

# South East Business Support Advisory Board

## South East Economy Update

May 2009

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# Outline

- Overview (evolution) of the downturn in the South East
- Impact of the downturn on the economy and businesses
- Labour market impacts
- Can we learn anything from the past – sectoral performance in recessions
- Policy response
- Have we reached the bottom?

# Evolution of the recession in the South East

**Stage 1:** Weakening demand – affects primary activities such as manufacturing and construction, though other sectors seeing worsening trading conditions.



**Stage 4:** Slowing of the contraction in orders and the rate of job loss as the economy heads possibly towards recovery.

Recession not over, but we can contemplate life beyond it?

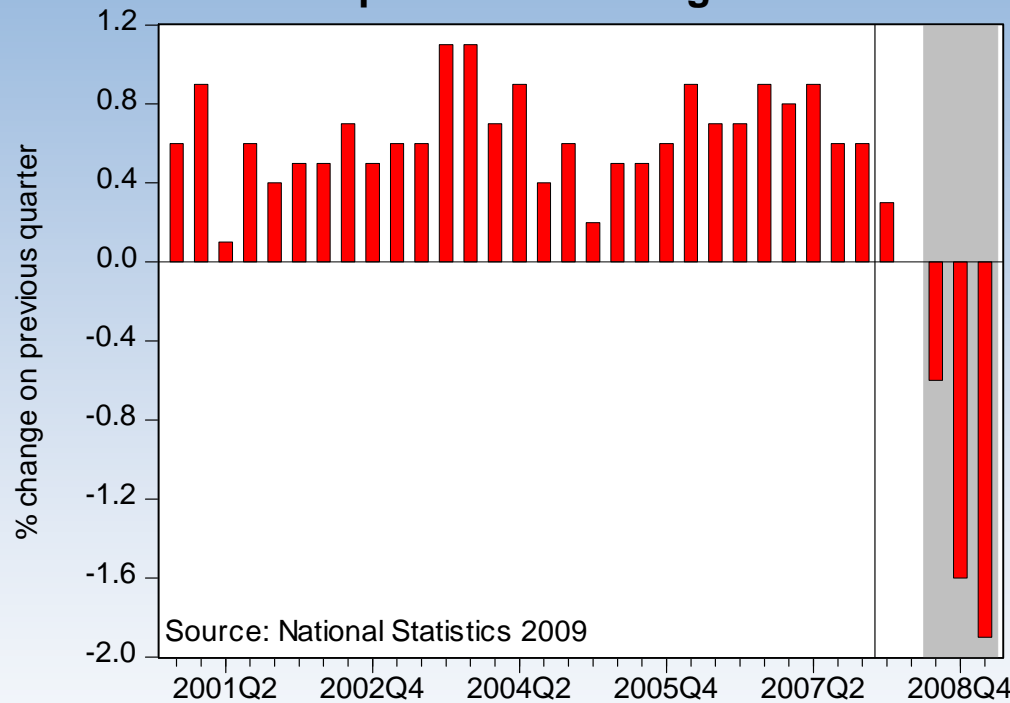
**Stage 2:** Deepening downturn – reduction in credit supply and continued uncertainty over future demand means companies have to restructure and/or reduce costs. Impact on employment still limited but becoming more visible.

**Stage 3:** Gradual spread of recession across all sectors with firm closure and employment loss both accelerating quickly.

