



# Monthly Economy Update

## August 2010

SEEDA Research & Economics  
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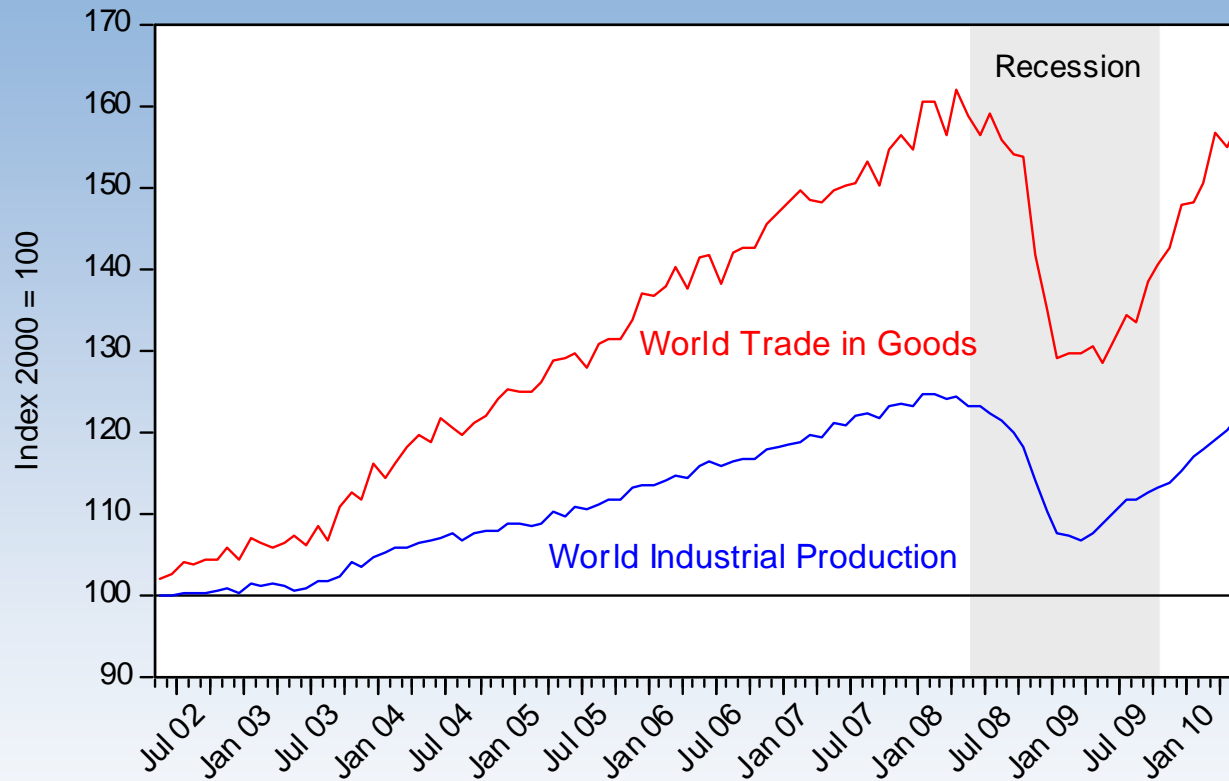
# Agenda

