

South East Business Support Advisory Board

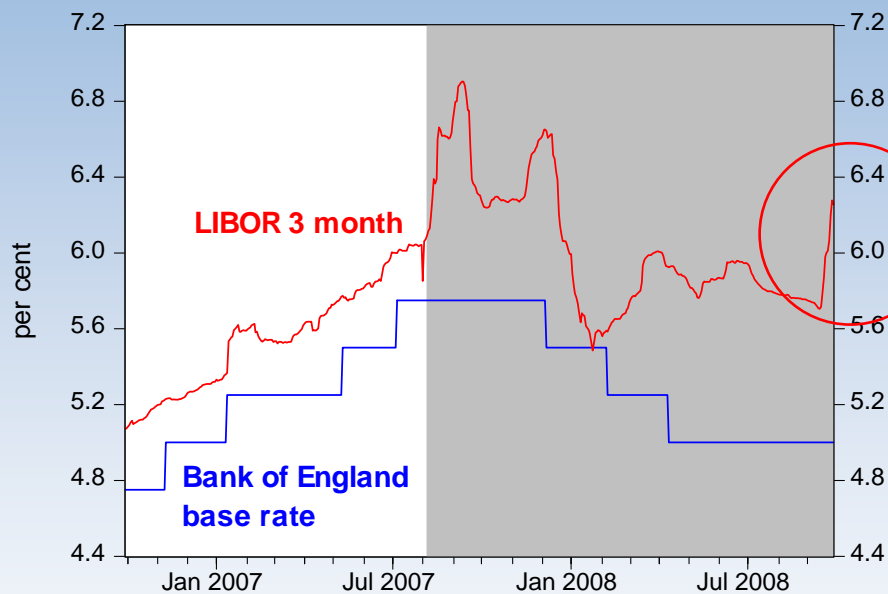
# The South East Economy Update

October 2008

Ivan Perkovic  
Head of Economic Research

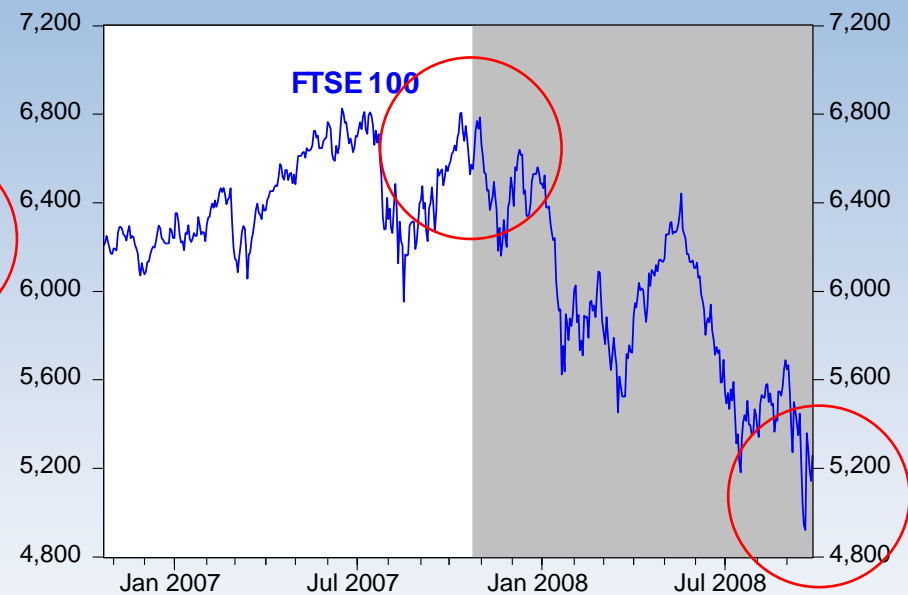
# 'Credit crunch' gets worse... ... a threat to global financial stability?

