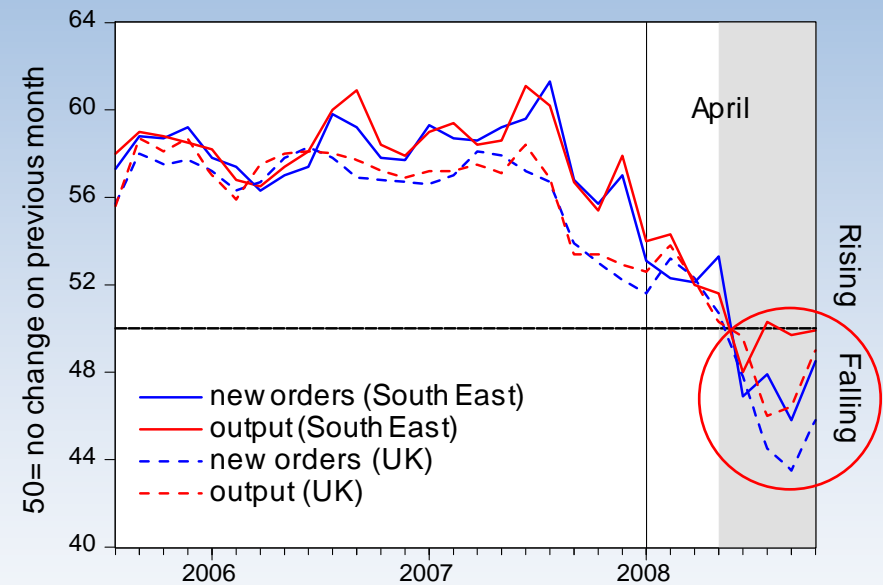
Source: RBS 2008

...led to a sharp slowdown in output growth ...growth prospects decline

Figure 4: UK economic growth comes to a halt in second quarter ...



**Figure 5: Sharp decline in output and level of incoming new business ...
... indicator of things to come?**



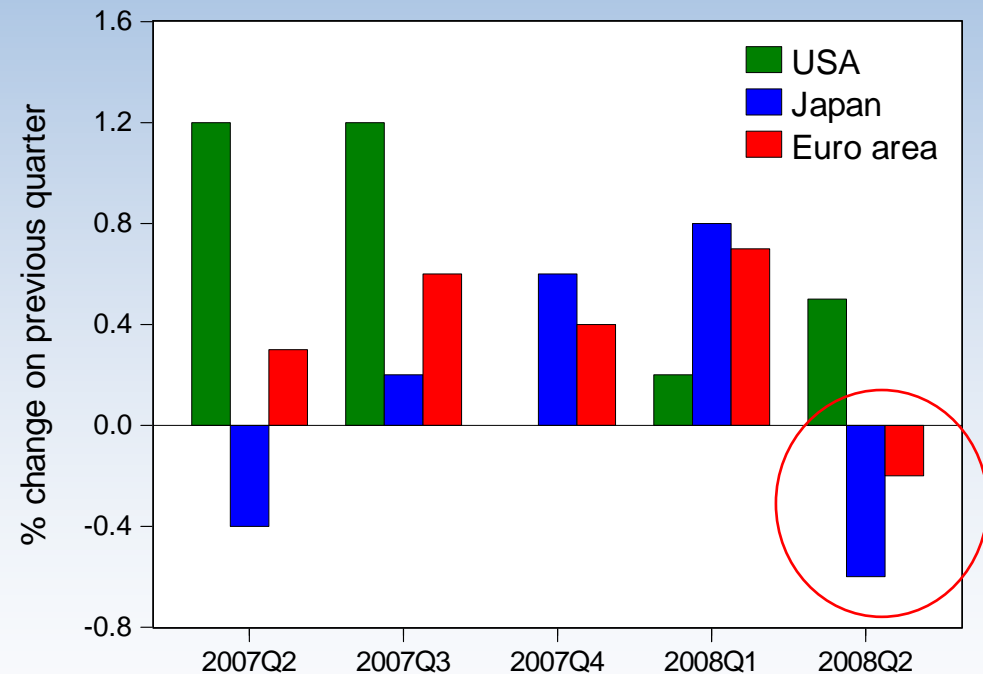
...led to sharp decline in Business Confidence...