1. Economy update
2. Labour market update
2. Impact of public sector redundancies on the South East economy

# Economy update

# World trade and production recovering

World Trade in Goods and World Industrial Production

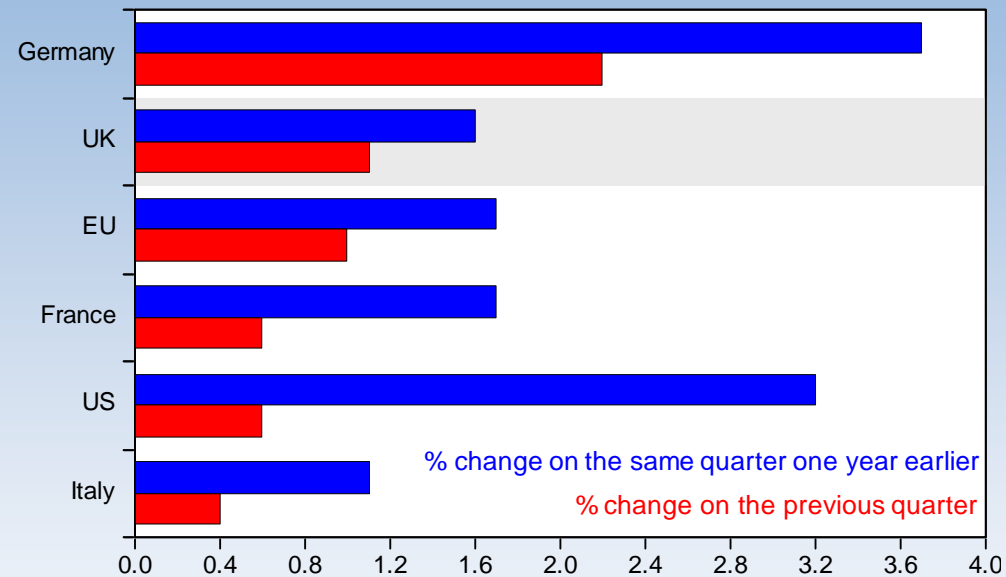


Source: CPB Netherlands Bureau for Economic Policy Analysis

- World trade and production (almost) back to pre-recession levels

# Growth by country

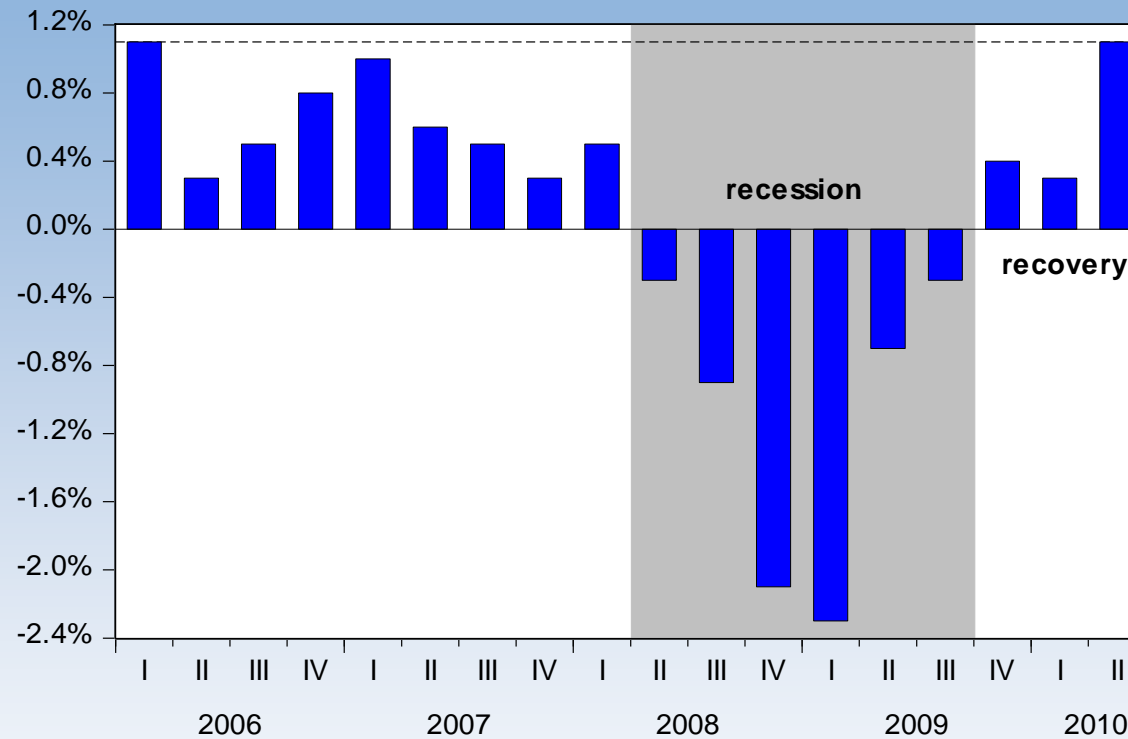
## GDP growth



Source: Eurostat

- Q2 growth in Germany 2.2% - equivalent to 8.8% annual growth

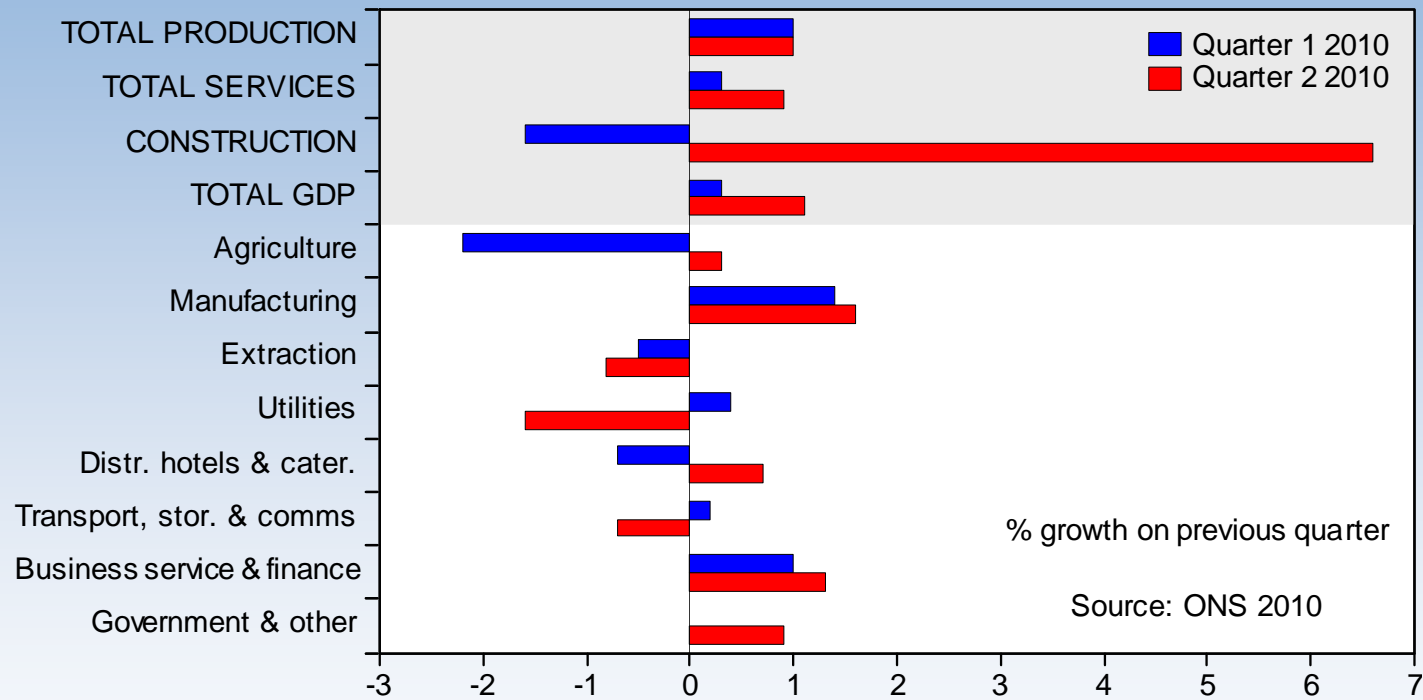
# GDP growth in the UK



Source: ONS

- After six quarters of negative growth, the UK came out of recession in Q4 2009
- Set the pace for a potentially sustained recovery in Q2 2010?

