



## South East Business Development Advisory Group

# South East Economy Update & Public sector redundancies: potential impact on the South East

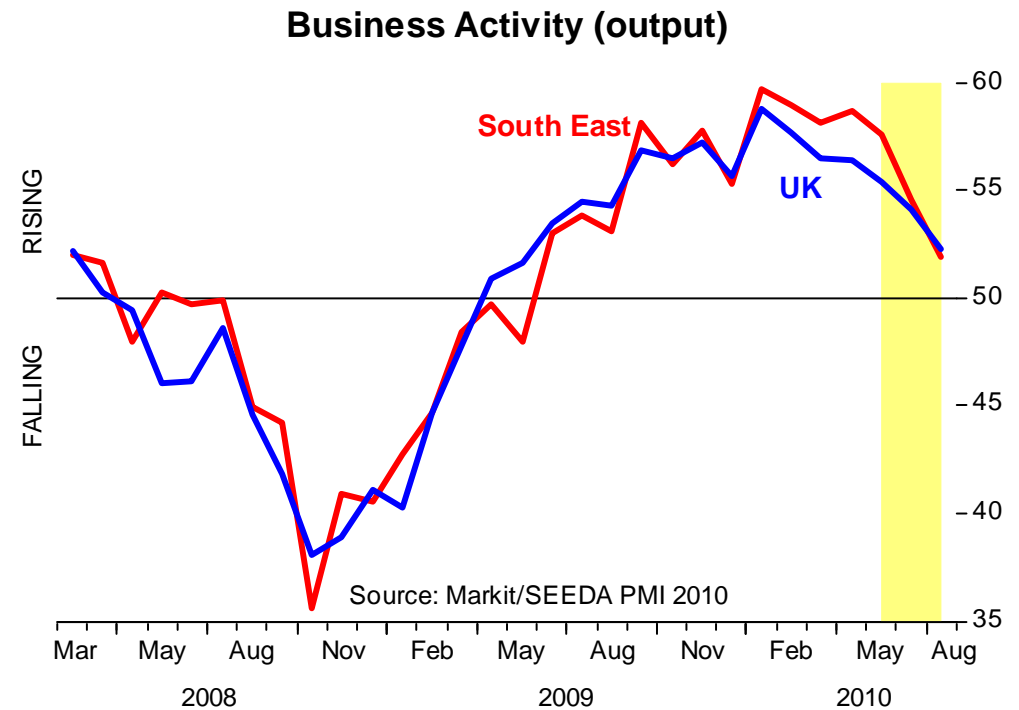
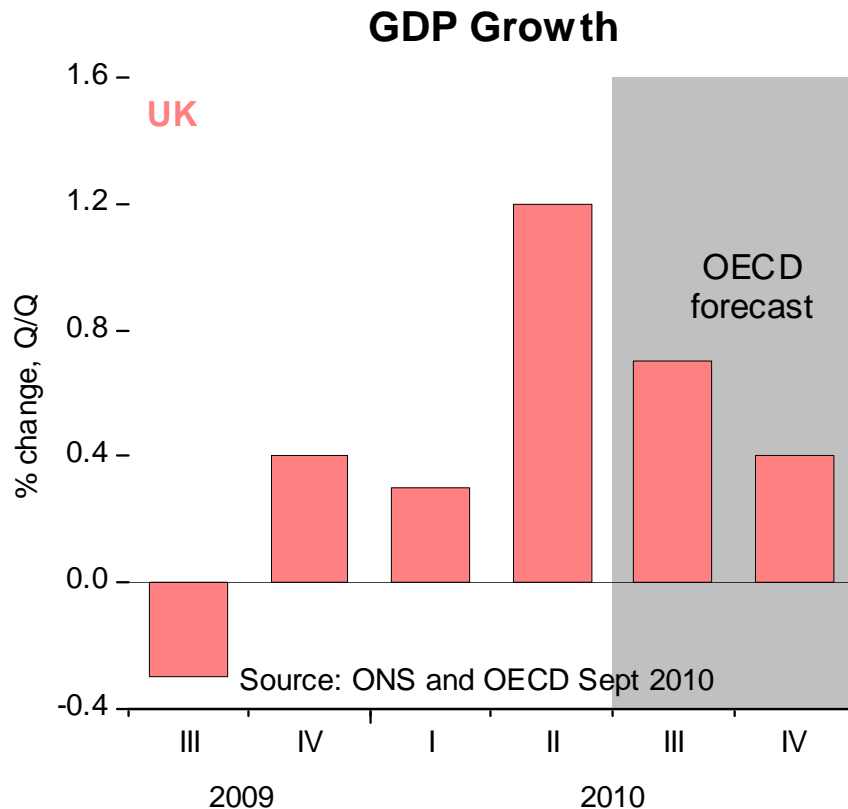
September 2010

Ivan Perkovic  
Head of Economic Research

# Overview

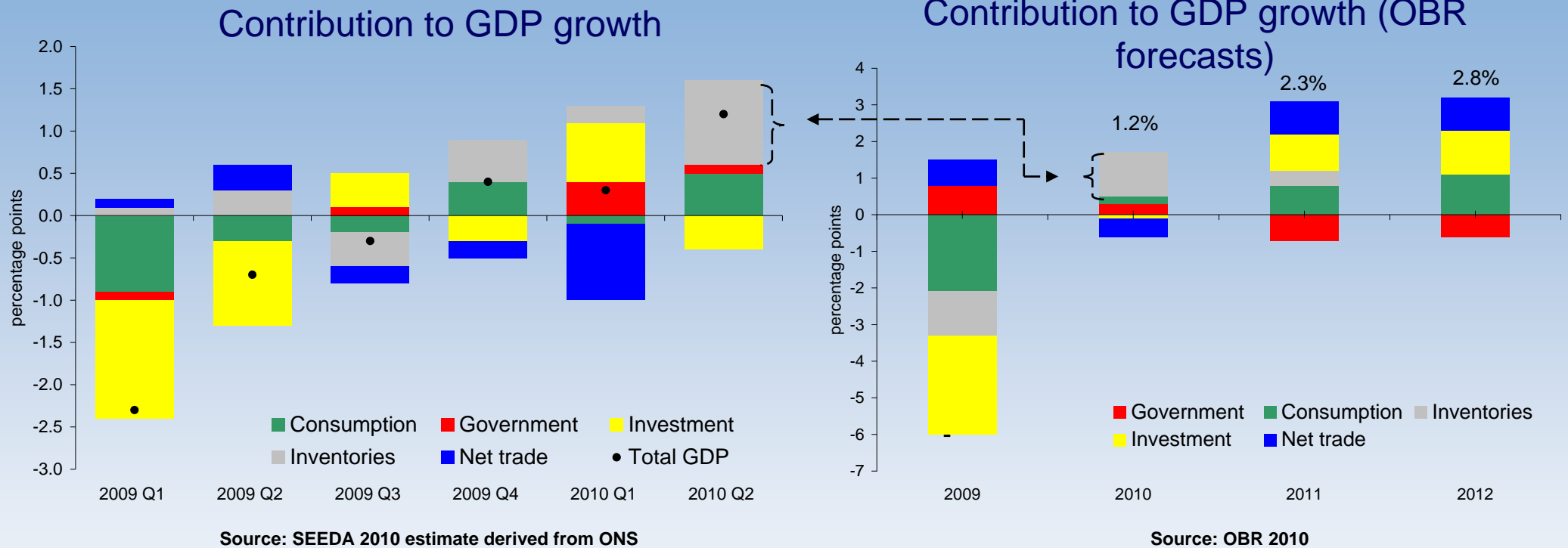
- Economy Update
  - Output growth
  - Business activity and new orders
  - Labour market
  - Business and consumer confidence
  - Availability of credit
  - Prices and interest rate
- Impact of public sector redundancies on the South East economy
  - Employment
  - GVA
  - Resilience to economic shocks