### Credit crisis unfolds ...



Source: Bank of England 2008

### ... Stock markets fall ...back to 1930s?

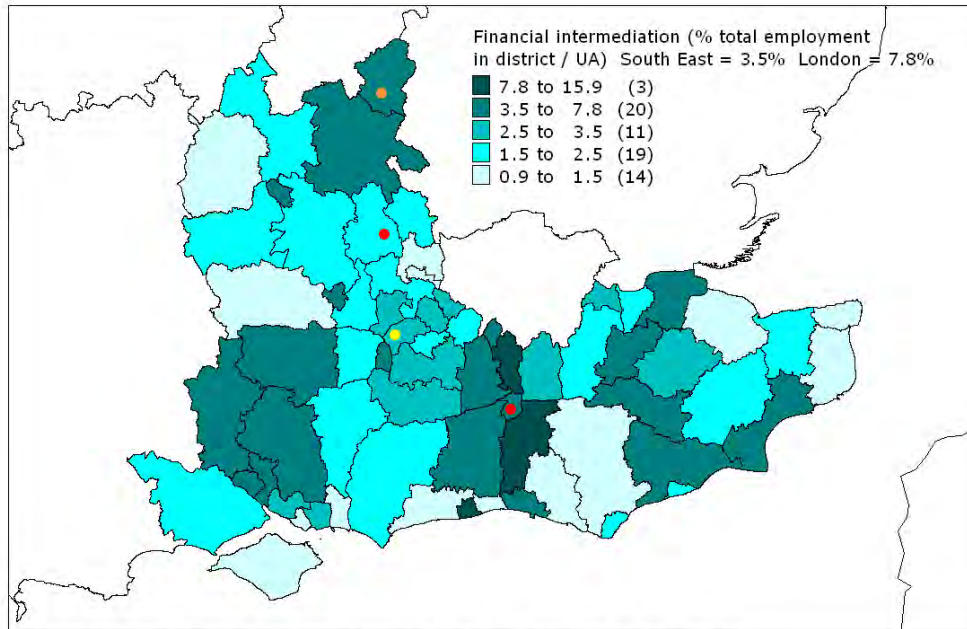


Source: Bank of England 2008

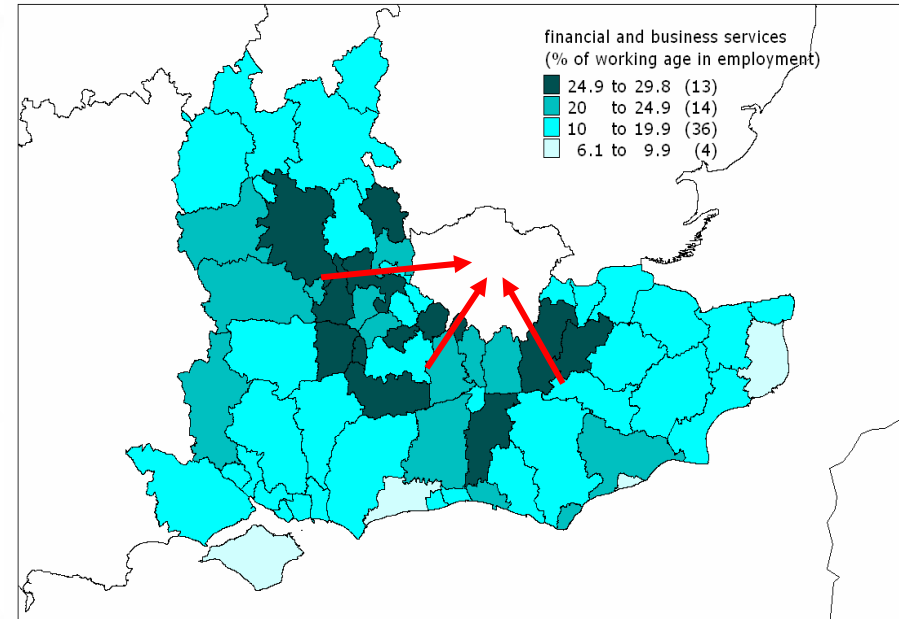
# ...impacts on Financial Services...

Financial Services employment as  
% of total employment in  
the area, (workplace)