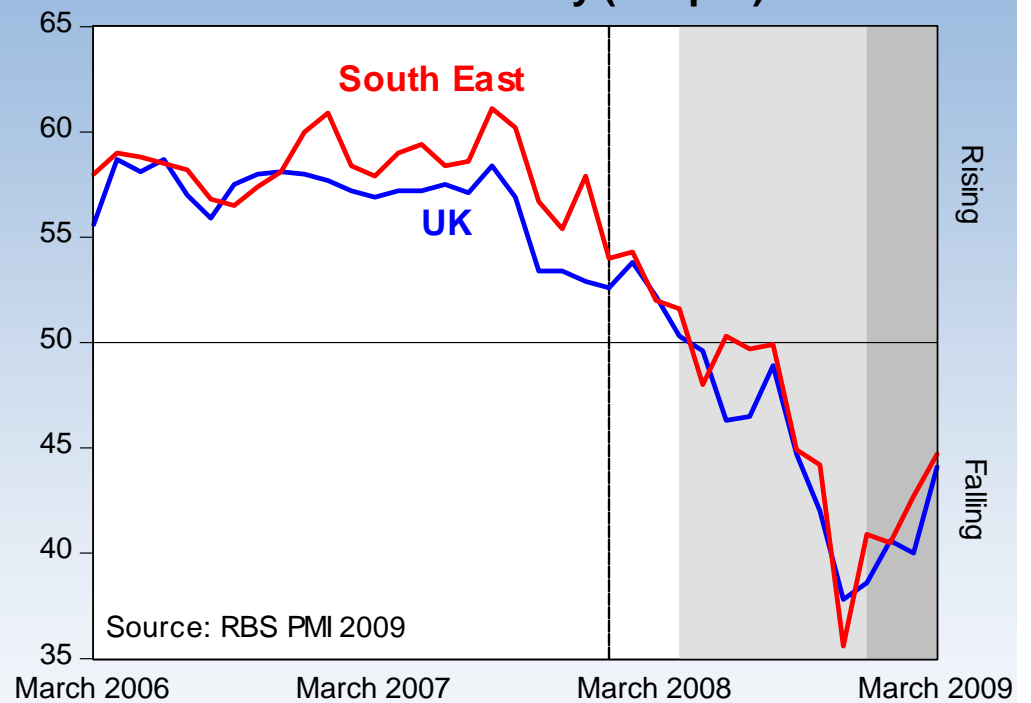


# Business activity continues to fall

## Sharp fall in UK GDP growth rate

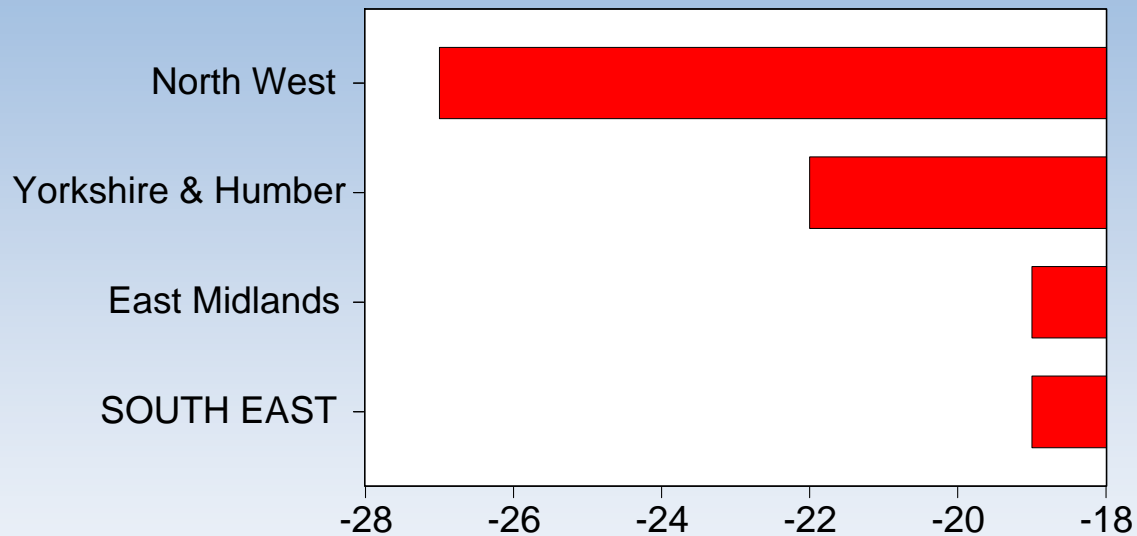


## Business Activity (Output)

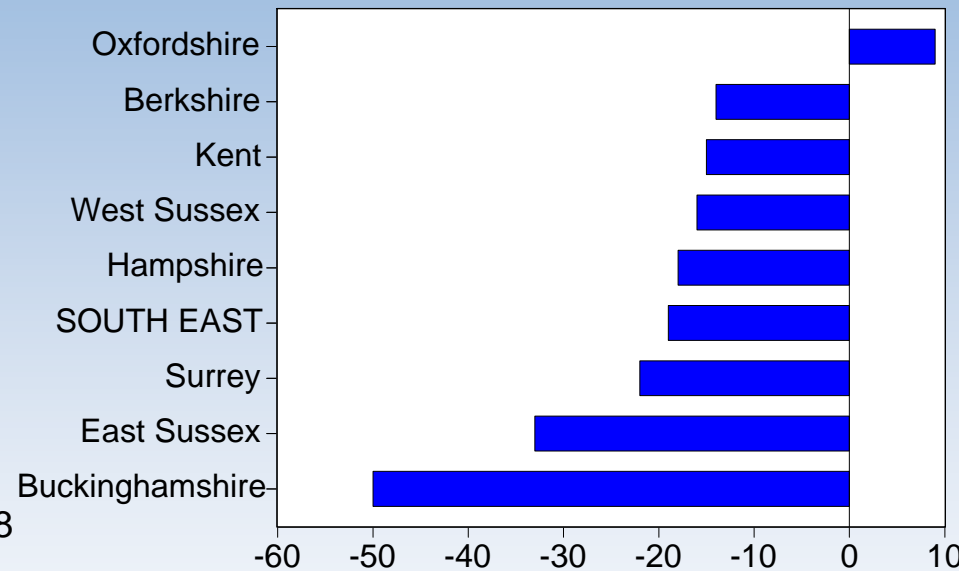


# Has the rate of decline slowed?