- Business confidence – the lowest since early 1990s.
 - Almost 50% SE businesses believe that the climate will deteriorate; 1 in 10 to improve (RDA Business Survey)
- Where will growth come from?
 - External Demand?
 - The South East and UK consumers?

Can external demand (exports) drive growth in the South East?

- GDP in Euro area and Japan contracted in Q2
- OECD forecast flat growth for Eurozone, C&E Europe
- Over 60% of SE exports goes to Europe
- Uncertain growth prospects in US?
- Global recession possible

Figure 6: Recession looming in Europe and Japan ... US growth uncertain?

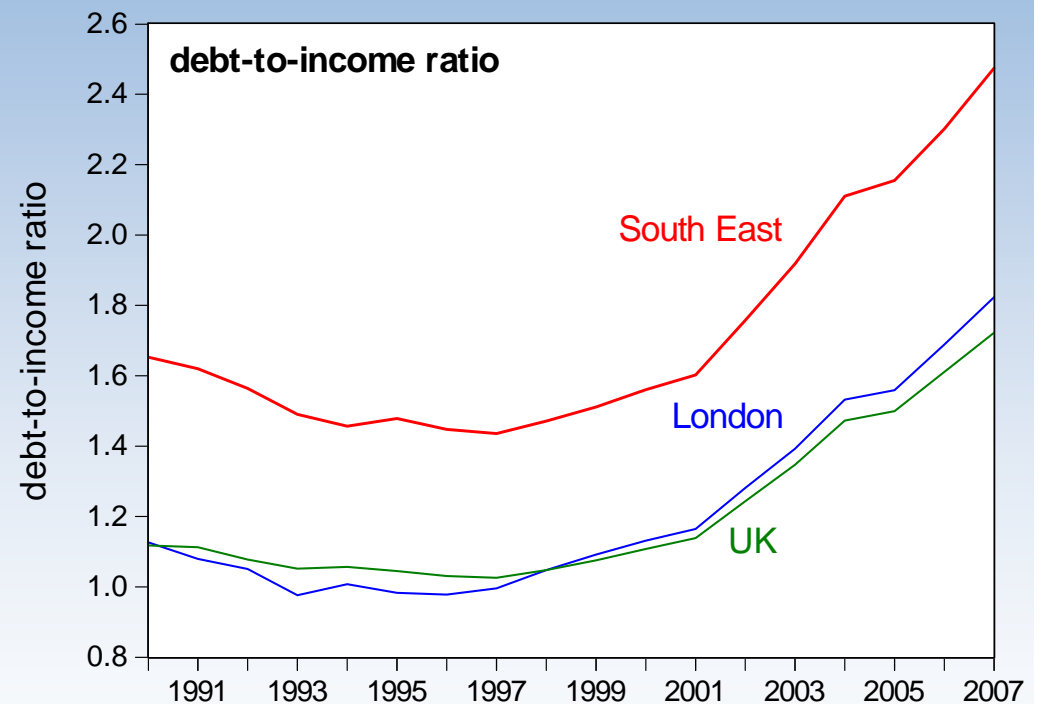


Source: National Statistics 2008

How likely is the consumer-led growth in the South East?

- Higher utility, fuel and food bills
- Access and cost of credit
- Already overstretched households - highest debt-to-income ratio