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



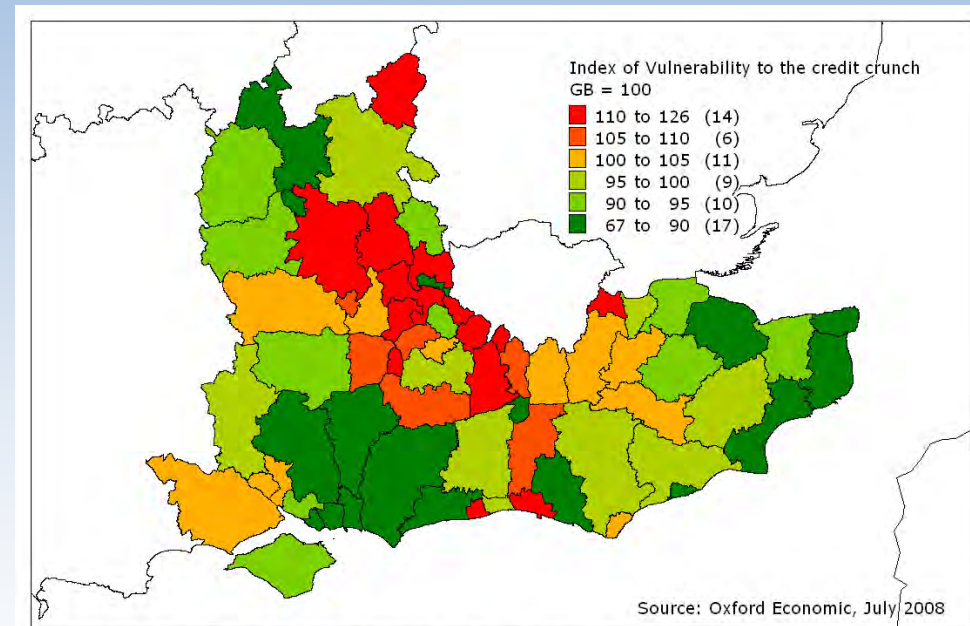
© Crown Copyright Ordnance Survey, 'Boundary Line' 2007. License No. 100029140  
Produced by SEEDA © All rights reserved 2008

# ... 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

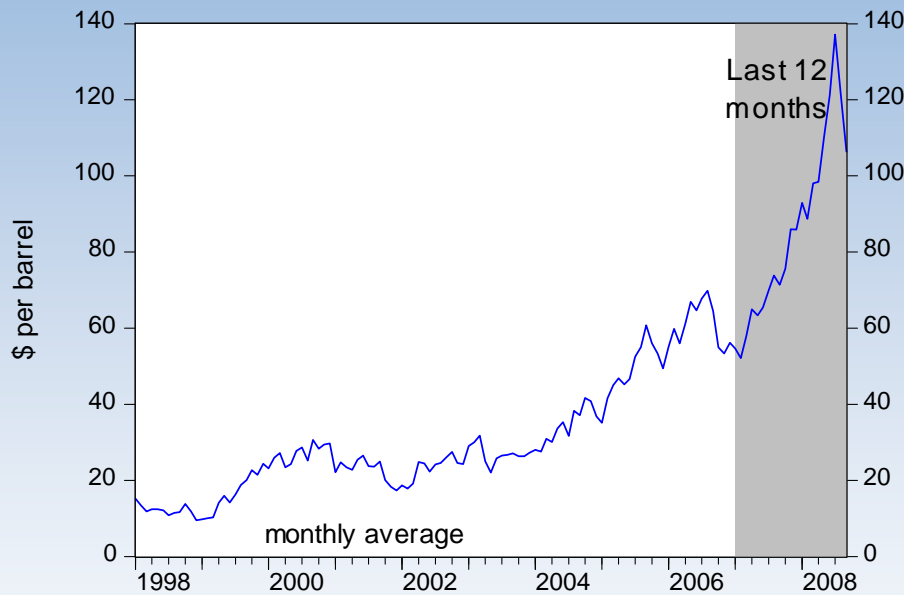
Who is vulnerable?