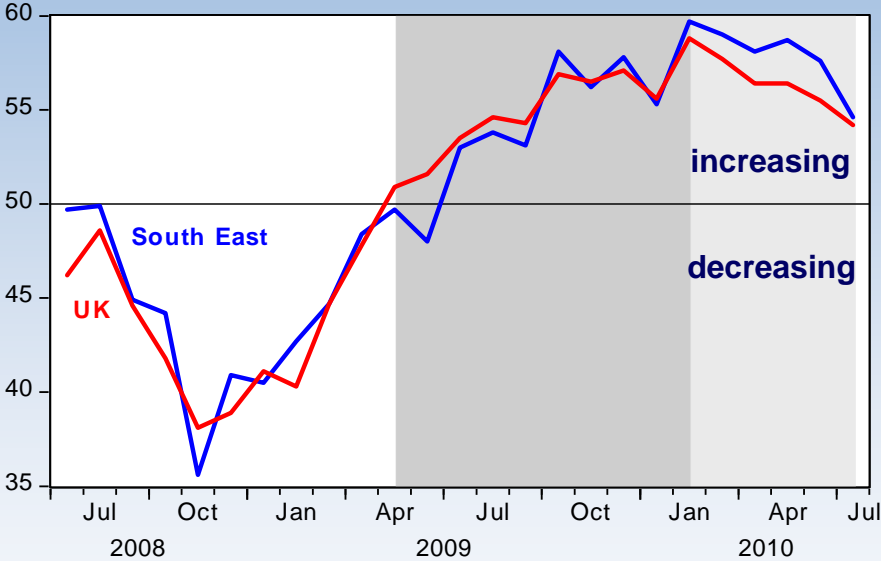
# GDP growth in the UK – by sector



Source: ONS

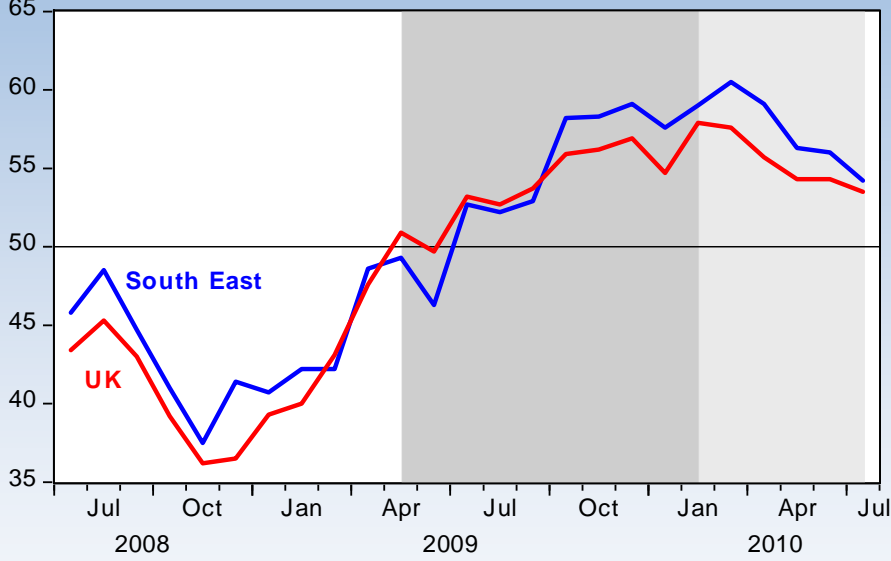
# PMI – growth, but losing momentum

**Business activity (output)**



Source: RDA PMI

**New Orders**

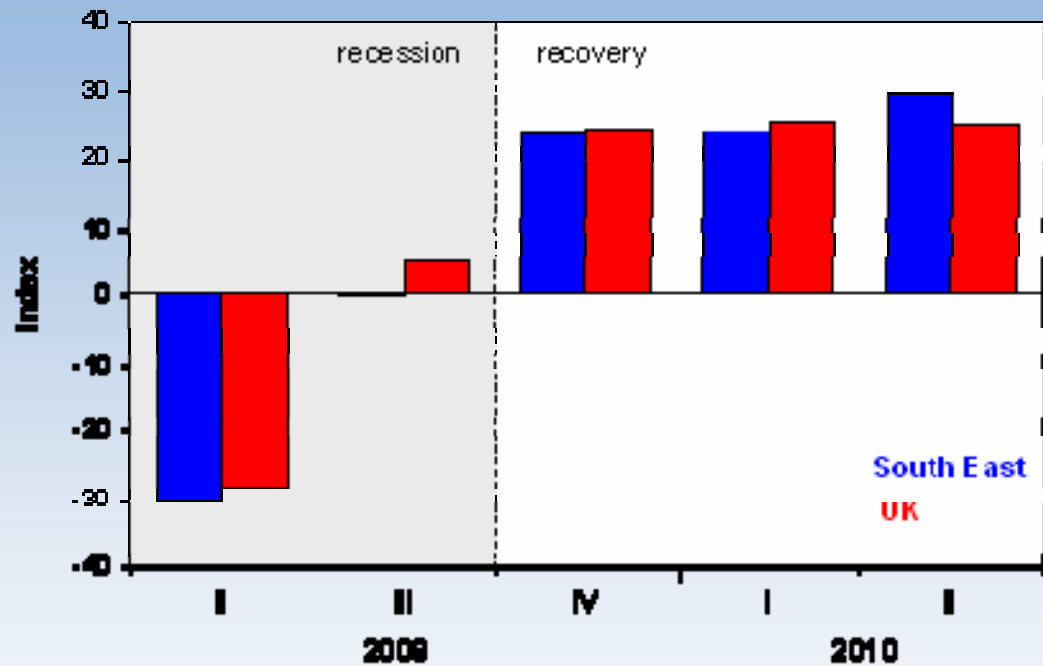


Source: RDA PMI



# Strong regional business confidence...

Business confidence, next 12 months



Source: ICAEW

- Confidence is South East above UK average
- Clear balance of firms expecting improvements in business conditions

# ...but consumer confidence still weak (and falling)

Nationwide Consumer Confidence Index



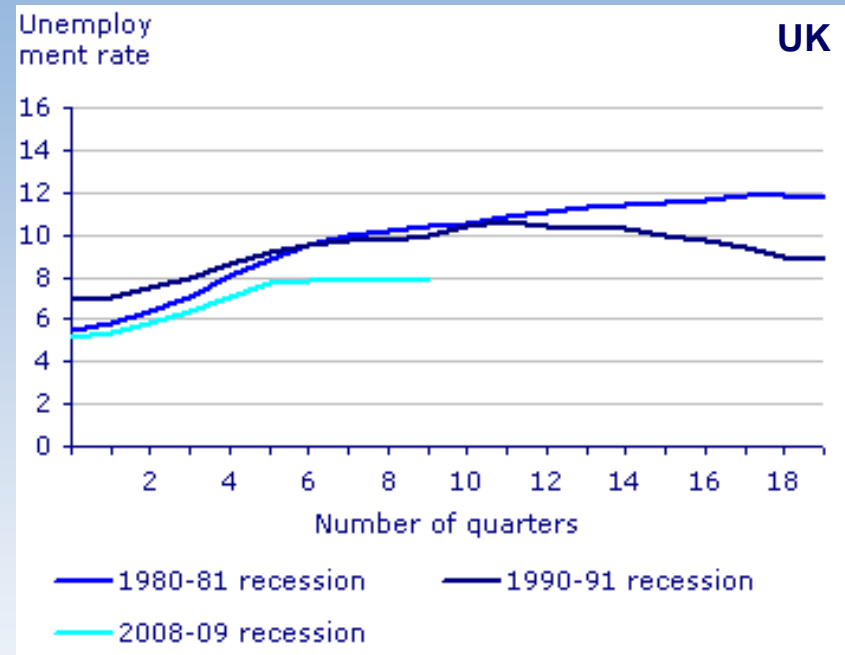
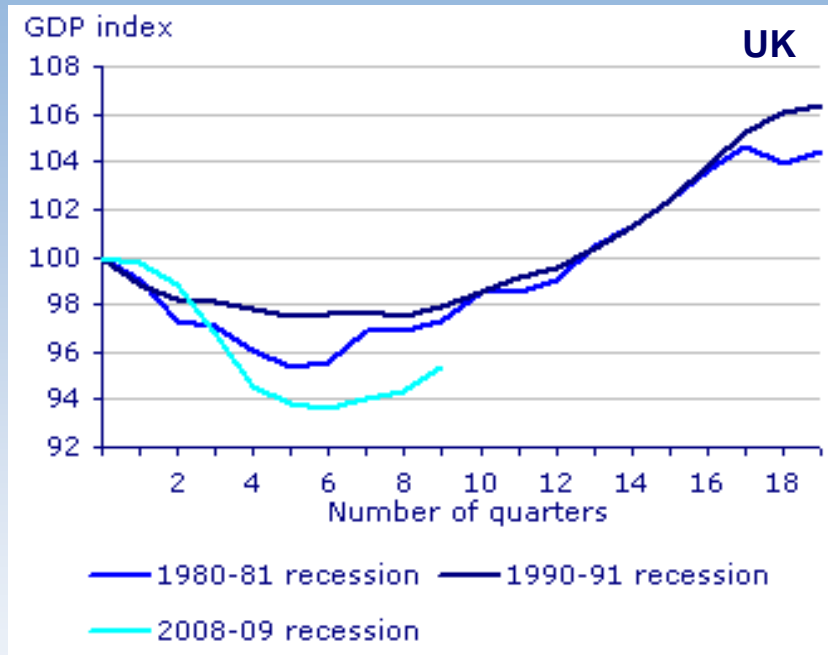
Continued fall over past 5 months

# Risks to Recovery

- Consumer spending/confidence remains weak
- Persistence of high unemployment and inflation
- Business investment remaining subdued
- Uncertainty about demand for UK exports
- Sovereign debt crisis and the possibility of the Credit Crunch 2?