# Strong GDP growth in Q2 but activity slowing



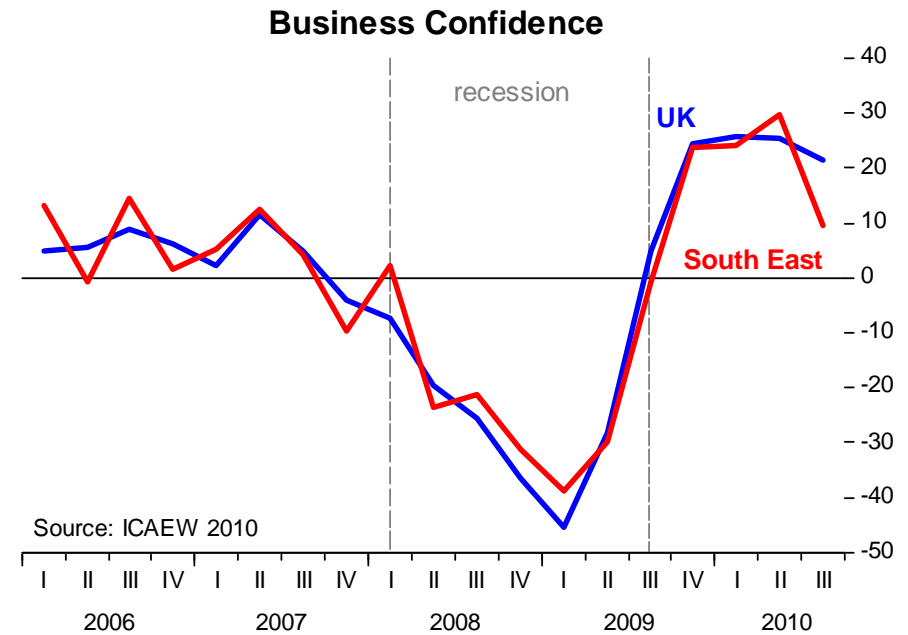
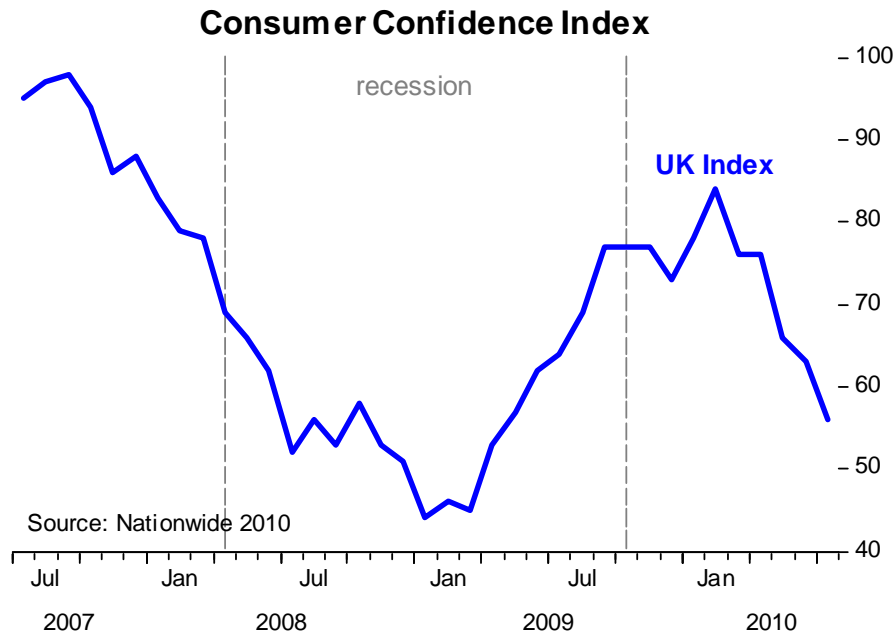
- In Q2 GDP grew by 1.2% q/q
- Strong growth in Production, Services and Construction
- The pace of growth will ease in the second half of 2010
- Weakening growth in activity and new orders