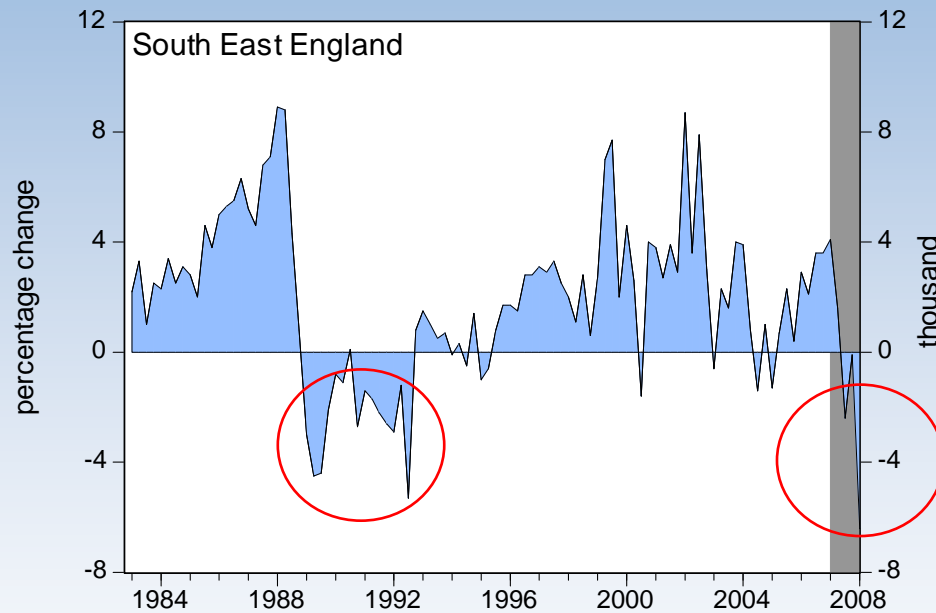
Figure 7: Overstretched households ...



Source: Experian 2008

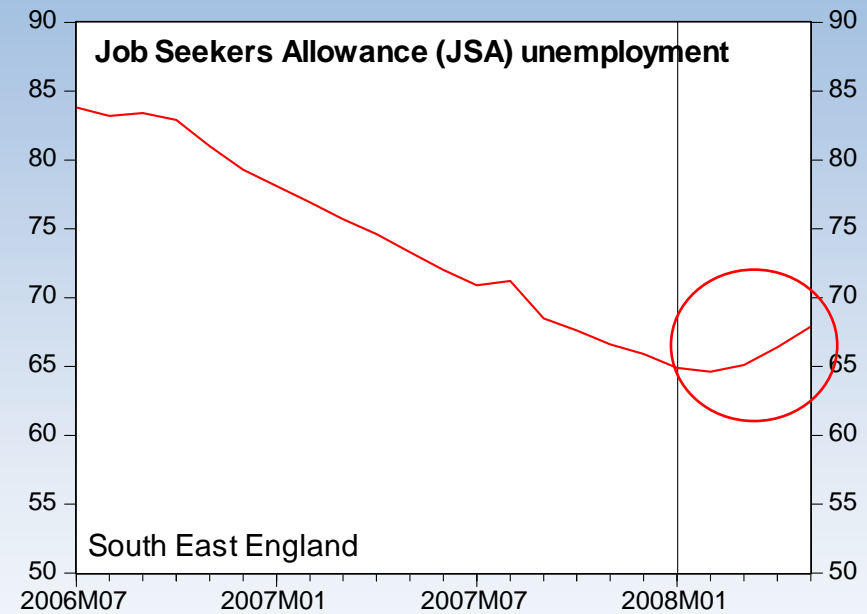
Unlikely! ... Sharp decline in consumer confidence ...

Figure 8: ..Housing market correction is under way...



Source: HBOS 2008

Figure 9: ... and unemployment is rising



Source: National Statistics 2008

“Profound and longer-lasting downturn” ... implications for RES targets?

- Sharp revisions to UK output growth (OECD), major forecasting houses.
- *From 2010 UK economic performance revives gradually* (Experian).
- Bank of England expects *flat growth over the next 12 months* (Inflation Report, August 2008).
- *“The downturn ...more profound and long-lasting”* (The Chancellor).
- Growth in the South East well below trend in 2008, 2009 and likely in 2010.
 - Even if the downturn is shallow and longer-lasting that’s a problem.
 - Implications for a number of RES targets?

Thank You!