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

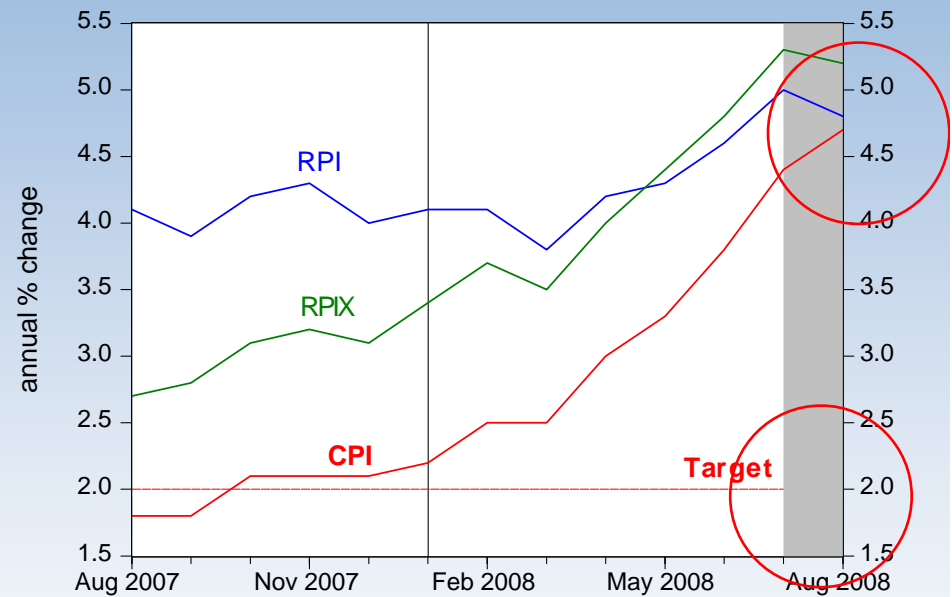
# ...a sharp increase in UK inflation ...

## A sharp increase in world oil price ...



Source: IEA 2008

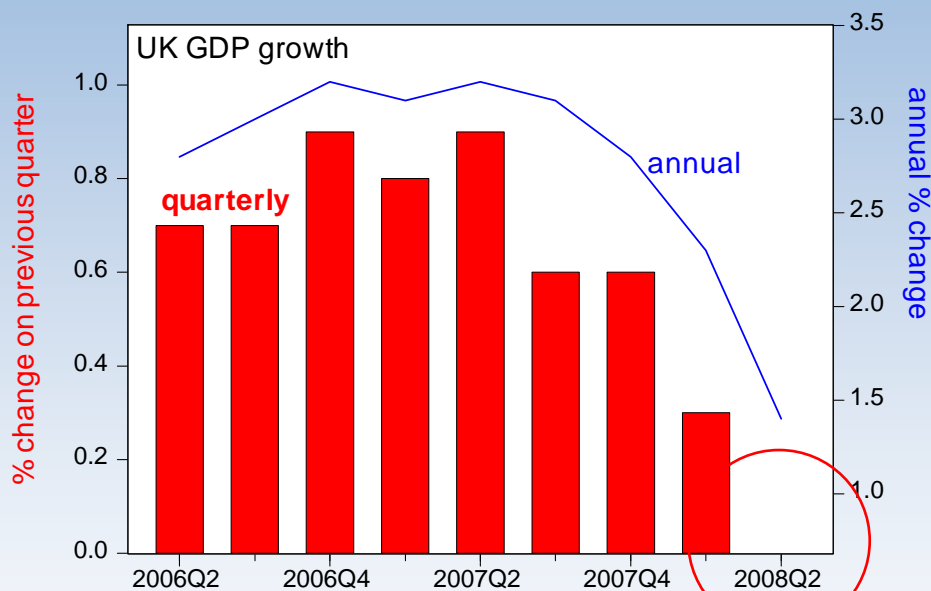
## ... and UK inflation



Source: National Statistics 2008

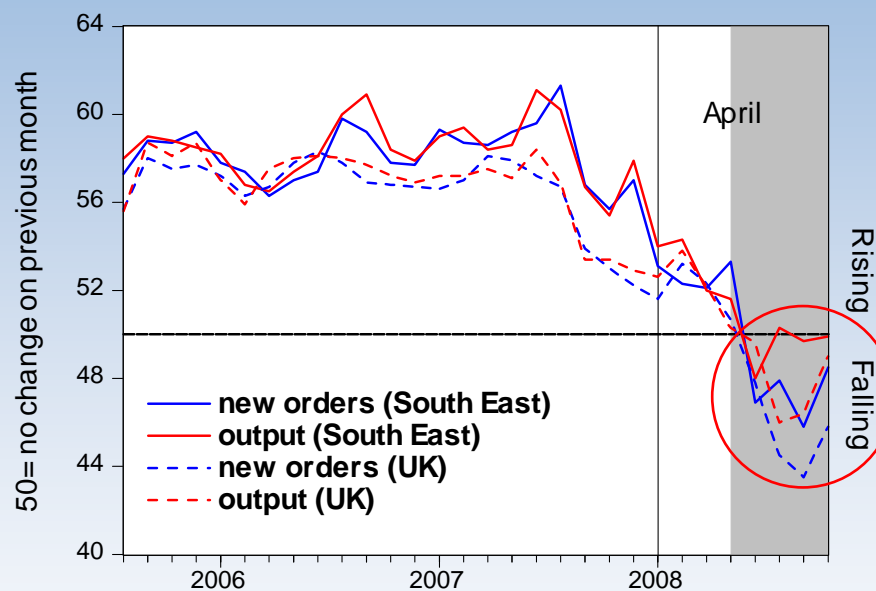
# ...led to a sharp slowdown in output growth ...growth prospects decline

UK economic growth comes to a halt in second quarter ...