# Re-stocking rather than capital investment drives GDP growth



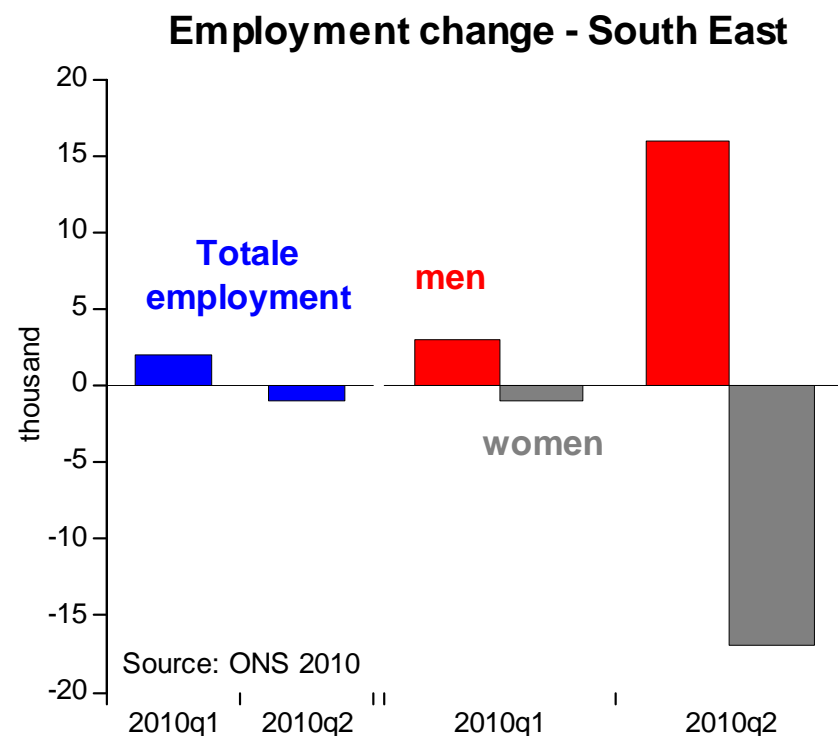
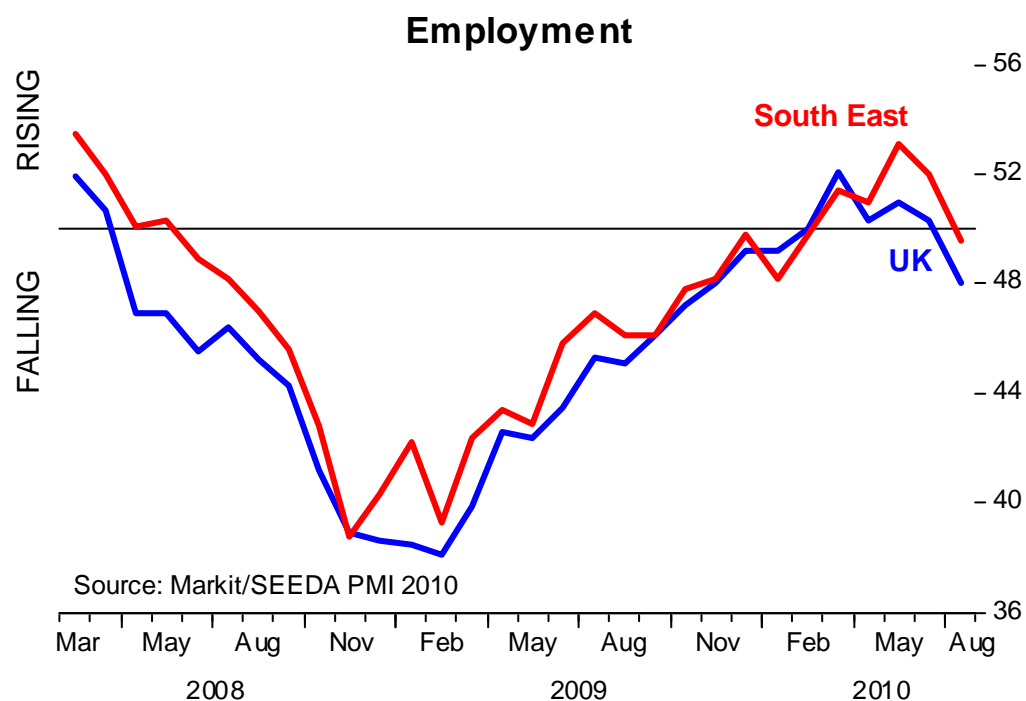
- Inventories (firms rebuilding stock) drive growth in Q2
- Fall in capital investment and no contribution to growth from net trade in Q2
- Performance so far in line with the OBR forecast for 2010
- Recovery in business investment and net trade is needed in 2011 and beyond

# Falling Consumer and Business Confidence



- Consumer confidence has now seen three consecutive months of decline
- Falling house prices
- Business confidence weakens significantly in the South East
- Manufacturing and transport and storage more upbeat about the outlook.