Would you say that overall, your business performance in the past 3 months has improved, remained stable or got worse (% balance)



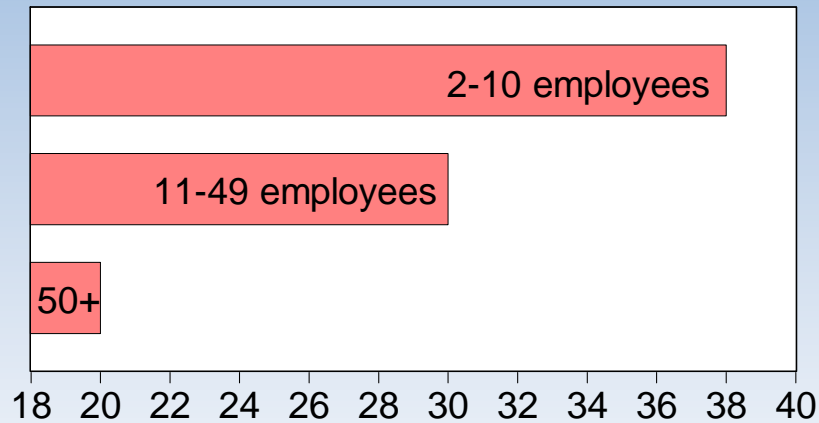
Source: National Business Survey Quarterly Snapshot, March 2009



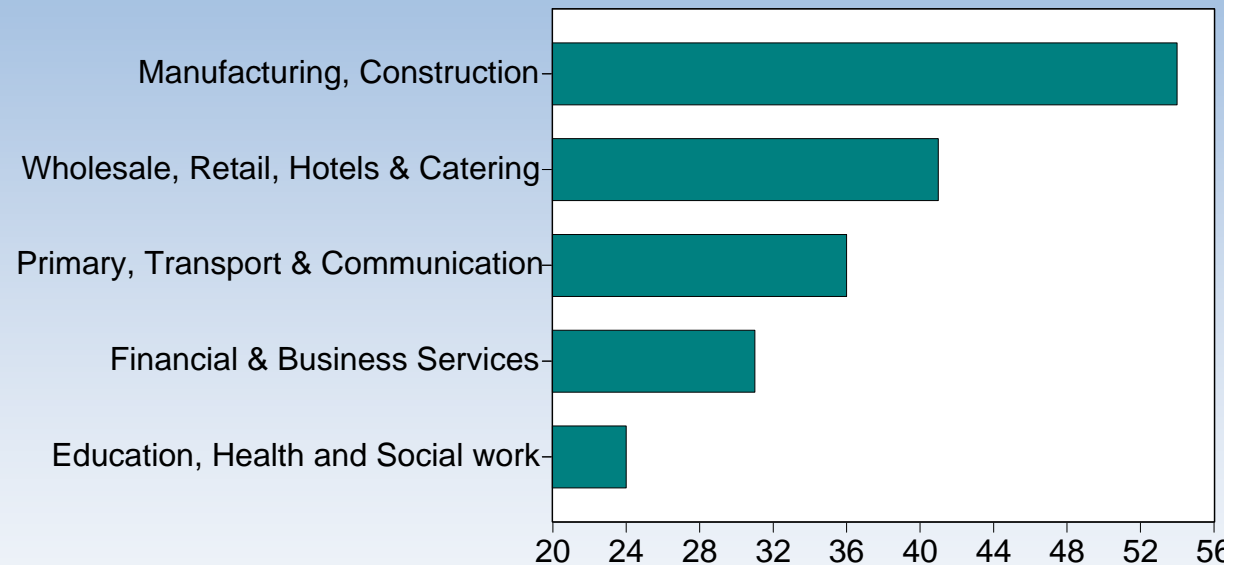
Source: National Business Survey Quarterly Snapshot, March 2009