# Labour Market

# Recessions compared



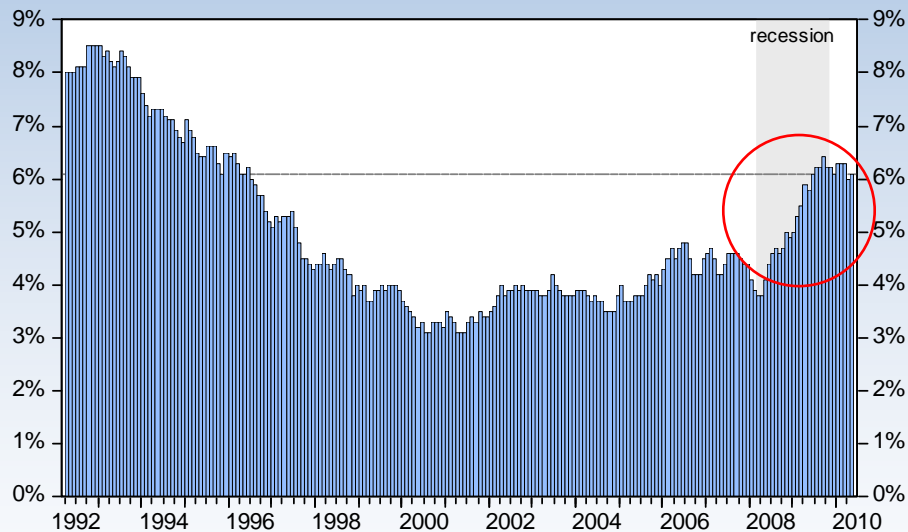
Source: ONS

- Unemployment affected less than output in this recession

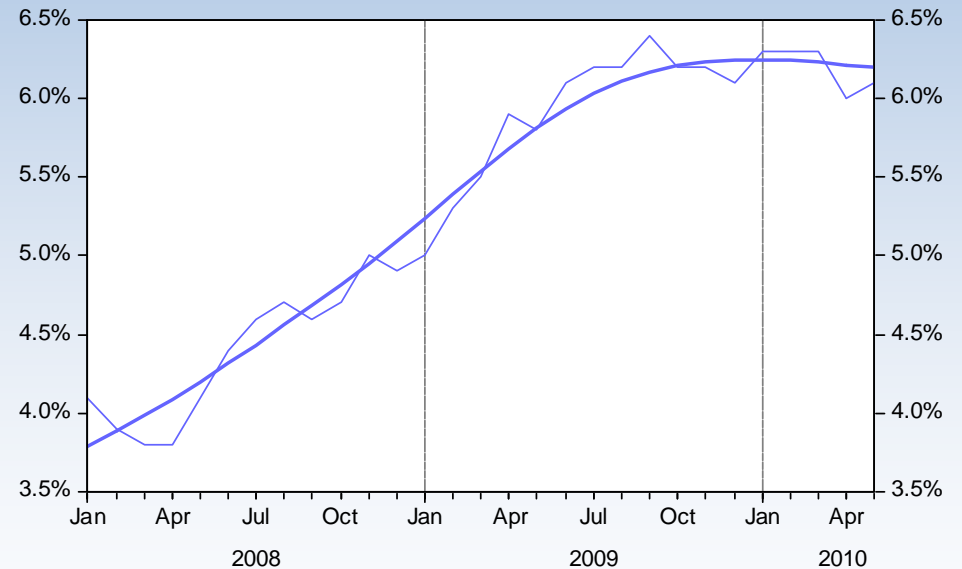
# Unemployment - South East

- Since leaving recession, unemployment has levelled off
- However, past experience suggests full recovery may take years

May 1992 - May 2010



Jan 2008- May 2010

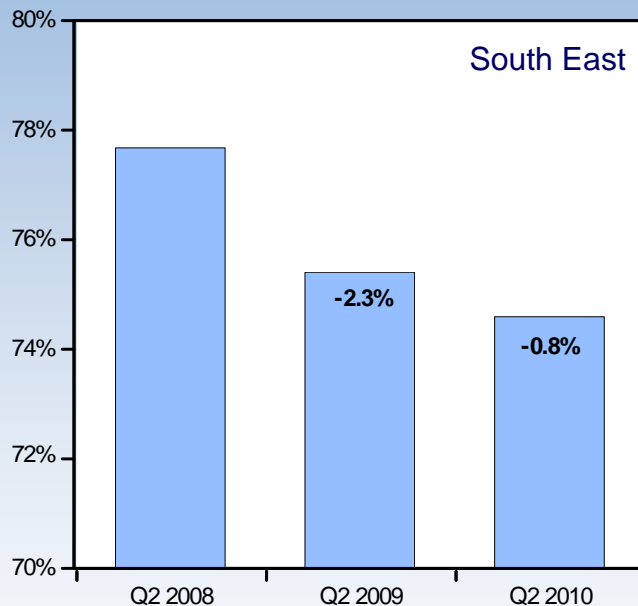


Source: ONS Labour Force Survey

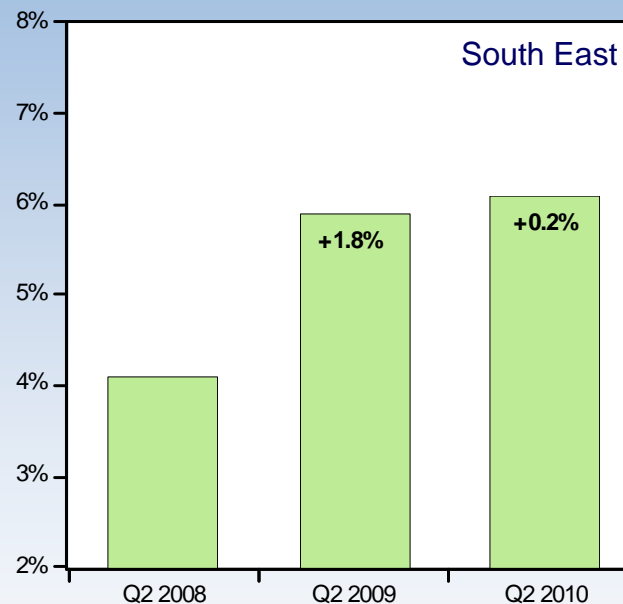
# Unemployment, employment and inactivity

- Despite unemployment levelling out, employment rate continues to fall as economic inactivity rises