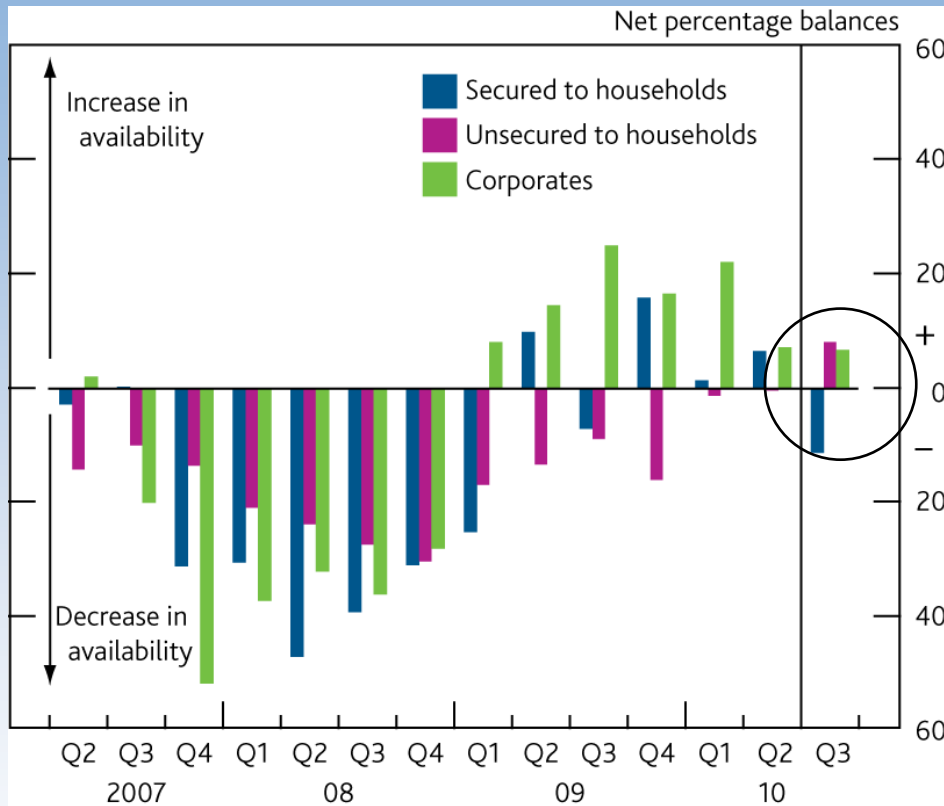
# Employment growth remains weak



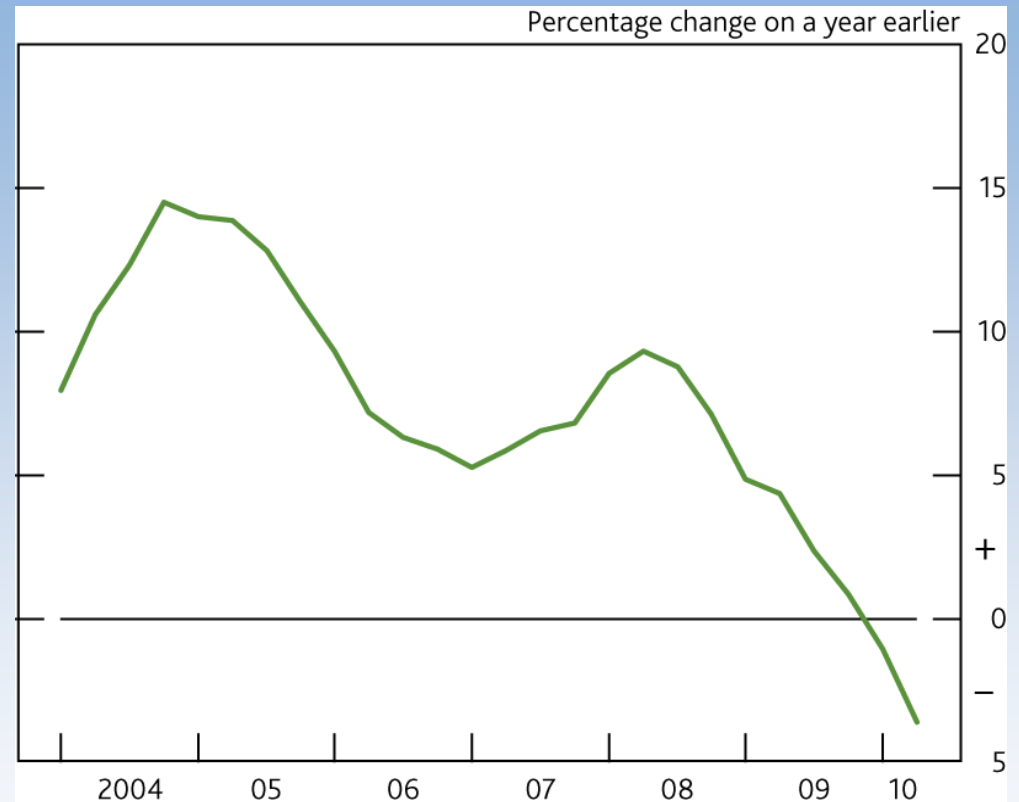
- Marginal decline in private sector employment in August in the South East (PMI)
- Broadly in line with ONS data for Q2
- In Q2 UK employment rose at the fastest rate since 1989
- Unemployment continues to fall?

# Availability of credit

## Credit Conditions Survey

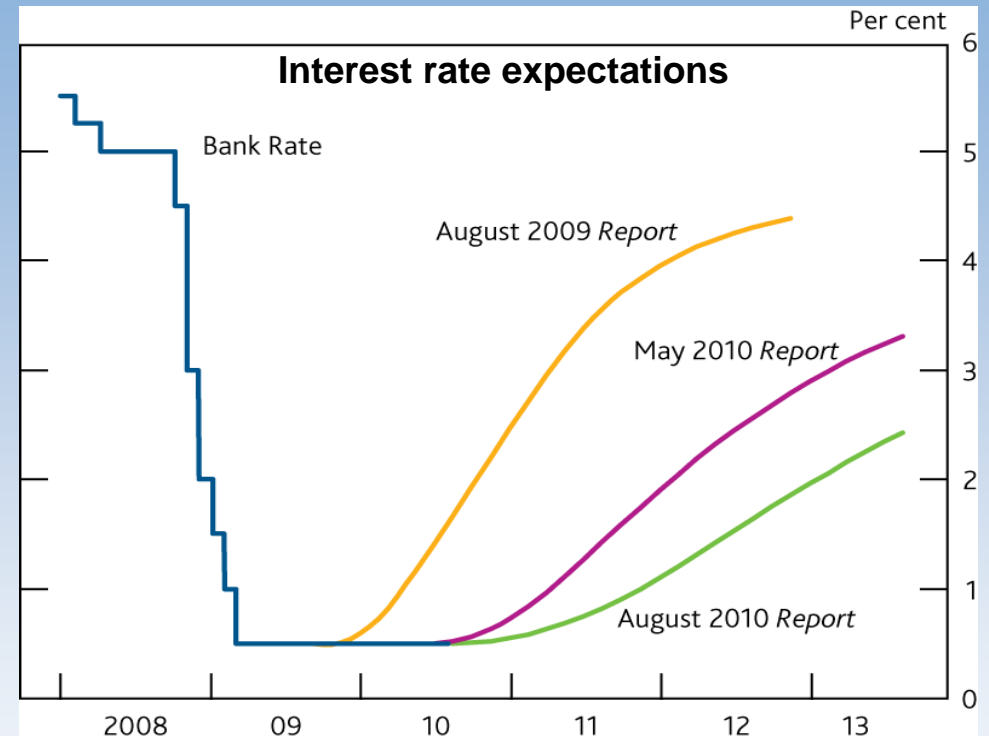
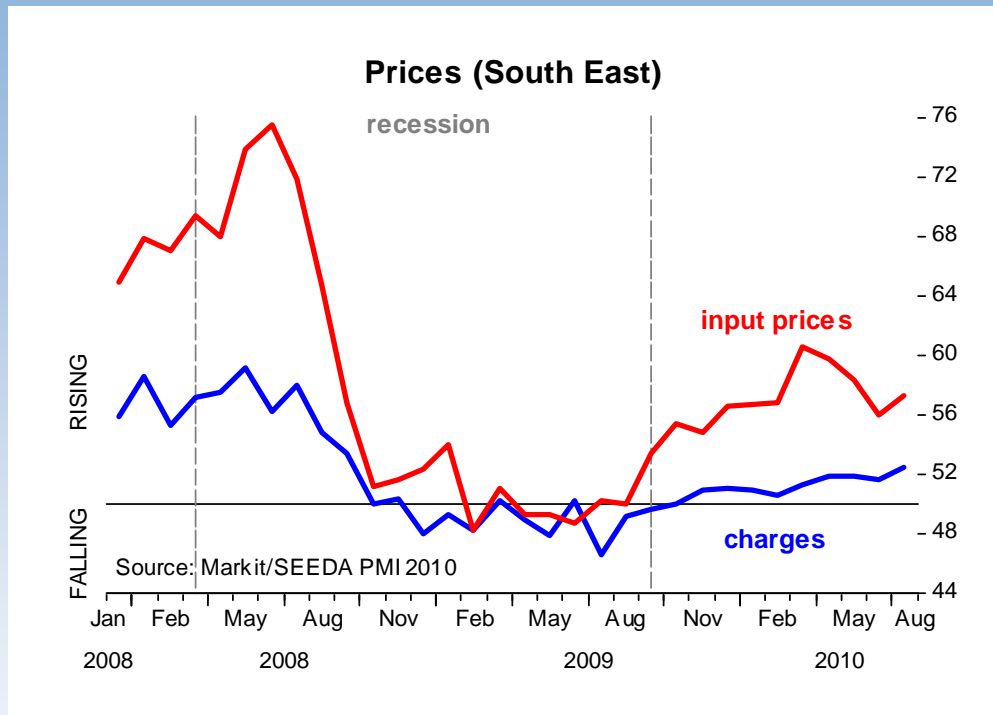


## Loans to small businesses



- Credit conditions for household and businesses remain tight (tighter for small businesses than for larger companies)
- Larger businesses repaying debt
- Negative impact of Basel III and the threat of Credit Crunch 2 on future availability of credit

# Inflation and interest rate expectations



- UK inflation well above the target
- Rising input prices and a gradual return of pricing power? Rising global food prices
- Inflation to remain above target throughout 2011 and interest rates are likely to remain low for the foreseeable future.