RES Steering Group Meeting

**RES Annual Monitoring Report
2008: Update**

September 2008

Barbara Hammond
Strategy Director

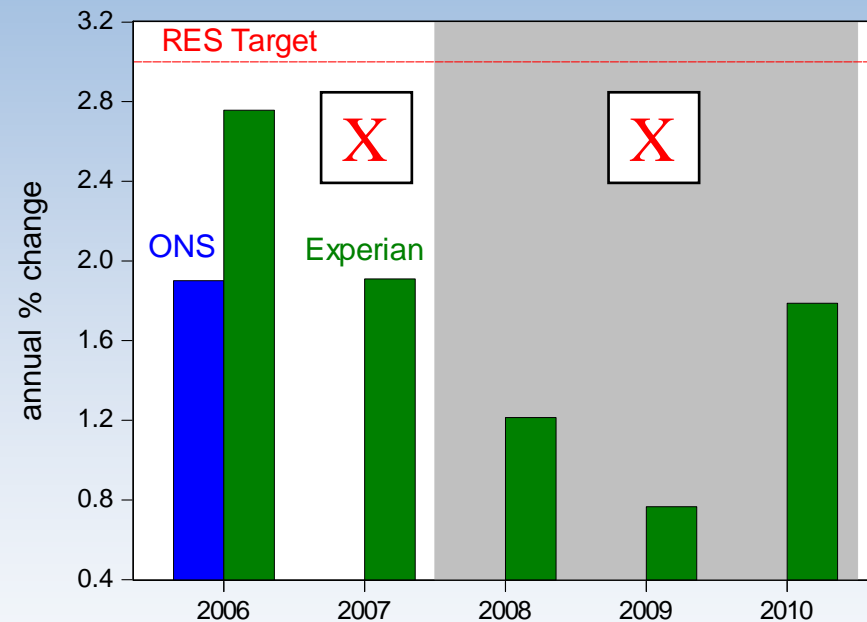
RES AMR – Progress to date

- Second AMR – first establishing the baseline.
- Timely monitoring impossible for most targets
- Data lags (12-24 months or more)
 - Doesn't reflect the latest state of the economy.
- A significant shift in global economy taking place
 - Need to look at current/future state of the economy what lies ahead

Headline GVA per head growth rate

- In 2006 growth close to RES target, ...slower growth last year?
- The credit crunch, high inflation and UK and global slowdown ...
- ... lead to a rate of growth well below the trend in 2008, 2009 ...
- After 2009, growth rate well above the trend will be required!

Figure 11: GVA per head growth below the target ...
... growth rate expected to slow down sharply

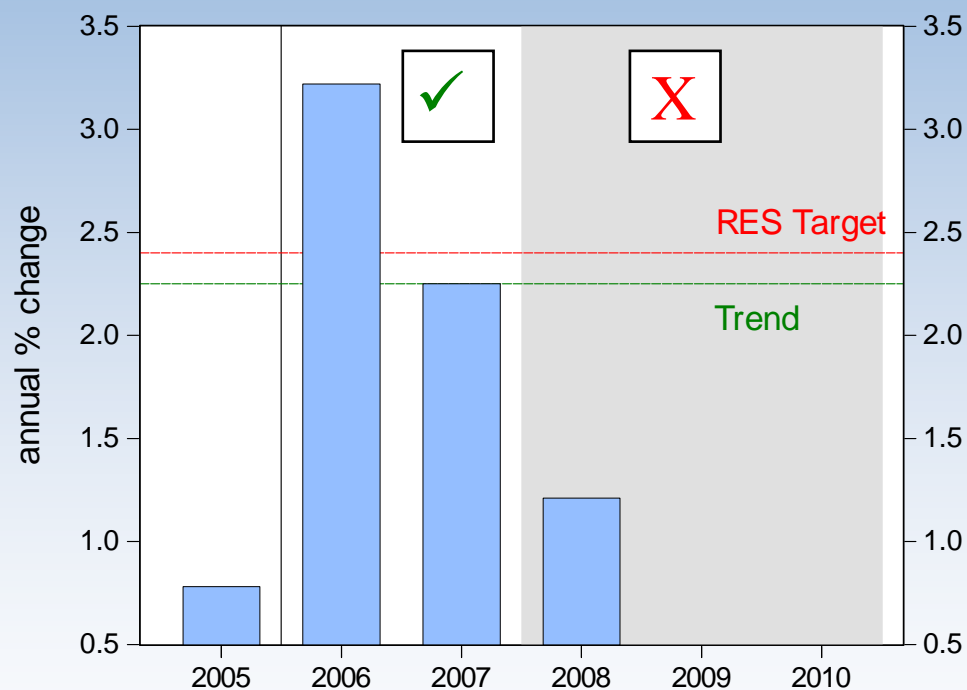


Source: National Statistics and Experian 2008

Headline productivity per employee growth rate

- Strong growth in 2006
...trend rate of growth in 2007
- Sharp slowdown in output leads to a large decline in 2008.
- The credit crunch, inflation...impact on business investment (capital, skills) ...further slowdown in productivity

