

Summary of economic conditions

- The latest ONS estimates suggest that **UK GDP decreased by 0.6 per cent in the fourth quarter of 2010**, revised down from a provisional estimate in January of a decrease of 0.5 per cent.
- Preliminary results from SEEDA's latest South East Business Snapshot Survey, conducted in February, show that **more businesses (36%) report worsening overall business conditions over the last three months than improvement (22%)**, whilst 42% of businesses report stable performance.
- The latest South East Purchasing Managers Index survey (PMI), however, shows that private sector output and new orders in the South East in January increased markedly from December's marginal pace to its highest since last June. **Manufacturing continued to drive growth**, as service sector activity remained modest.
- **Business confidence in the South East has improved in Q1 2011**, according to the latest ICAEW/Grant Thornton UK Business Confidence Monitor (BCM). The index increased from 2.3 in Q4 2010 to 10.2 in Q1 2011 in is now slightly above the UK as a whole (9.6).
- **Consumer confidence in the South East remains low, according to the latest GfK Consumer confidence Barometer**. The index was -24 in February (no change on the previous month), which is 10 points lower than at the same time last year. The average index for the UK was -28.
- In the three months to December, unemployment (on the broader Labour Force Survey measure) in the South East dropped by 5,000, to 273,000. The (seasonally adjusted) claimant count unemployment was 130,200 in January, 1,000 lower than in December.
- According to the ONS, the **number of people in employment declined by 4,000 in the three months to December**, to 4.18 m.
- However, **private sector employment in the South East in January rose to its highest level since last June**, according to the latest PMI employment index. **Services jobs continued to decline in January**.

Key challenges and hotspots

- **Inflationary pressures continued in January**. According to the latest South East PMI, both input and output prices rose at the fastest rate since August 2008, and inflation in both cases remained greater than the historic survey averages.
- **Transport, raw material and energy have placed the most upward pressure on business costs** in the last three months, according our latest South East Business Snapshot Survey. However, the majority (59%) has not passed on the increase in costs to customers in the last three months.
- Activity in the **housing market remained subdued, and prices continued to fall in January**. According to the latest RICS commercial property market survey, overall **demand for commercial property in the South East in the last quarter of 2010 dropped** to a net balance of -6 (from +6). However, 6% more surveyors in the South East expecting new sales and lettings to increase rather than decrease in the next three months.
- According to the Bank of England's January Trends in Lending report, **access to bank finance remains tight, especially for small firms**. Our latest Business Snapshot Survey shows that the majority (61%) of companies who sought new finance report worsening conditions in accessing new lines of finance in the last three months.
- However, **demand for finance remains muted**. According to the South East Business Snapshot Survey, only 14% of businesses were actually seeking new finance, of which 40% were unsuccessful.

Business specific intelligence / information on key questions

- **Export growth continued to strengthen in Q1 2011**. Helped by stronger world demand and past declines in sterling, businesses in the UK report exports to have grown by 4% over the last year, representing the highest annual growth rate since Q4 2008, according to the latest ICAEW/Grant Thornton BCM. Exports are expected to continue to grow, by 4.6% over the next 12 months. However, volatility in currency rates continue to be problematic for long term pricing and yield forecasts, according to Kent Economic Board.
- In the South East **6,878 new businesses started up in January 2011, 2,200 more than the previous month**, and 24% more than in January 2010, according to BankSearch.
- Overall **business investment has remained flat in the last three months**, according to the latest South East Business Snapshot Survey. However, according to the Bank of England Agent's summary, investment intentions in the UK had risen again in January.
- After the tough trading conditions in December, members of Kent Economic Board report slow January trading, probably a combination of low consumer confidence and potentially the impact of VAT rise.

Annex - Sectoral Overview - February 2010

Manufacturing

According to the revised preliminary estimate from the ONS, manufacturing output increased by 1.1% in Q4 2010, the same level as reported in the previous quarter.

The picture across the manufacturing sector is generally positive as output strengthened. According to the latest CBI Industrial Trends Survey from January 2011, growth was mainly attributed to improving domestic and export orders in the three months to January. This trend was replicated across smaller manufacturers, with increasing domestic demand for UK-made goods resulting in an increase in production over the same period to January (CBI SME Trends Survey January 2011). However, the latest Bank of England Agents' Summary of Market Conditions (February 2011) reports that manufacturing firms are still facing pricing pressures due to a rise in the cost of raw materials.

Growth looks set to continue over the next quarter with manufacturing firms predicting rises in orders and production and consequently, many manufacturers predict staffing levels to increase in the next three months (CBI Monthly Trends Enquiry February 2011, CBI Industrial Trends Survey January 2011, CBI SME Trends Survey January 2011).