# Public sector redundancies: potential impact on the South East

(August 2010)

# Overview

- Office for Budget Responsibility: 610,000 public sector job cuts over next 5-6 years
- Data on public sector employment at district level to assess where cuts may fall
- Associated private sector job losses
- Unemployment data and independent jobs growth forecasts
- 'Bigger picture' – overall vulnerability and ability to recover

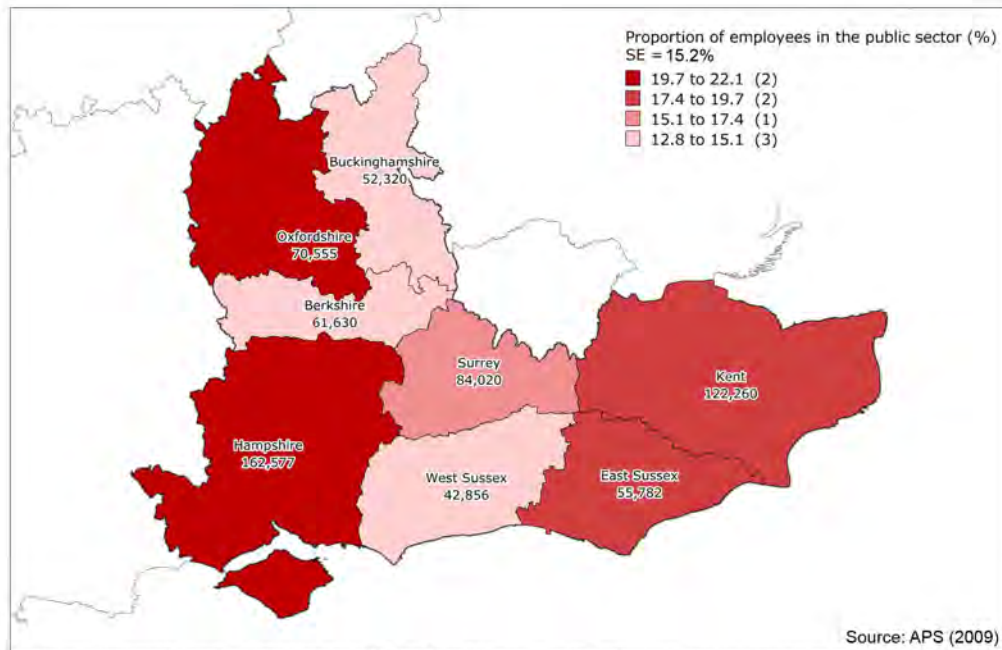
# Employment in public sector across country

	Share of workforce in public administration, education and health	Rank out of 380 districts in Great Britain
Oxford, Oxfordshire	46%	#1
Hastings, E Sussex	43%	#7
Canterbury, Kent	41%	#9
Eastbourne, E Sussex	38%	#20
Worthing, W Sussex	37%	#31
Thanet, Kent	35%	#41
Lewes, E Sussex	35%	#43
Gosport, Hants	35%	#47
Winchester, Hants	35%	#50
<b>South East average</b>	<b>25%</b>	-
<b>GB average</b>	<b>27%</b>	-

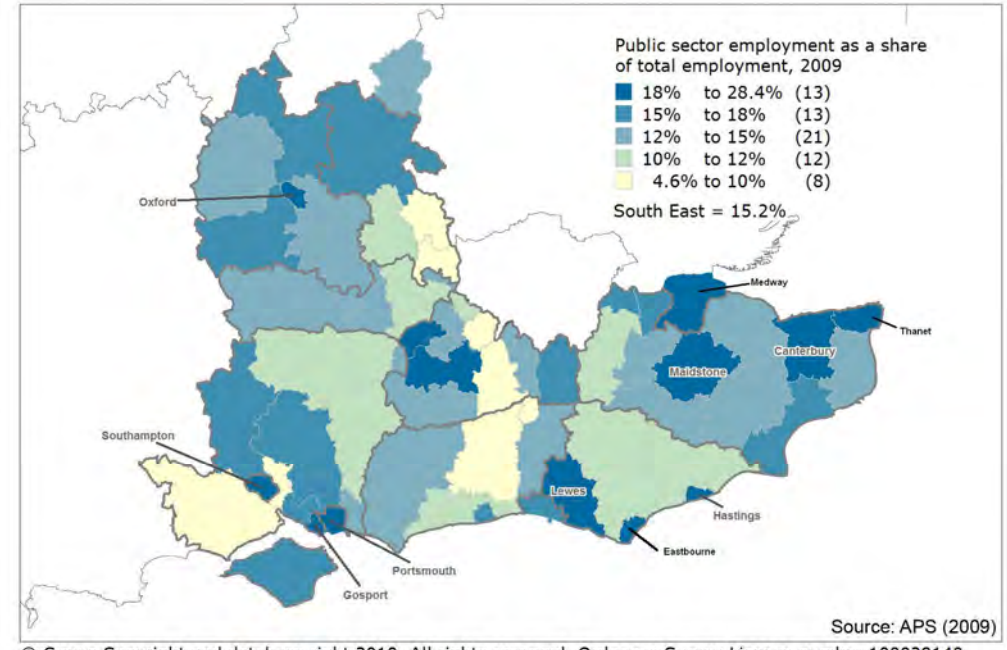
Source: Annual Business Inquiry, 2008

- Use of two datasets for estimating public sector employment
- Annual Business Inquiry data allows easy comparison of districts across the UK.
- Of 10 districts with largest shares in GB, 3 are in the South East