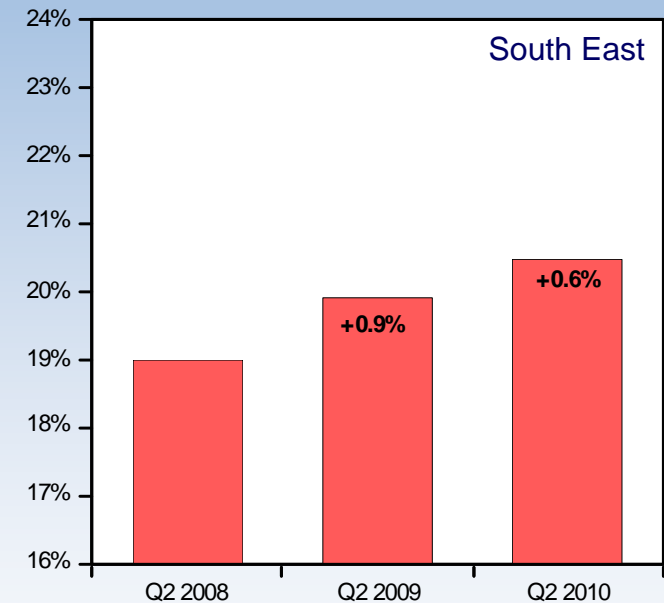
## Employment rate



## Unemployment rate



## Inactivity rate



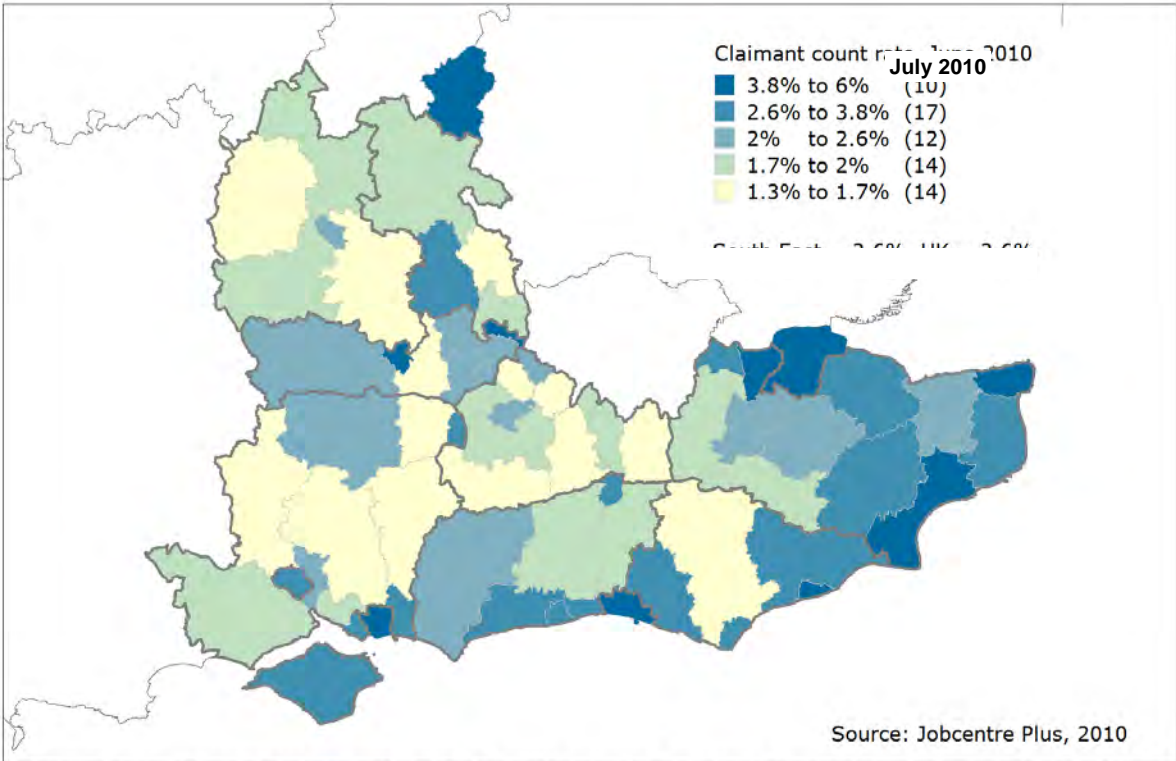
Source: ONS Labour Force Survey

Workforce = employed + unemployed + inactive

Unemployed: out of work and looking for work

Inactive: out of work and not looking for work

# Claimant count



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|                   | Claimant count unemployment rate, July 2010 |
|-------------------|---|
| Hastings          | 5.6   |
| Thanet            | 5.0   |
| Milton Keynes     | 4.0   |
| Shepway           | 3.9   |
| Medway            | 3.8   |
| Slough            | 3.7   |
| Brighton and Hove | 3.6   |
| Gravesham         | 3.6   |
| United Kingdom    | 3.6   |
| <b>South East</b> | <b>2.4</b>                                  |



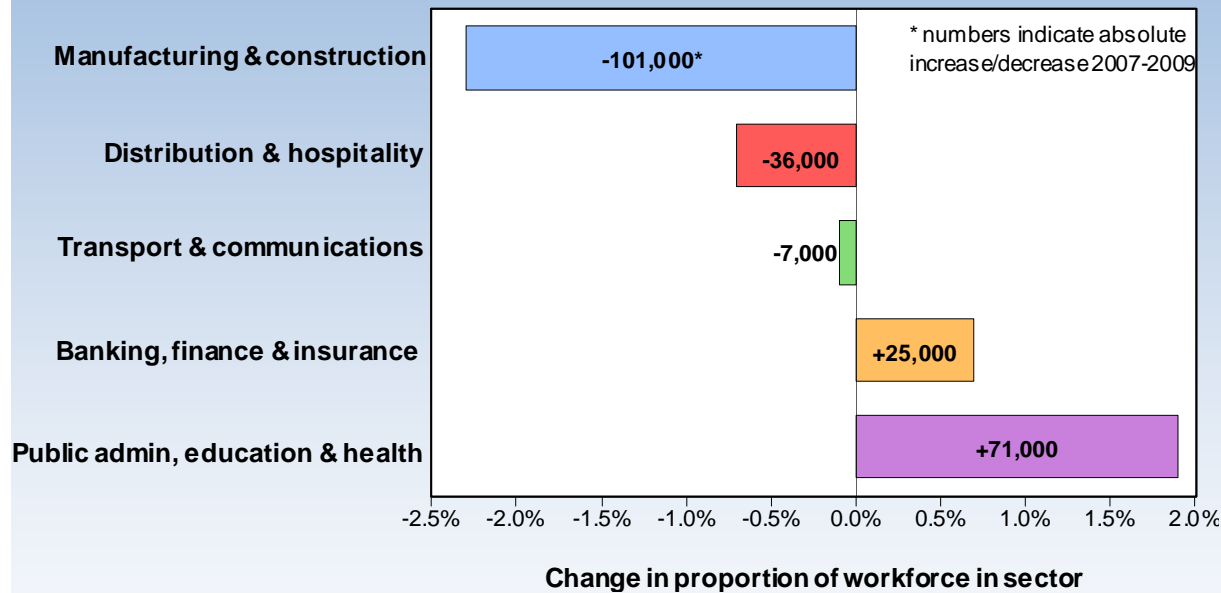
# Forecasts: when output and employment will return to 2007 levels

|                        | Output - Experian | Employment - Experian | Employment –Cambridge Econometrics |
|------------------------|-------------------|-----------------------|------------------------------------|
| <b>UK</b>              | <b>2012</b>       | <b>2015</b>           | <b>-</b>                           |
| <b>South East</b>      | <b>2011</b>       | <b>2014</b>           | <b>2015</b>                        |
| <b>Berkshire</b>       | <b>2012</b>       | <b>2015</b>           | <b>2016</b>                        |
| <b>Buckinghamshire</b> | <b>2011</b>       | <b>2012</b>           | <b>2013</b>                        |
| <b>East Sussex</b>     | <b>2012</b>       | <b>2013</b>           | <b>2015</b>                        |
| <b>Hampshire</b>       | <b>2011</b>       | <b>2016</b>           | <b>2016</b>                        |
| <b>Kent</b>            | <b>2012</b>       | <b>2013</b>           | <b>2014</b>                        |
| <b>Oxfordshire</b>     | <b>2011</b>       | <b>2012</b>           | <b>2016</b>                        |
| <b>Surrey</b>          | <b>2011</b>       | <b>2014</b>           | <b>2014</b>                        |
| <b>West Sussex</b>     | <b>2012</b>       | <b>2016</b>           | <b>2017</b>                        |

- Employment forecast to take significantly longer to recover than output
- South East as a whole may not see 2007 employment levels until 2014/15