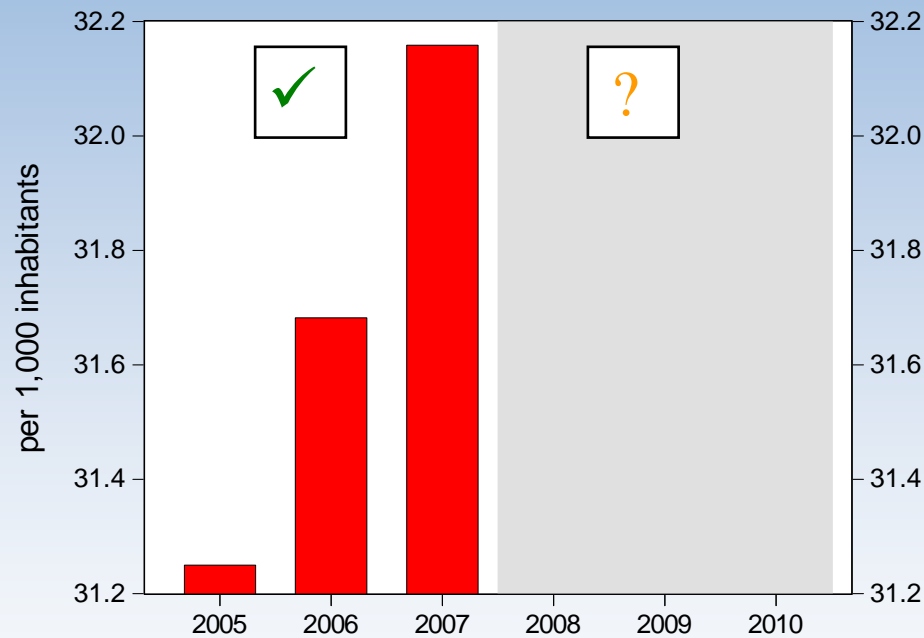
Figure 12: Productivity growth slows down sharply



Source: Experian 2008

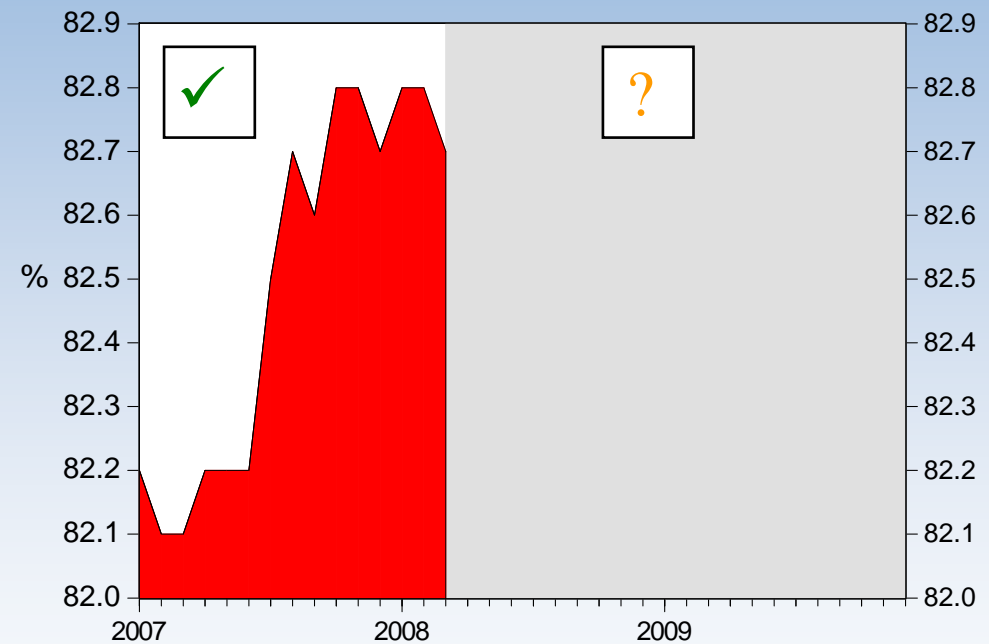
Enterprise and Economic Activity

Figure 3: VAT registered businesses strong growth last year....?