# Proportion of employees in the public sector



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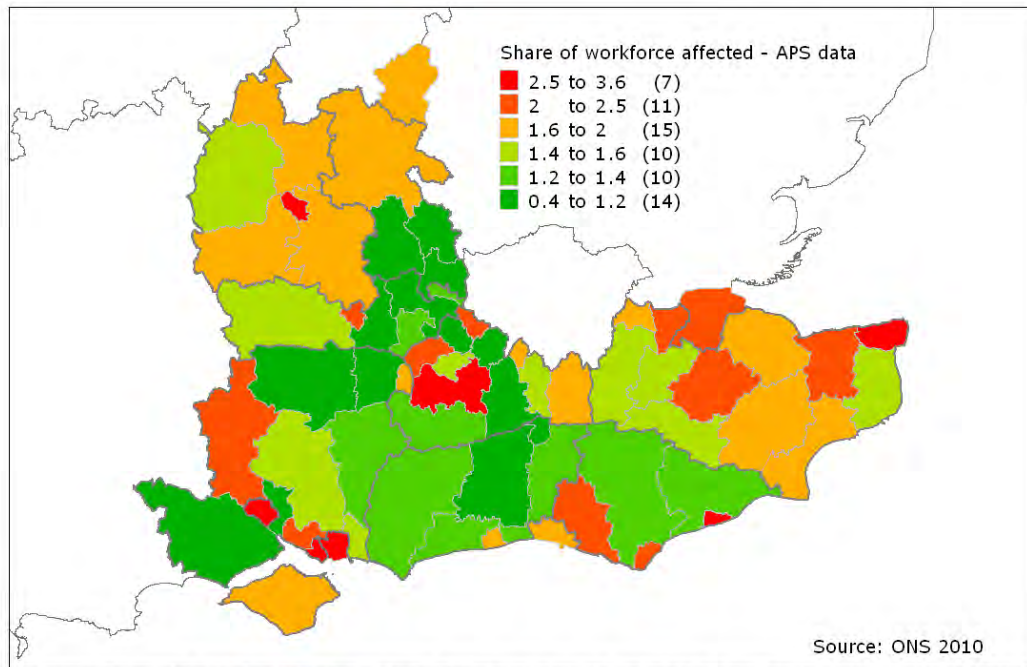


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- 'True' public sector employment in the South East is around 630,000 or 15% of the total
- The share of public sector employment varies across the region
- Concentration in southern and eastern local authorities
- Commuting patterns

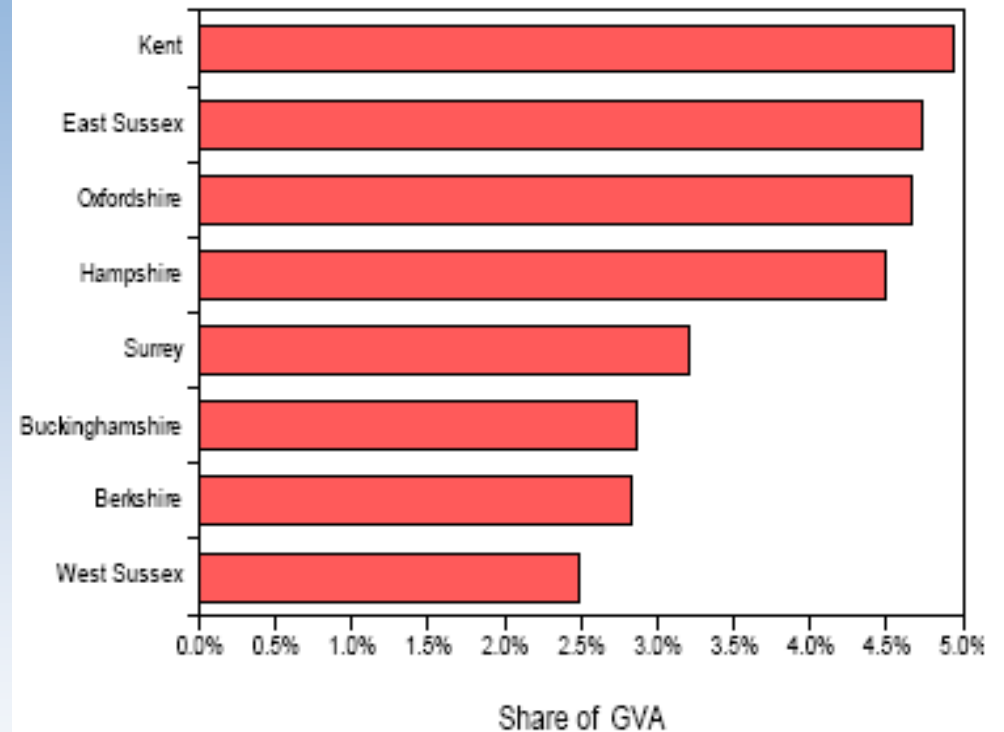
# Potential Impact – Direct Effect

Employment – cumulative effect as share of 2010 employment



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GVA – cumulative effect as share of 2010 GVA

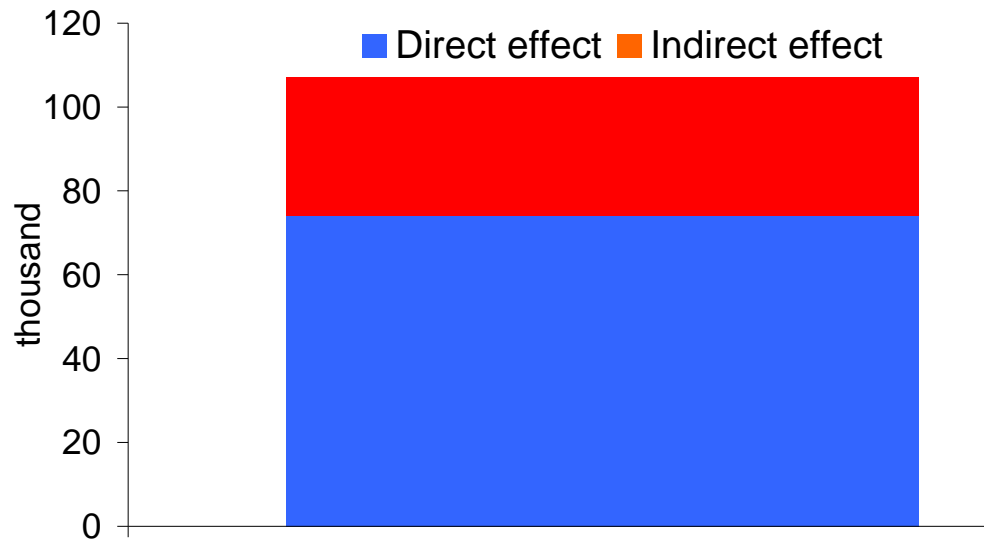


- Central scenario: ~74,000 jobs or 1.9% of total employment; ~£6.3bn or 3.6% of output

- Many worst affected districts in coastal areas (13 out of 16 worst affected districts in Kent, East Sussex or South Hampshire)