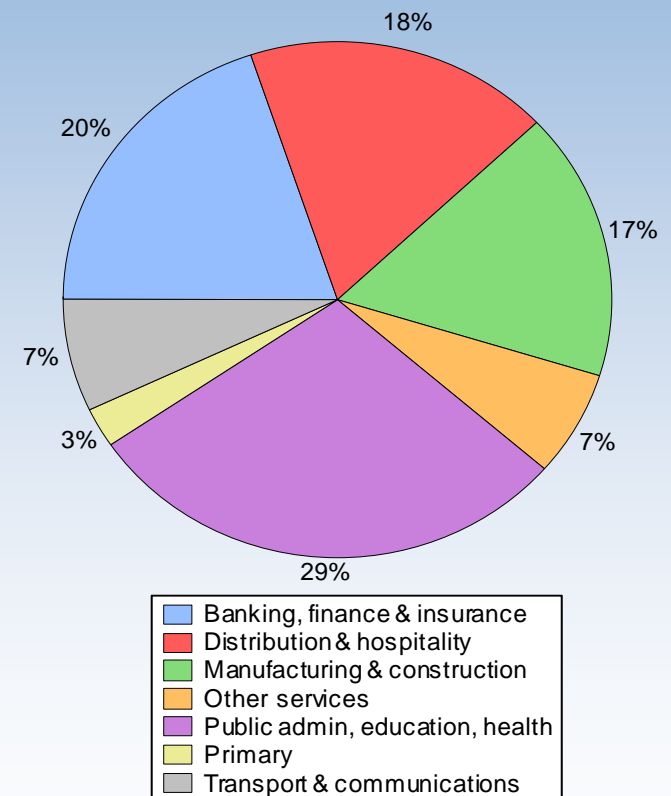
# Sectoral change in the South East, 2007-2009

## Change in employment by sector



Source: ONS Annual Population Survey, residence-based figures

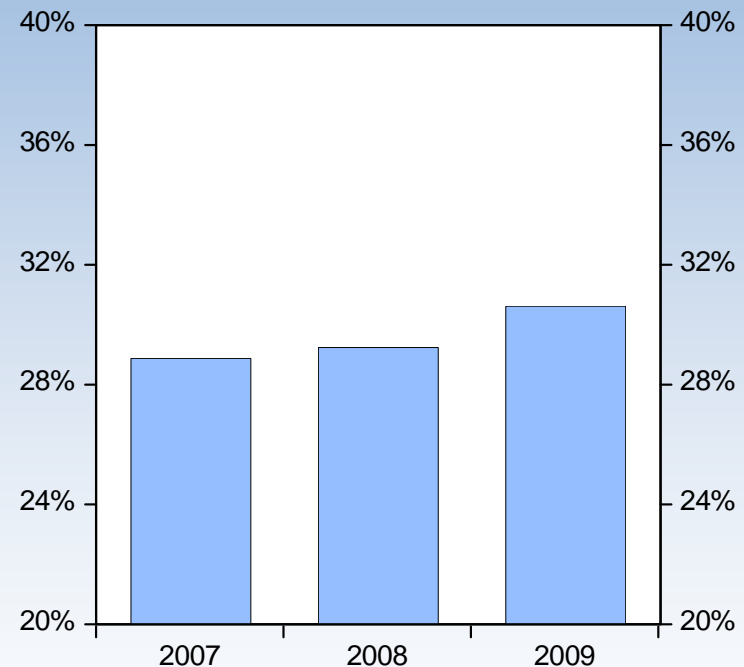
## Sectoral breakdown, 2009



# Rise in part-time work

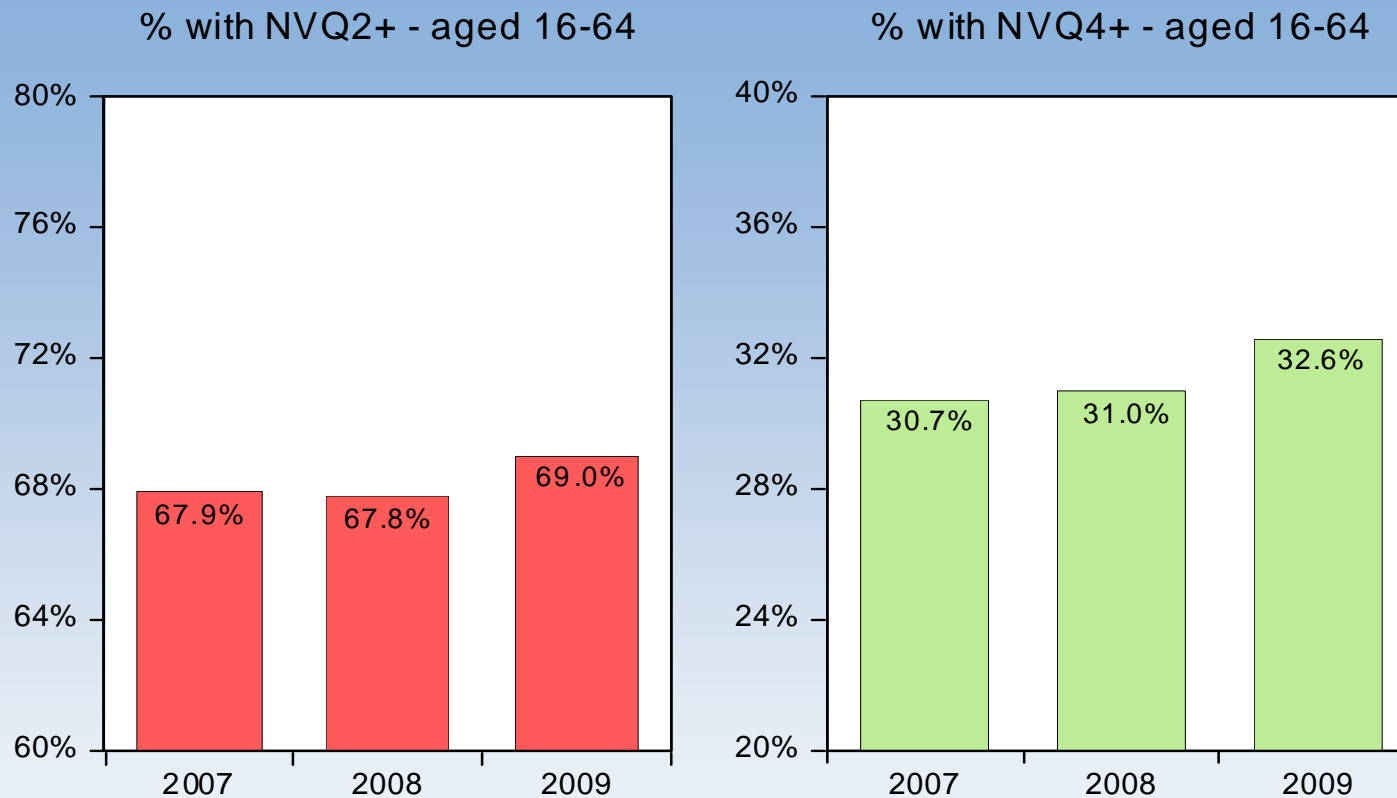
- More people are reporting working shorter weeks
- Coincides with shift to services
- Falling productivity as output falls by more than employment