Source: National Statistics 2008

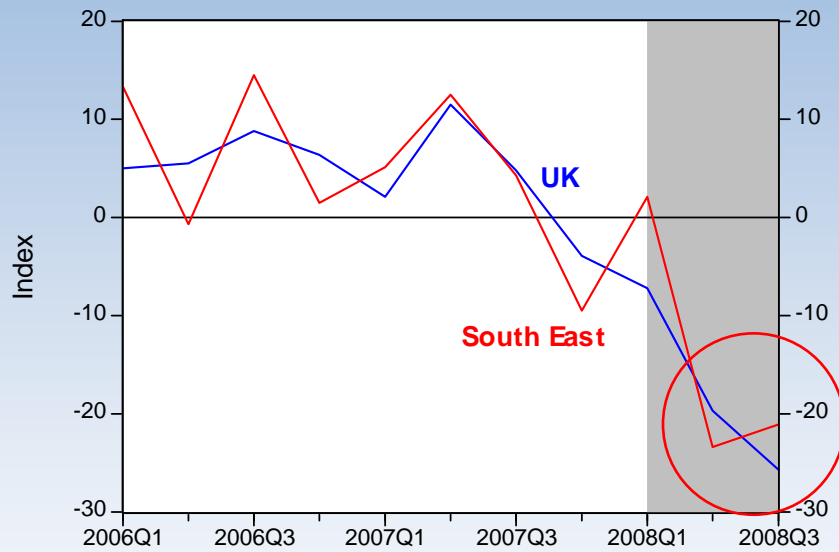
Sharp decline in output and level of incoming new business ... indicator of things to come?



Source: RBS 2008

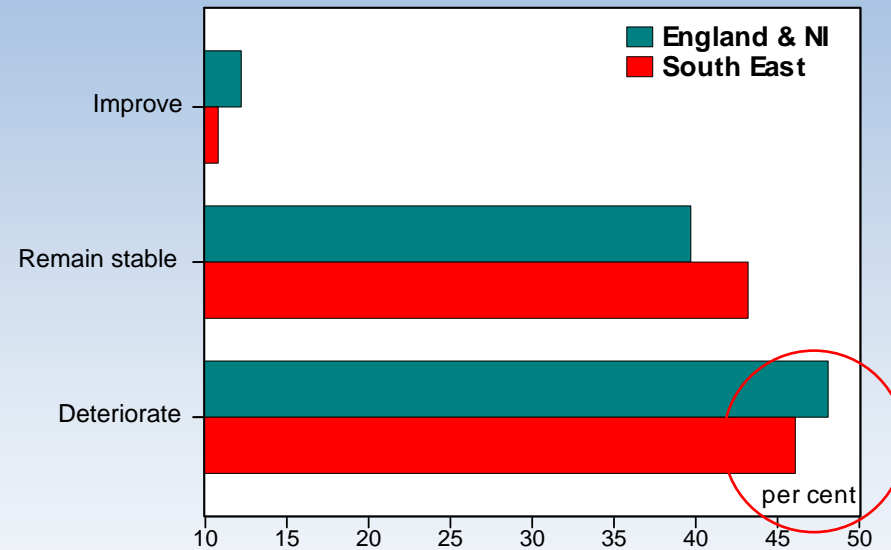
# ...led to sharp decline in Business Confidence...

Business confidence reaches record low ...



Source: ICAEW 2008

Over the next 12 months do you expect the business climate in which your business operates to ...?