# Potential Impact – Total Effect

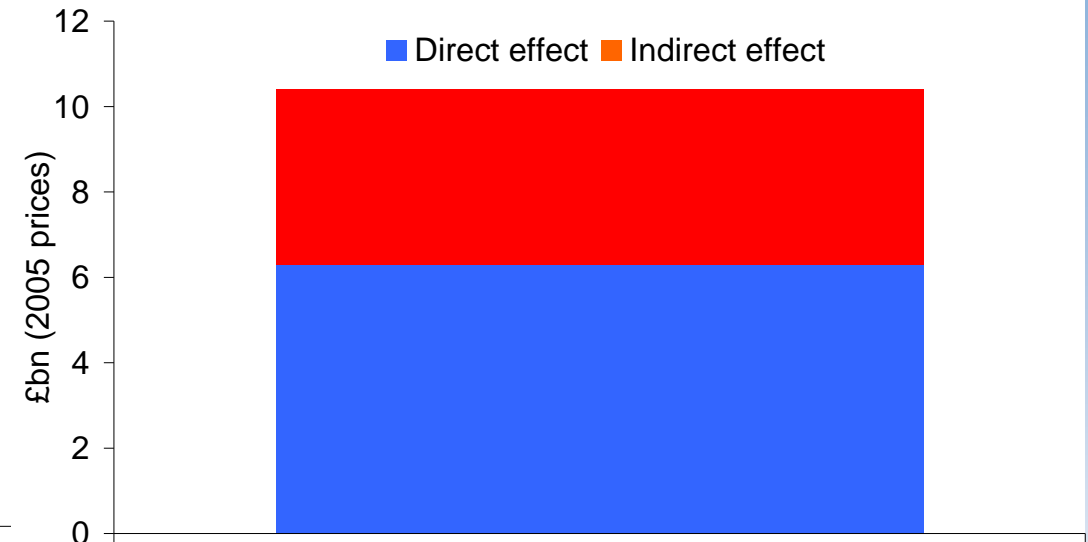
## Employment – cumulative effect



2010-2015/16

Source: SEEDA estimates, July 2010

## GVA – cumulative effect



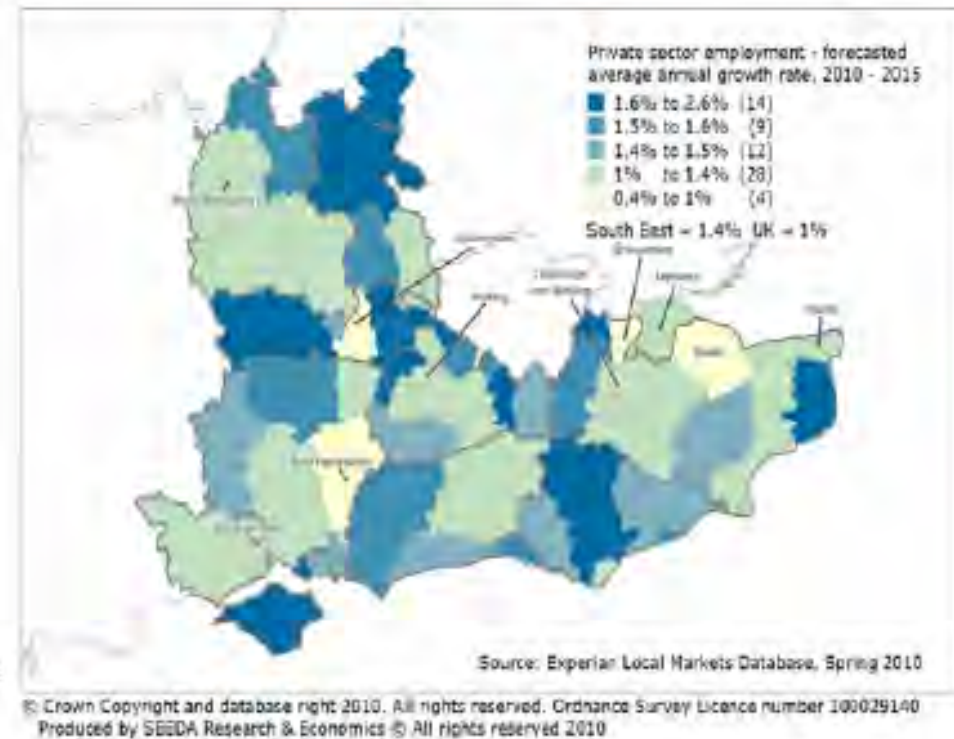
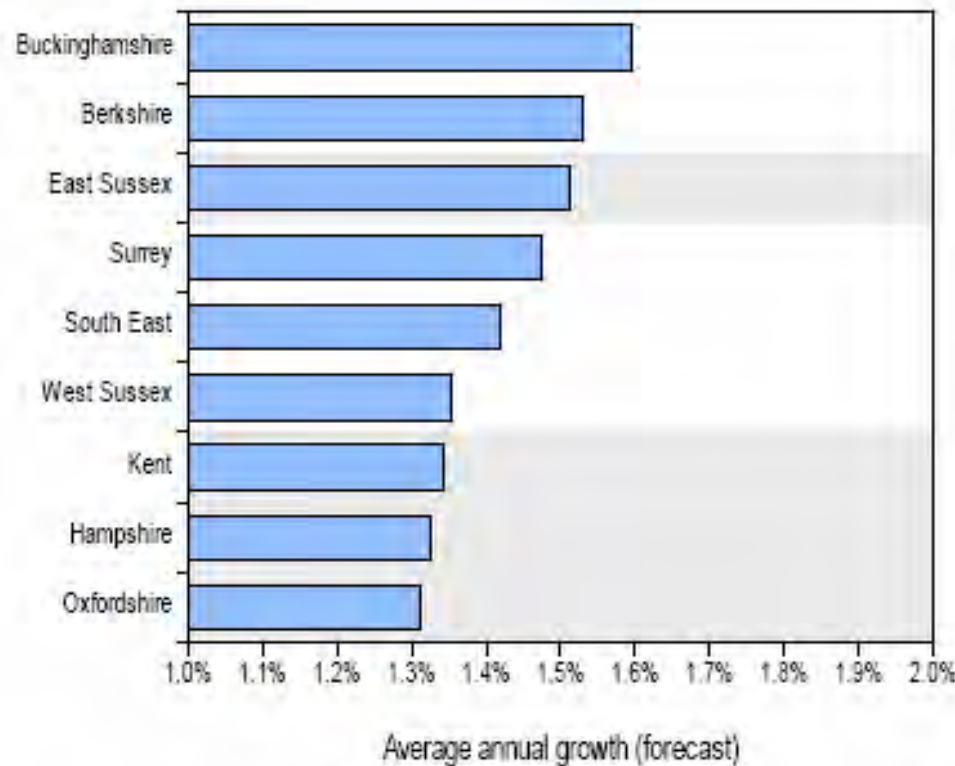
2010-2015/16

Source: SEEDA estimates, July 2010

- Total effect (by 2015/16) >100,000 jobs; >£10bn (6.3% of GVA)
- GVA wouldn't drop by 6.3% as the rest of economy continues to expand
- Impact could be greater under different assumptions (e.g. multiplier values, induced impact, productivity growth etc.)