Proportion of employees working fewer than 35 hours



Source: ONS Annual Population Survey

# Improvement in qualifications



Source: Annual Population Survey

- Improvement in the proportion of people with NVQ2+ qualifications
- Driven by increase in proportion of people with degree-level (NVQ4) qualifications

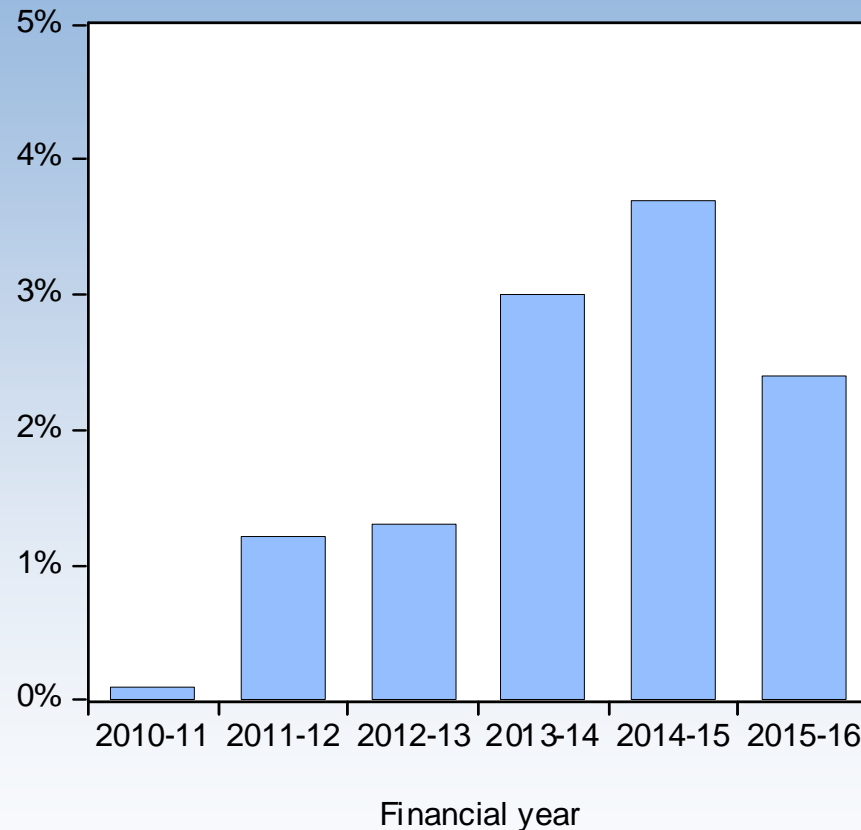
# Impact of public sector redundancies on the South East

# Overview

- Office for Budget Responsibility: 610,000 public sector job cuts over next 5-6 years
- ~ 74,000 in South East
- 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
- Comparison with other UK regions
- 'Bigger picture' – overall vulnerability and ability to recover

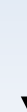
# Office For Budget Responsibility forecast

## OBR public sector employment forecast - cuts per year



- Overall 12% decline in public sector employment
- Brunt of cuts from 2013 onwards
- South East public sector employment:

630,000 (2010)



560,000 (2015/16)

# National comparison

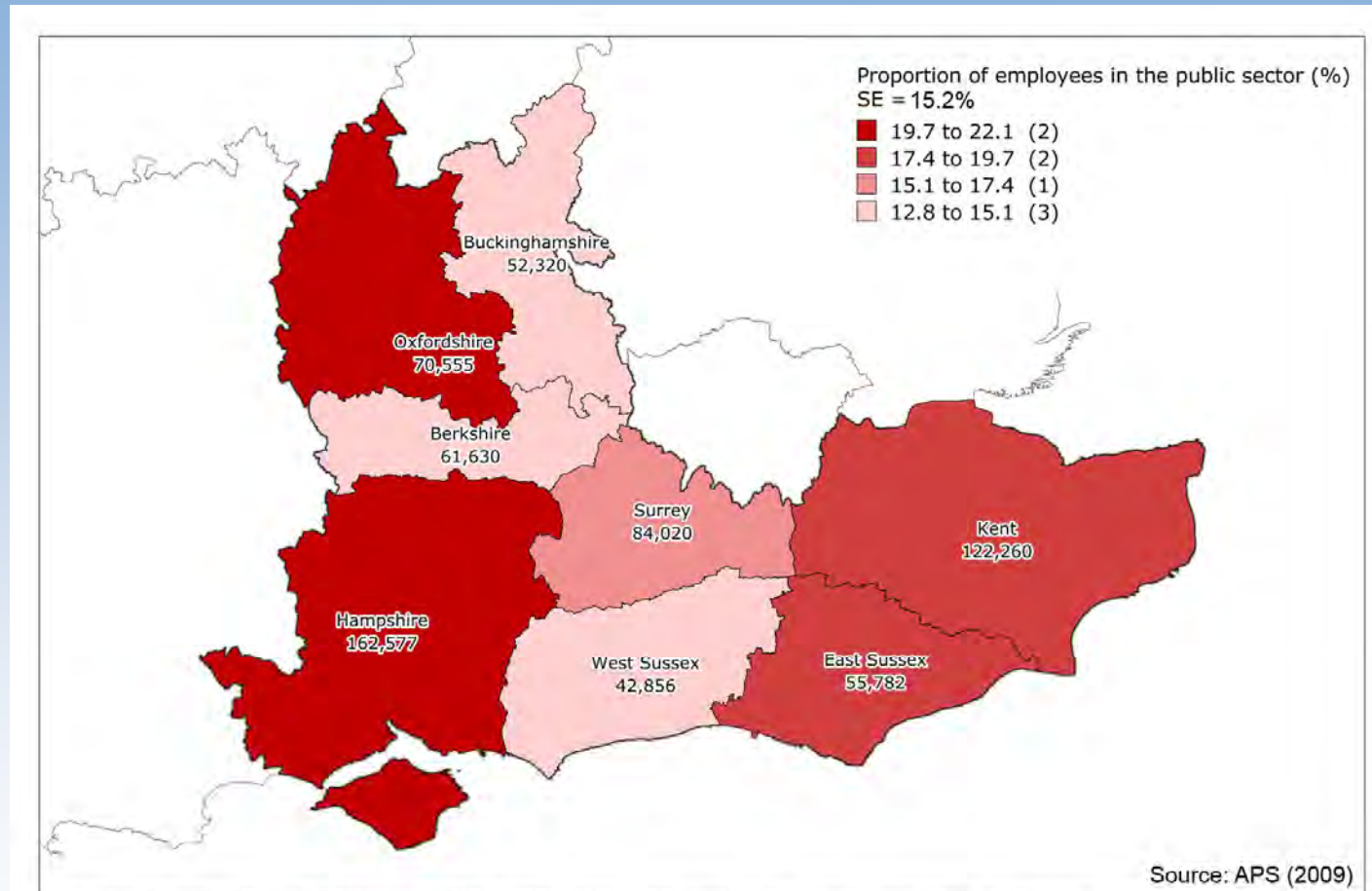
|                      | Share of workforce in public administration, education and health | Rank out of 380 districts in Great Britain |
|----------------------|---|--|
| Oxford, Oxfordshire  | 46%   | #1   |
| Hastings, E Sussex   | 43%   | #7   |
| Canterbury, Kent     | 41%   | #9   |
| Eastbourne, 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  |
| Southeast average    | 25%   | -  |
| GB average           | 27%   | -  |