The positive reports from the wide sector are not reflected in the regional business specific intelligence which suggests that some South East firms are struggling with the increase in costs. Printing businesses in Kent have seen the cost of paper rise 20% over the last quarter which is pushing potential customers into a greater use of digital media.

Reports of potential job losses across the region include 200 employees in Frimley due to the potential closure of SC Johnson's cleaning products factory. Griffon Hoverwork is transferring its hovercraft manufacturing to Woolston which will result in the loss of 20 jobs on the Isle of Wight.

Construction

Output in construction fell by 2.5% (revised from a decrease of 3.3%) in Q4 2010 according to the latest revised GDP figures from the ONS. This is compared to an increase of 3.9% in Q3 2010.

The latest RICS UK Construction Market Survey (Q4 2010) reports that although there is a decline in activity in the construction sector nationally, London and the South East reported a positive workload net balance for Q4 2010. Nationally, the net balance in the private sector increased marginally (+9) but the public sector workload net balance remains negative (-20). The outlook for workload, employment and profit margins over the next 12 months remains negative. Many firms in the South East cite a lack of government expenditure, decreasing margins and increasing competition as pressures on their business.

Some firms expect output to recover after a disruption in activity due to the severe weather. Another impact of the bad weather has been an increase in repair and maintenance work reported by some companies (Bank of England Agents' Summary of Business Conditions February 2011).

Renewable energy projects continue to feature in the South East, according to business specific intelligence with Helius Energy planning a £300m biomass plant in Southampton and permission being sought by Alectron Investments for a solar energy farm near Basingstoke.

There is some evidence that the impact of government spending cuts is being felt across the region, with the loss of 300 jobs at WS Atkins in Epsom being blamed on the lack of road spending.

Retail, motor trade & wholesale

The retail sector reported moderate growth over the past month (Bank of England Agents' Summary of Business Conditions February 2011). The growth was slower than in December and retailers expect it to continue to slow. However, sales remained above the average for the time of the year (CBI Distributive Trades Survey February 2011).

The motor trade continues to be volatile according to the February CBI Distributive Trades Survey as sales volumes fell more than expected and at the fastest rate since July 2009 in the year to January. Sales in the motor industry are predicted to continue falling in the coming month.

Regional Intelligence Snapshot for the South East (cont'd)

The latest (February 2011) GfK NOP Consumer Confidence Barometer highlights a lack of spending on large items such as furniture and electrical goods as 49% of those surveyed state that it is the 'wrong time' to buy and 28% expect to spend 'much less' on large items over the next 12 months.

Modest growth in the sector is corroborated by companies looking to expand in the region. Natures Way Foods are planning a new packhouse in Chichester with the creation of up to 380 jobs.

Major retailers continue to expand operations in the region. Tescos are opening stores in Sittingbourne and Bowater. Sainsburys are also set to expand, with stores planned in Thanet, Hythe, Milton Keynes and Brighton and Hove. Morrisons, Waitrose, Asda and the Co-operative are also planning new stores in the region.

WH Smith is to take over 22 branches of British Bookshops and Stationers, the Brighton based retailer that went into administration last month.

Business services & finance

The revised preliminary GDP estimate from the ONS shows a decline in business and financial services of 0.7% in Q4 2010.

The outlook in the service sector is negative according to the November CBI Service Sector Survey as optimism in the service sector fell. Consumer services reported an unexpected drop in business volumes and a marginal fall in the numbers employed, with employers predicting a further fall in the coming quarter. Growth in business and professional services remained level and the number of people employed in this sector rose slightly, with the trend predicted to continue over the next quarter.

Companies are experiencing pressure on their profit margins as many witness a fall in income from trading, interest and investments according to the CBI / PricewaterhouseCoopers Financial Services Survey (December 2010). There is also a squeeze on fees for professional and financial services (Bank of England Agents' Summary of Business Conditions February 2011).

Zurich Intermediary Services is planning to shed 120 jobs nationally with the closure of branches including Reigate.

Firms expanding in the region include Saga which is increasing its healthcare operations in Folkestone, Hythe and Thanet, creating up to 1,000 jobs over the next year.

Jefferson Hunt is creating a new headquarters in Kent of its CV screening business and it will create 20 new jobs.

Tourism

The output of the distribution, hotels and restaurants industries decreased by 0.4 per cent in 2010 quarter four, compared with an increase of 0.8 per cent in 2010 quarter three.

There is evidence that tourism sector in the South East is also struggling in the current climate with Tourism South East reporting a drop of 4.4% in the number of foreign visitors staying overnight in the South East between July and September 2010. In comparison, the international business travel market is showing strong recovery with a 6.5% increase in volume of trips and 28.8% increase in expenditure on the same period last year.

Despite the current climate, a number of hotels and leisure facilities are either undergoing refurbishment or being planned in the region, including Travelodge in Kent, the Grand Burstin Hotel in Folkestone and the Dover Marina Hotel.