# Private sector employment growth forecasts



Source: Experian Local Markets Database, Spring 2010

- Greater effect on southern and eastern local authorities
- Higher unemployment and lower projected private sector job growth
- Skills & labour mobility; proximity to other markets etc.

# Vulnerability and resilience to public sector cuts

District	County	Forecast share of workforce affected 2010-2015	Unemployment (claimant count), June 2010	Private sector employment forecast 2010-2015*
Thanet	Kent	high	high	low
Eastbourne	E Sussex	high	high	low
Hastings	E Sussex	high	high	low
Shepway	Kent	high	high	low
Medway	Kent	high	high	low
Gravesham	Kent	high	high	low
Southampton	Hampshire	high	high	medium
Portsmouth	Hampshire	high	high	high
Canterbury	Kent	high	medium	low
Maidstone	Kent	high	medium	low
Oxford	Oxfordshire	high	medium	medium
Guildford	Surrey	high	medium	medium
Lewes	E Sussex	high	medium	high
Gosport	Hampshire	high	medium	high
Surrey Heath	Surrey	high	medium	high
Fareham	Hampshire	high	low	high

\*Private sector employment forecast is an average of Experian and Cambridge Econometrics forecasts

Source: SEEDA calculations based on ONS [APS (2009), Public Sector Employment (2010), ABI (2008)], Experian Regional Planning Service (2010), Cambridge Econometrics (2010), Jobcentre Plus (2010)

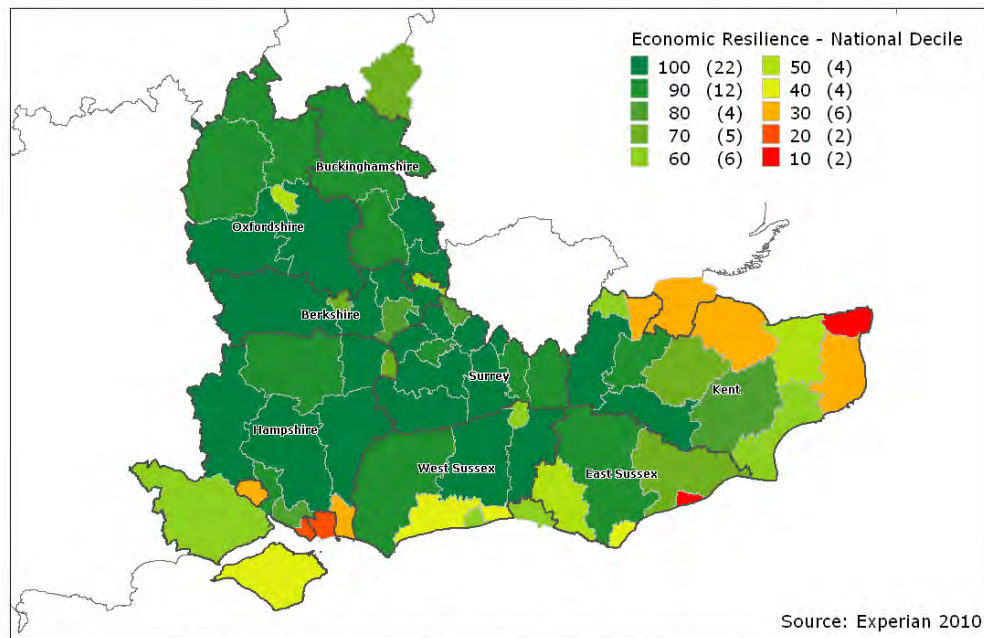
NB forecasts by sector at district level have significant margins of error

- Many districts in the South East particularly vulnerable to public sector cuts are those that may be the least well-placed to cope with them



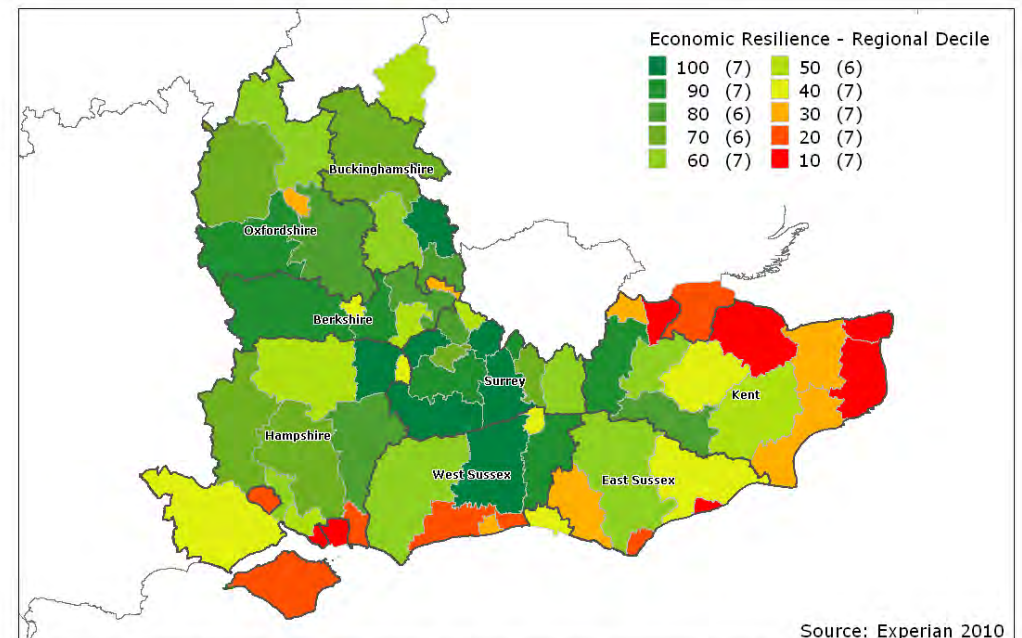
# How resilient is the South East to economic Shocks?

Resilience index (national)



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Resilience index (South East)



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- Recent Experian report looked at resilience to economic shocks
- The most resilient region (Experian 2010), but significant disparities within the region
- Similar conclusion reached if we were to use Experian report

**Thank you**

**SEEDA Research & Economics**

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