# Performance by sector and size

Would you say that overall, your business performance in the past 3 months has improved, remained stable or got worse (% got worse)



Source: National Business Survey Quarterly Snapshot, March 2009

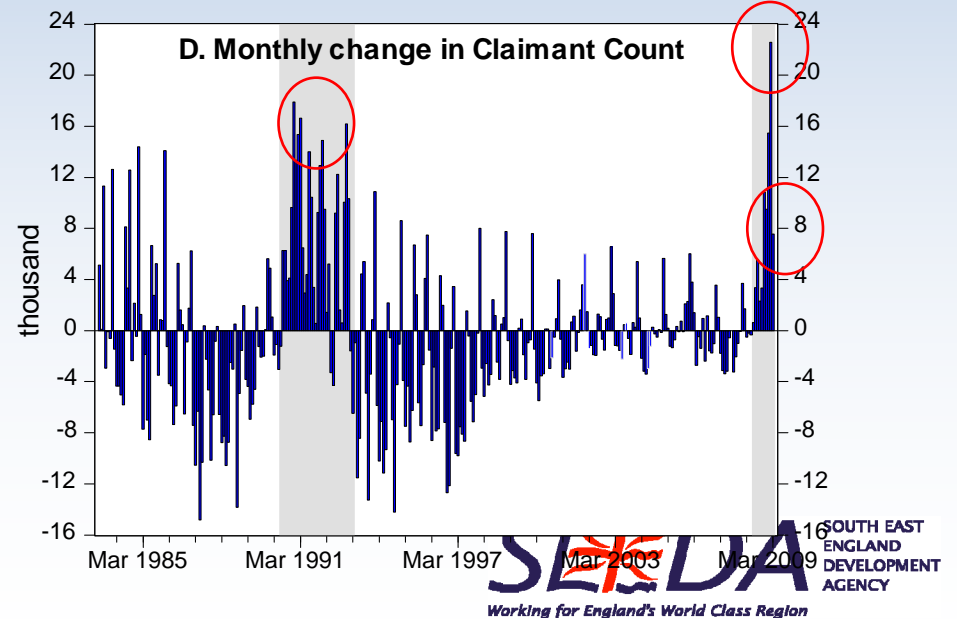
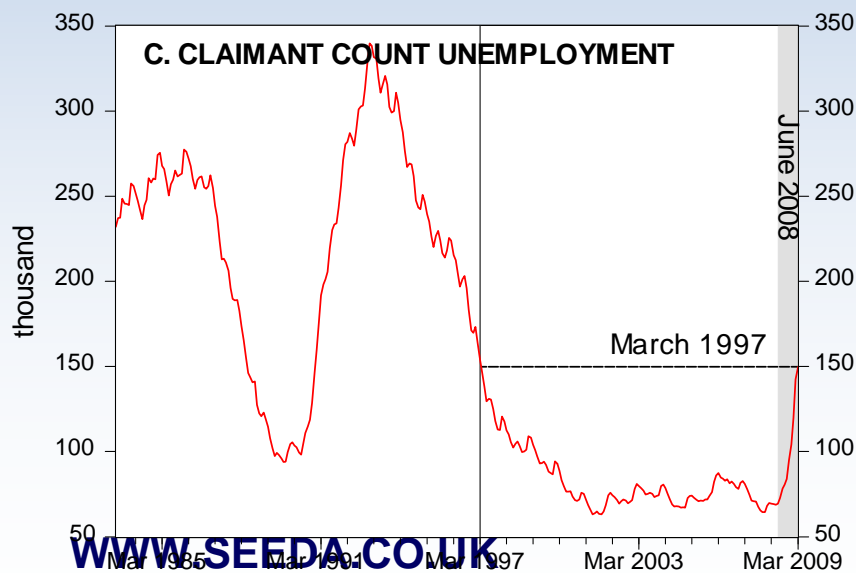
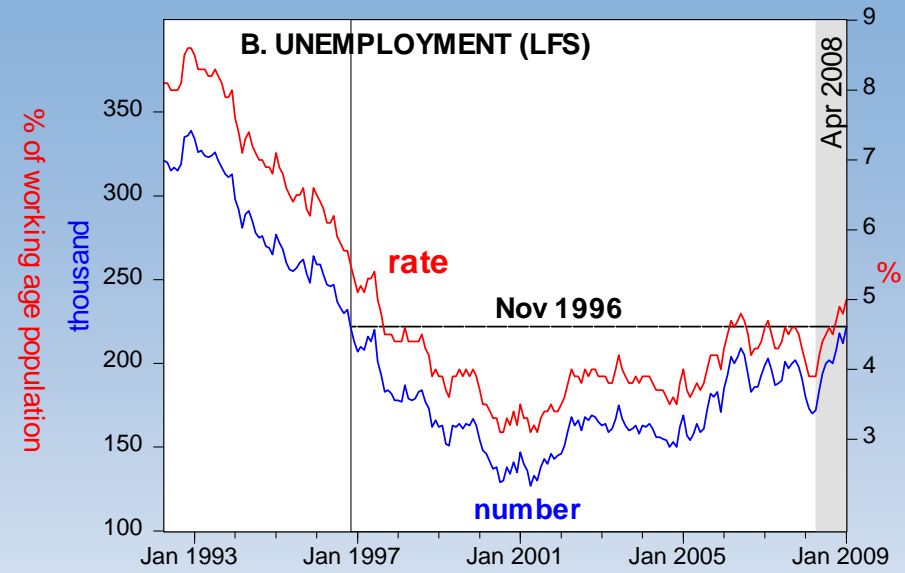
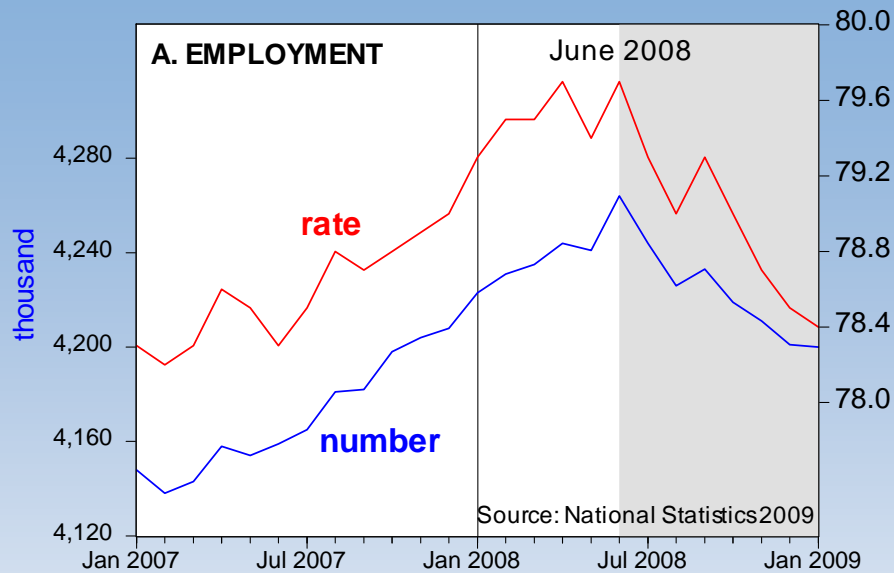