Redundancy notifications¹

The HR1² data received from BIS is no longer verified by the Continuing Employment Support Service (CESS). Brokers from CESS excluded any notifications which related to redundancies outside the South East or were simply renewals of contract rather than job losses. Therefore the data may now include national figures and those notified as a result of contract changes.

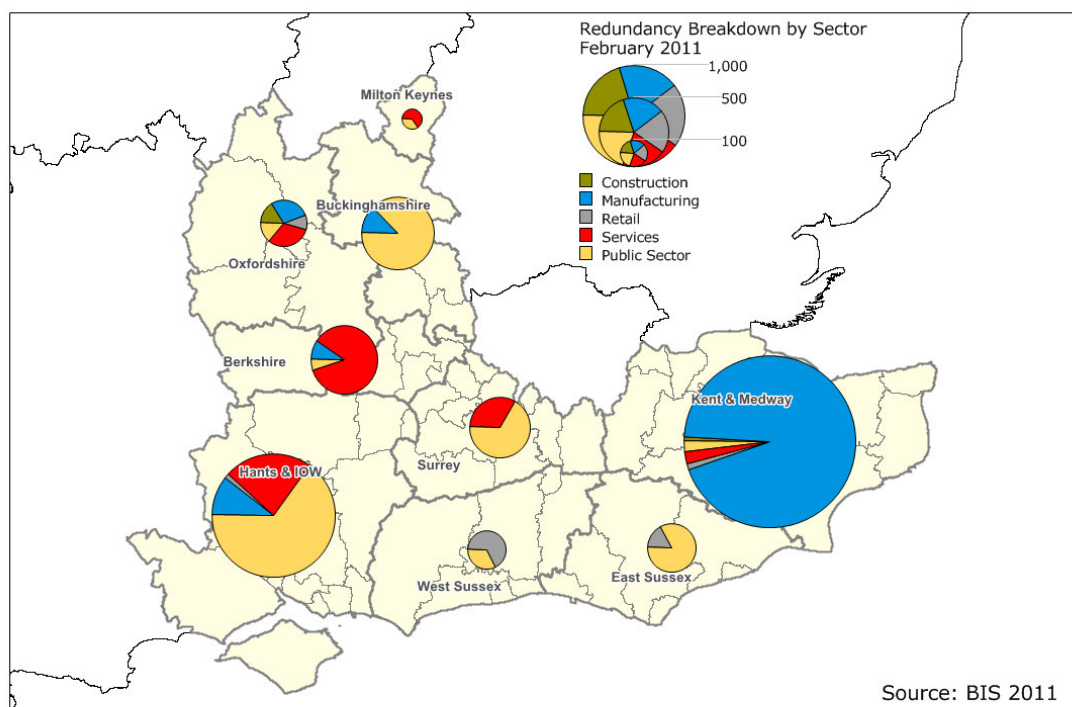
The number of potential redundancies reported to BIS in February was 6,058. This is a significant increase on the 2,688 reported in January. The figure for February does include the staff placed at risk of redundancy due to the closure of Pfizer's research facility in Kent which employs 2,400 people.³

The service sector (including the public sector) accounted for over half of all potential redundancies in February; whilst manufacturing accounted for a further 44%, retail 4% and construction 1%.

Although the manufacturing sector saw a significant rise in the number of notifications this month, the majority were due to the closure of the Pfizer site in Kent. The number of HR1 notifications for the public sector increased significantly from the figure reported in January but was on a similar level to the last two months of 2010.

All sub-regions had employees at risk of redundancy in the public sector, with Hampshire and the Isle of Wight accounted for the greater proportion. Only Surrey and Berkshire saw a decrease in the number of notifications in January. The number of potential redundancies in Kent and Medway increased significantly due to 2,400 employees affected by the closure of Pfizer. Hampshire and the Isle of Wight also saw a large increase with the majority of notifications in the service and public sectors. The share of redundancies attributed to Kent and Medway in February was 41%; Hampshire and Isle of Wight 23%; Buckinghamshire 9%; Berkshire 8%, Surrey 6%; Oxfordshire 4%; East Sussex 4%; West Sussex 3% and Milton Keynes 1%.

Redundancy notifications by sub-region, volume and sector February 2011⁴ (Source: HR1 data via BIS)



Source: BIS 2011

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¹ Please note that 'February' data refers to a one-month period from 20/01/2011 to 19/02/2011.
² Note that this data only captures redundancies of more than 20 employees; some of the job losses are not scheduled to take place until later in 2011/2012; and in some cases the redundancies are happening in another region but are registered in the South East because it is home to the company's headquarters.
³ <http://www.bbc.co.uk/news/business-12335801>
⁴ Please note: 'February' data refers to a one-month period from 20/01/2011 to 19/02/2011.