Source: BERR 2008

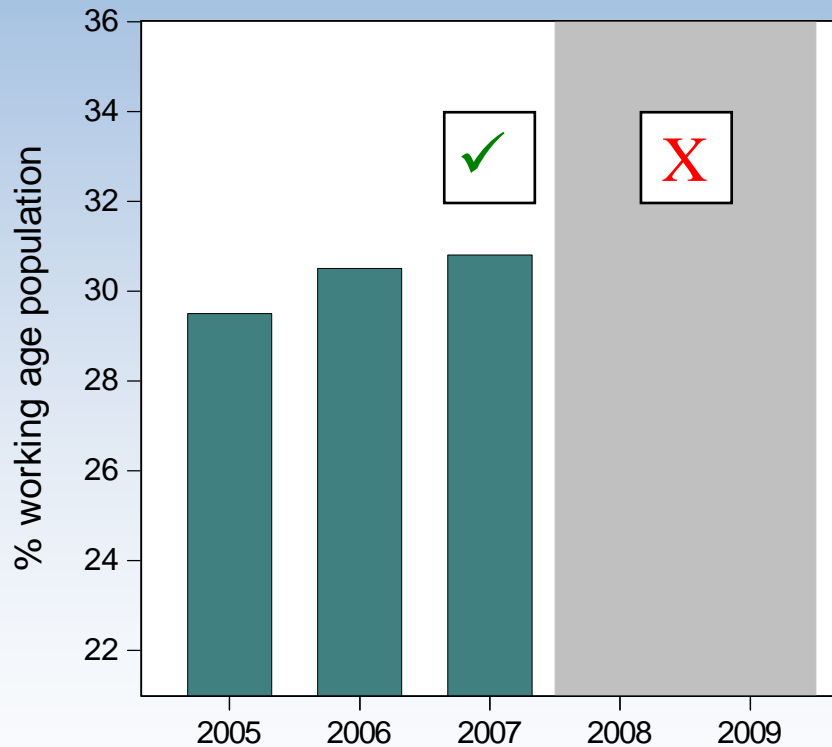
Figure 4: Economic activity rate is higher than a year ago...