Source: National Business Survey Quarterly Snapshot, March 2009

# The rate of decline continues to slow down in April?

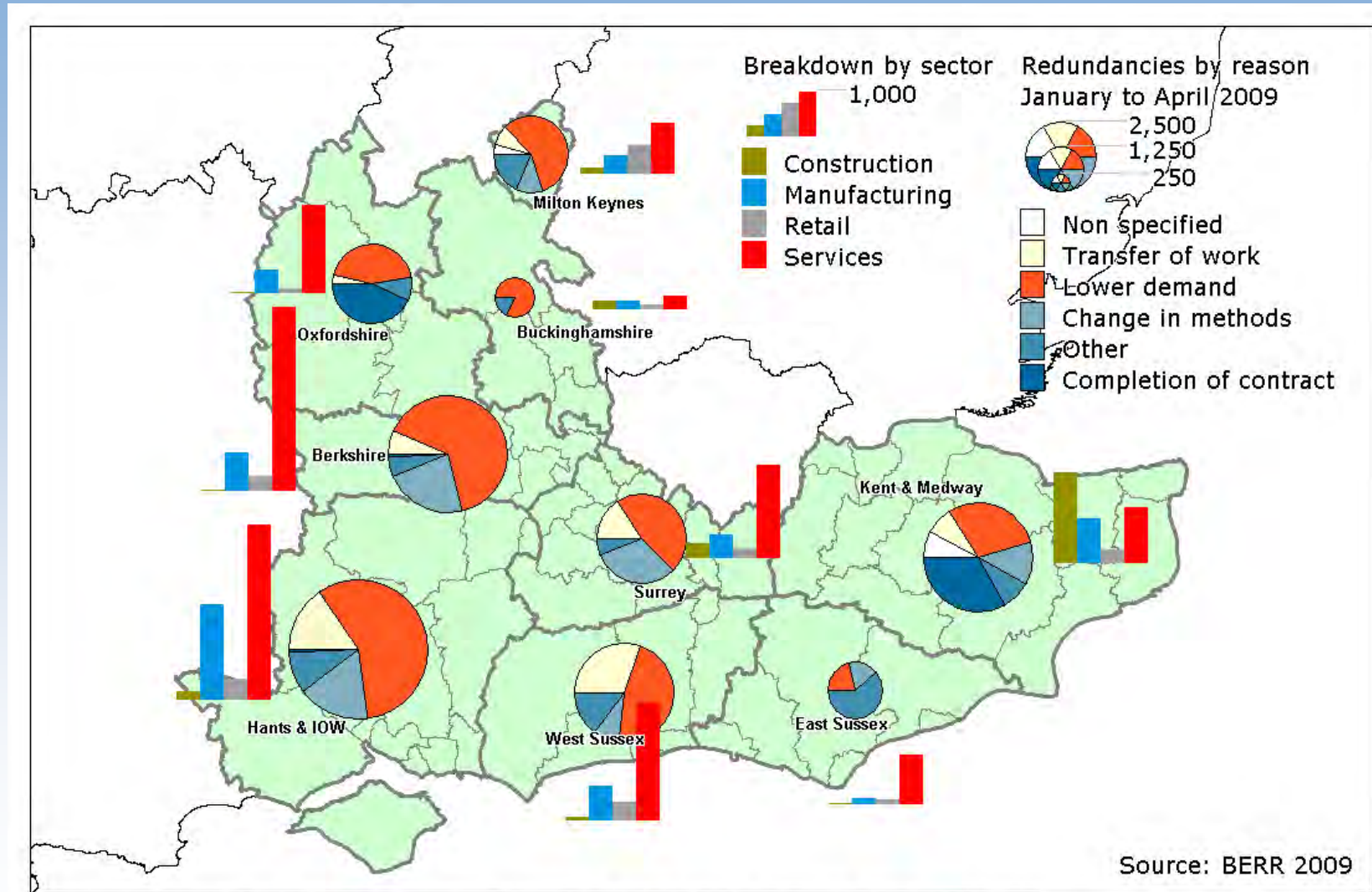
- Rate of deterioration in business conditions continuing to slow.
- Businesses thinking creatively about how to survive downturn – leaner working practices; exploring new areas of work; increasing online visibility.
- Cashflow problems persist, but small signs of improvement in bank lending.
- Continuing concerns about health of supply chains and withdrawal of credit insurance.

# Labour market continues to weaken





# Have we seen a peak in large redundancy notifications?



Source: BERR 2009



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THE EAST  
LAND  
DEVELOPMENT  
AGENCY

# Who will get out first?

Recessions	1980s	1990s
Agriculture	0	0
Health & Social Work	0	0
Education	0	0
Other services	n/a	0
Wholesale & Retail	4	4
Electricity, Gas & Water	4	0
Mining & Quarrying	3	1
Public Admin	1	0
Transport & Com.	3	3
Hotels & Rest.	3	7
Manufacturing	5	5
Financial Inter.	n/a	7
Real Estate	n/a	7
Construction	8	13
<b>Total (GVA)</b>	<b>5</b>	<b>5</b>

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Chart shows number of quarters spent in recession.