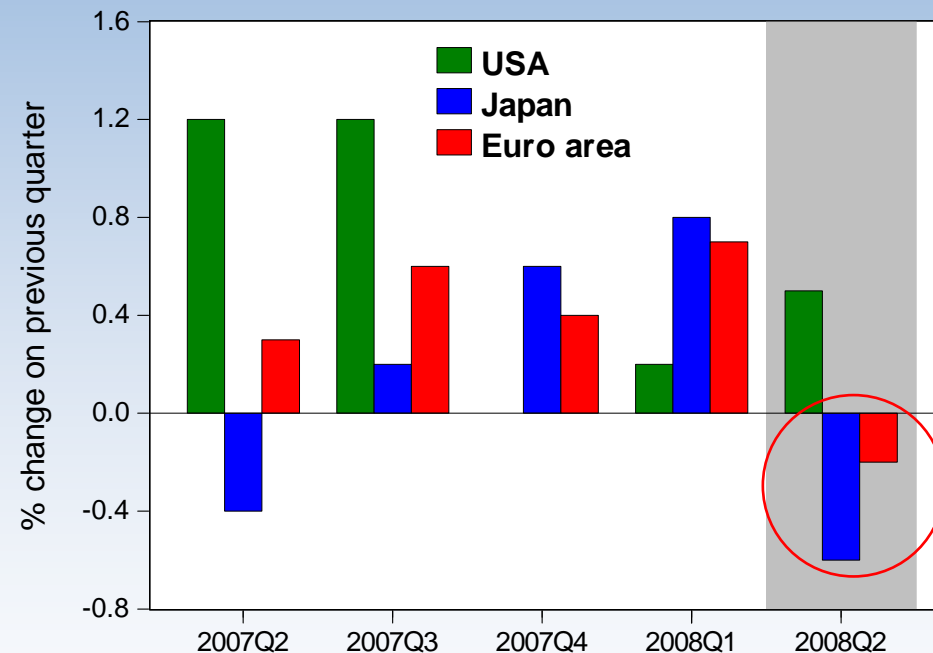


Source: RDA NBS 2008

# 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

**Recession looming in Europe and Japan ...  
... US economy - Where next?**



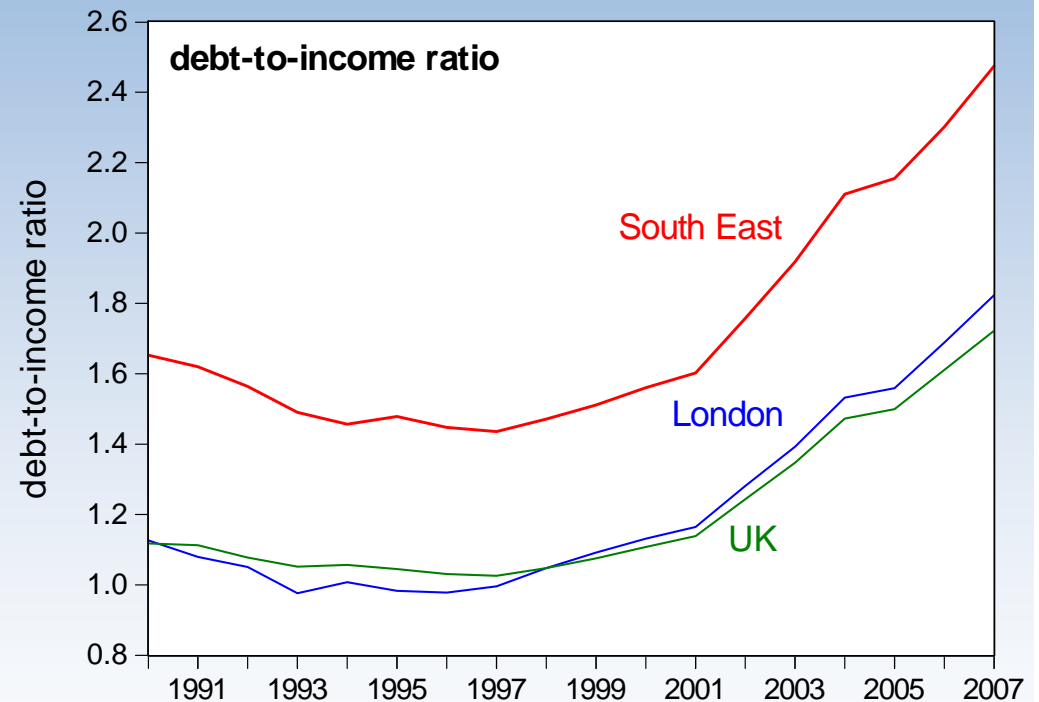
Source: National Statistics 2008



# How likely is the consumer-led recovery in the South East?

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

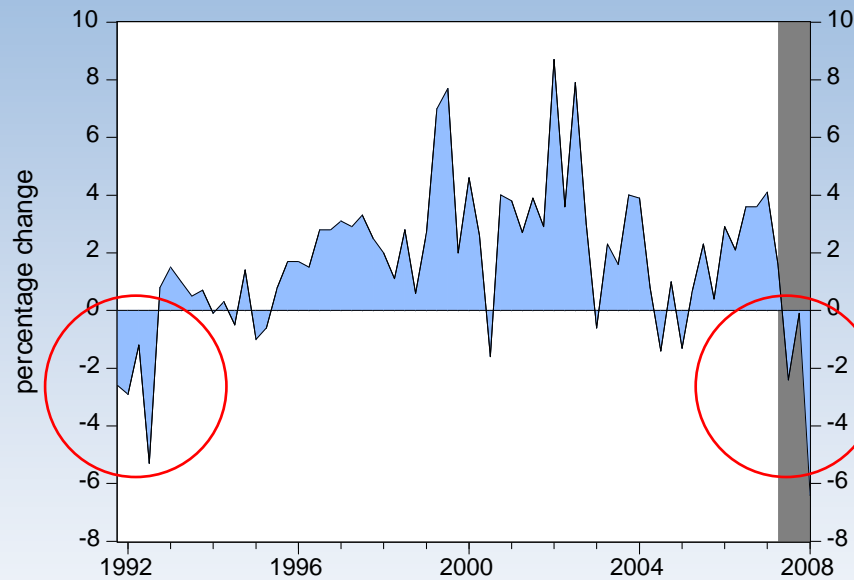
Figure 7: Overstretched households ...



Source: Experian 2008

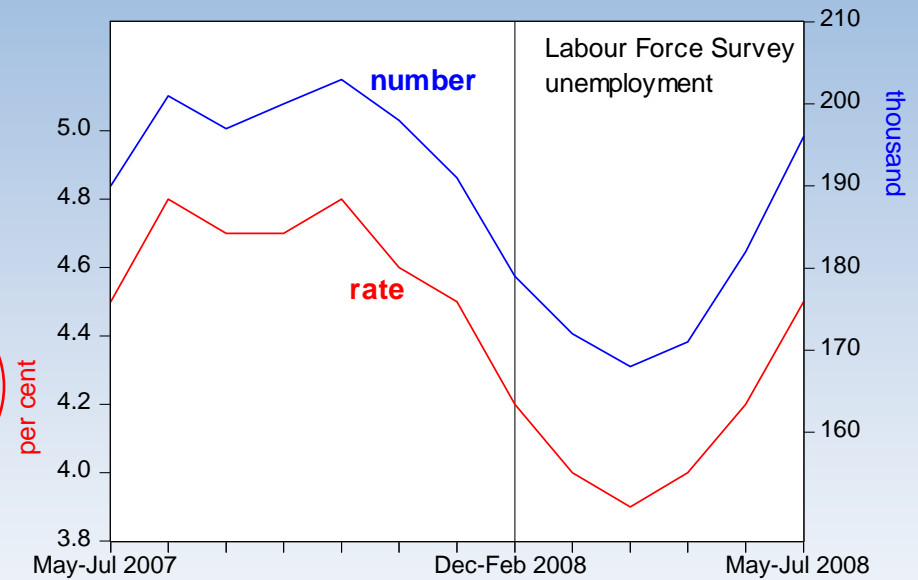
# ... Sharp decline in consumer confidence ...

Housing market correction is under way ...



Source: HBOS 2008

... and Unemployment is rising



Source: National Statistics 2008

# Is recession inevitable?

- FOR
  - Persistence of credit crunch
  - Wealth losses (housing & equities)
  - Indebted households in the South East
  - High inflation relative to target
  - Weakening European economy
  - Falling sterling – higher inflation?
- AGAINST
  - No excess inventories
  - Unemployment is higher, but labour market is holding well?
  - Company cash flow strong by past standards
  - Debt service ratio not excessive?
  - Subdued wages (no wage-price spiral)
  - Sterling boosting trade?
  - Oil and commodity prices are coming down

# “Profound and longer-lasting downturn”?

- 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?