Source: National Statistics 2008

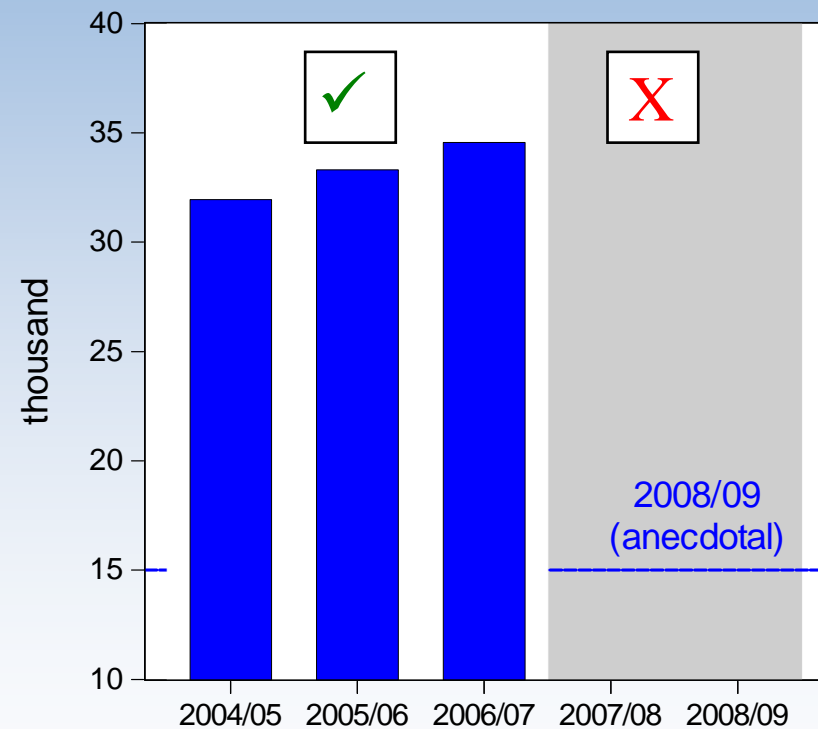
Skills and Housing

Figure 5: Working age population with NVQ4+ ...slow growth last year



Source: National Statistics 2008

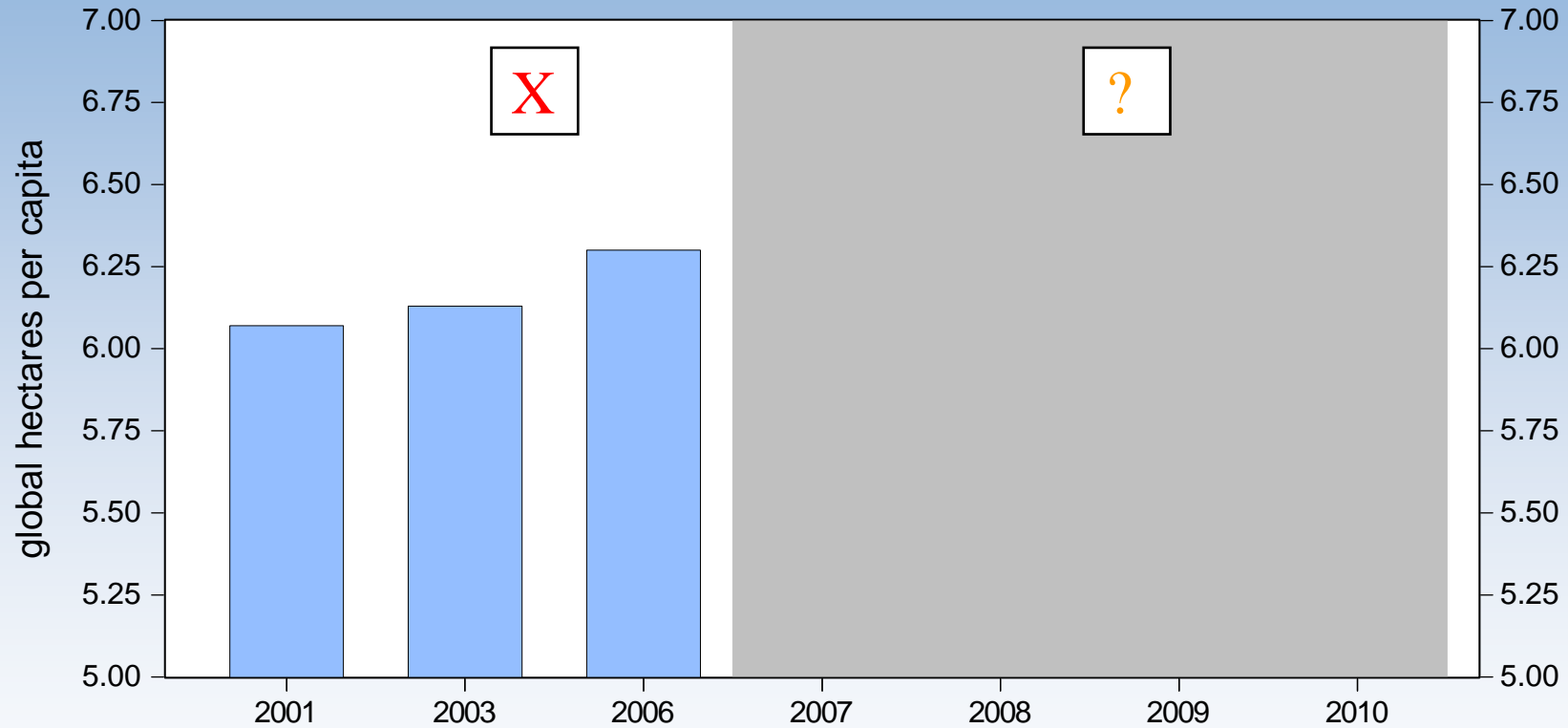
Figure 6: Housing completions ... sharp slowdown in 2008/09



Source: South East Regional Assembly 2008

Headline Ecological Footprint Target

Figure 7: Ecological Footprint



Source: SEI 2008 and WWF UK (for 2006)

- A significant shift in global and UK economy is taking place
 - Credit crunch, inflation, confidence
- Future economic environment less favourable than in the past
- Impact on growth rates and several RES targets
 - Are we at a turning point?
 - What is it we need to do?