Is it going to be different this time?

We're in new territory (financial meltdown, global recession).

Source: RBS 2009

# Policy Response

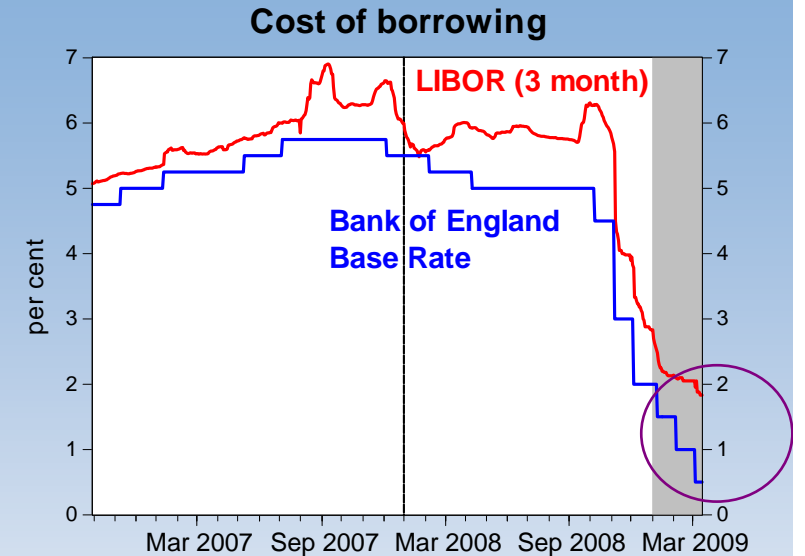
## Fiscal policy

- A number of measures introduced
- The 2009 Budget

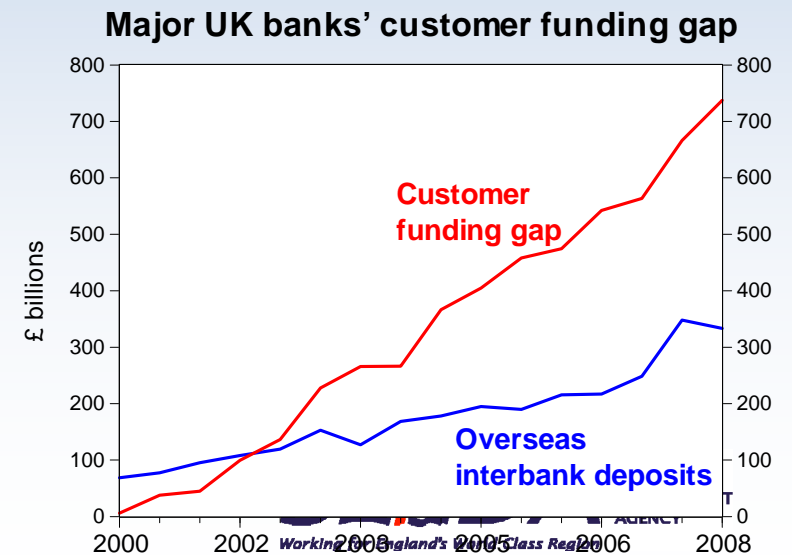
## Monetary Policy:

- Interest rates at historic low
  - The spread between LIBOR and the BoE rate
- 
- Large funding gap in the UK
  - Quantitative easing: UK, USA
  - Eurozone (likely)

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Source: Bank of England 2008



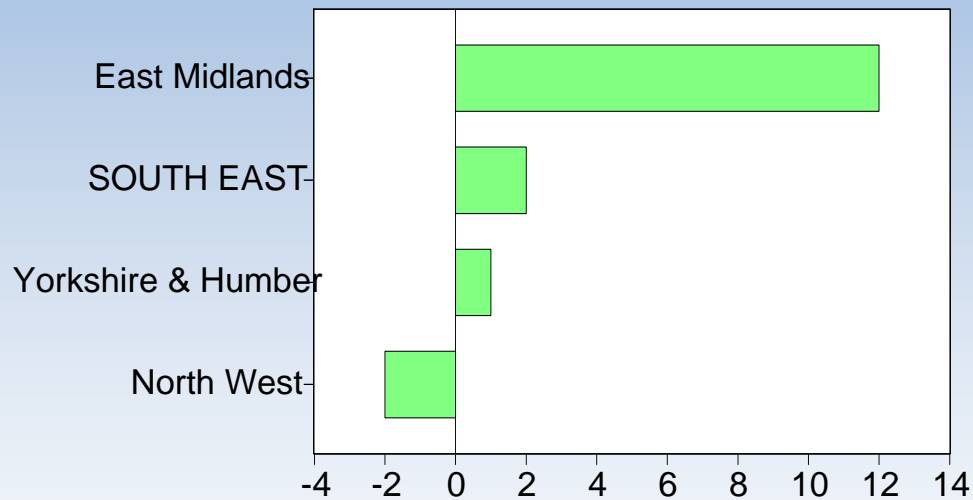
Source: Bank of England 2008

# Have we reached the bottom?

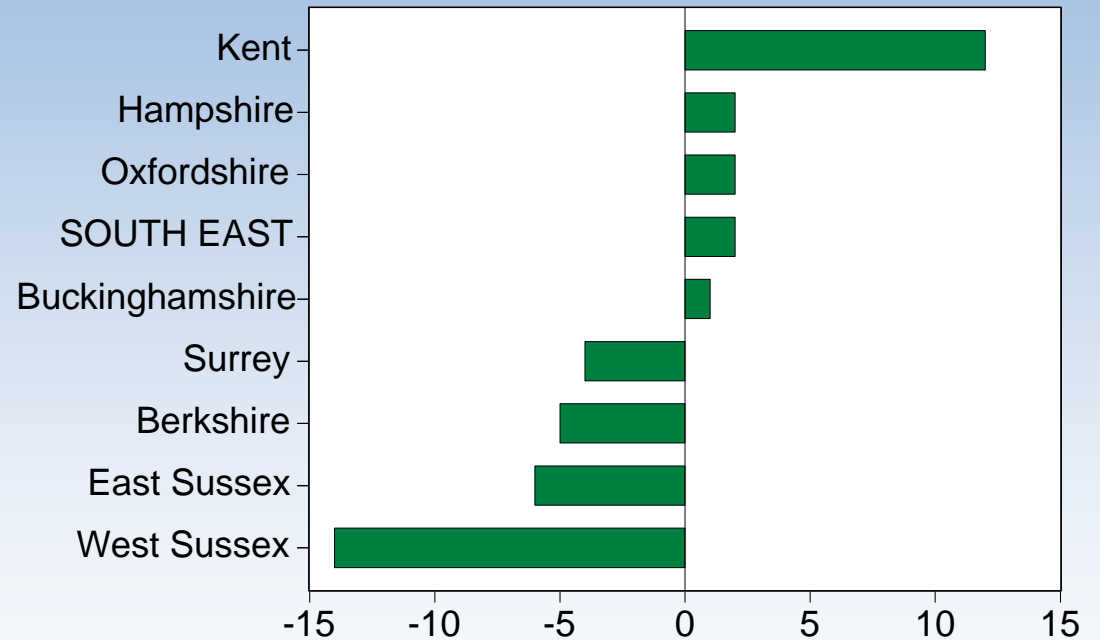
- Backward looking vs. Forward looking indicators
- UK consumer sentiment improving (GfK NOP).
- Retail sales reporting increase in sales in April (CBI)
- Falls in house prices getting smaller (Nationwide)
- Confidence returning in the financial markets.
- Stock markets and bank shares on the road to recovery?
- Sentiment improving in US, China, Germany (business but not consumer).
- Cashflow problems persist, but small signs of improvement in bank lending (CBI, Monthly Intelligence Snapshots)
- Business surveys – EEF, CBI, ICAEW, RBS PMI, ...

# Business Trends over the next three months

Over the next 3 months do you expect the business climate in which your business operates to generally improve, remain stable, or get worse? (% balance)



Source: National Business Survey Quarterly Snapshot, March 2009



Source: National Business Survey Quarterly Snapshot, March 2009

# Thank you

## **SEEDA Research & Economics**

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

- Forthcoming (next four weeks):
  - Labour Market Update
  - Regional Intelligence Snapshot – June 2009
  - South East Economy Review

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