Source: Annual Business Inquiry, 2008

Public sector proxy: Of 10 districts with largest shares in GB, 3 are in the SE (9 in top 50)

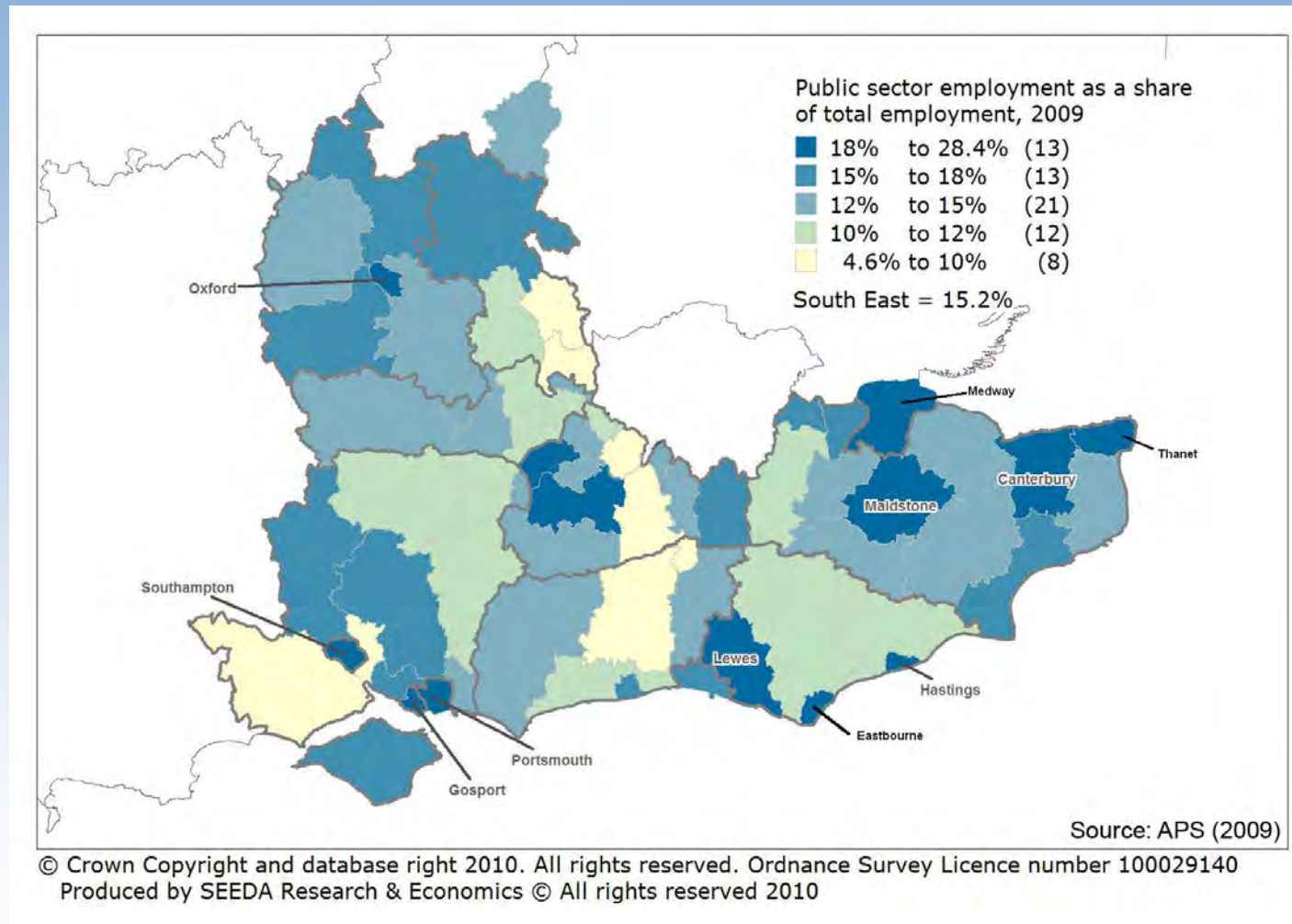


# Proportion of employees in the public sector

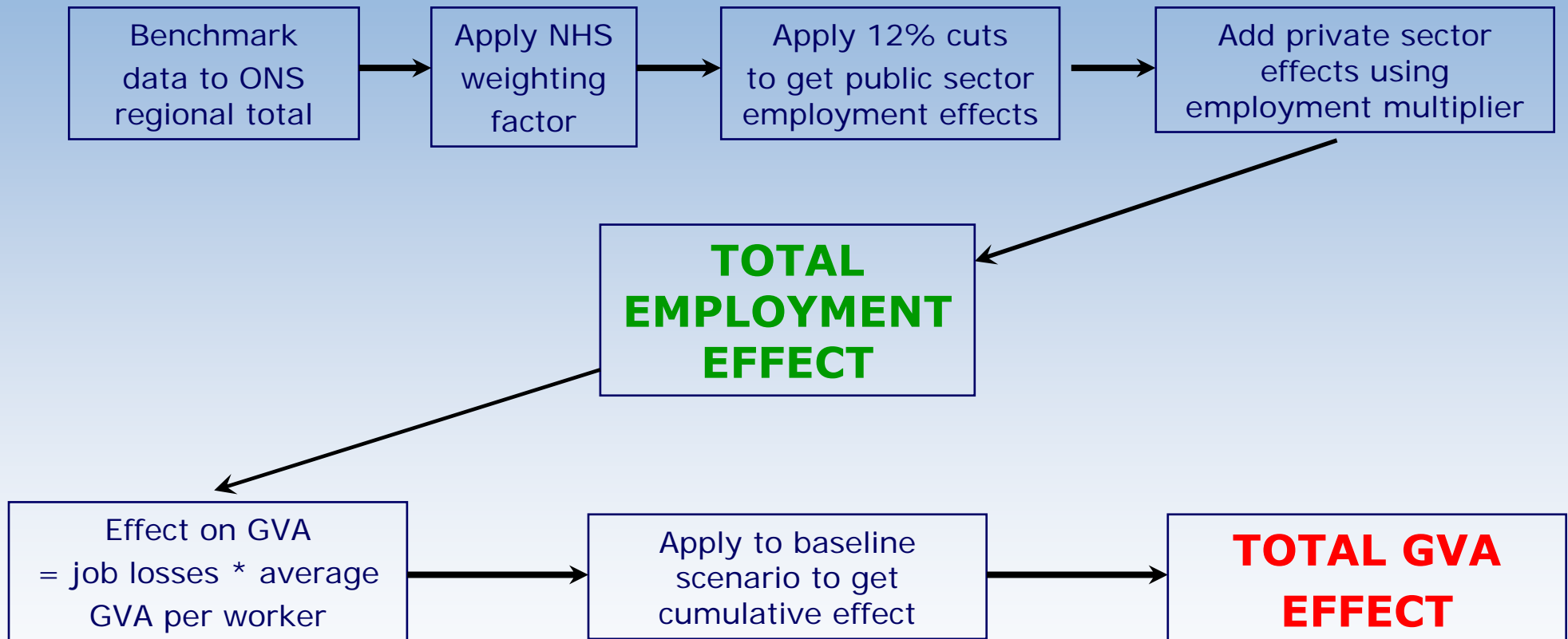


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# Proportion of employees in the public sector

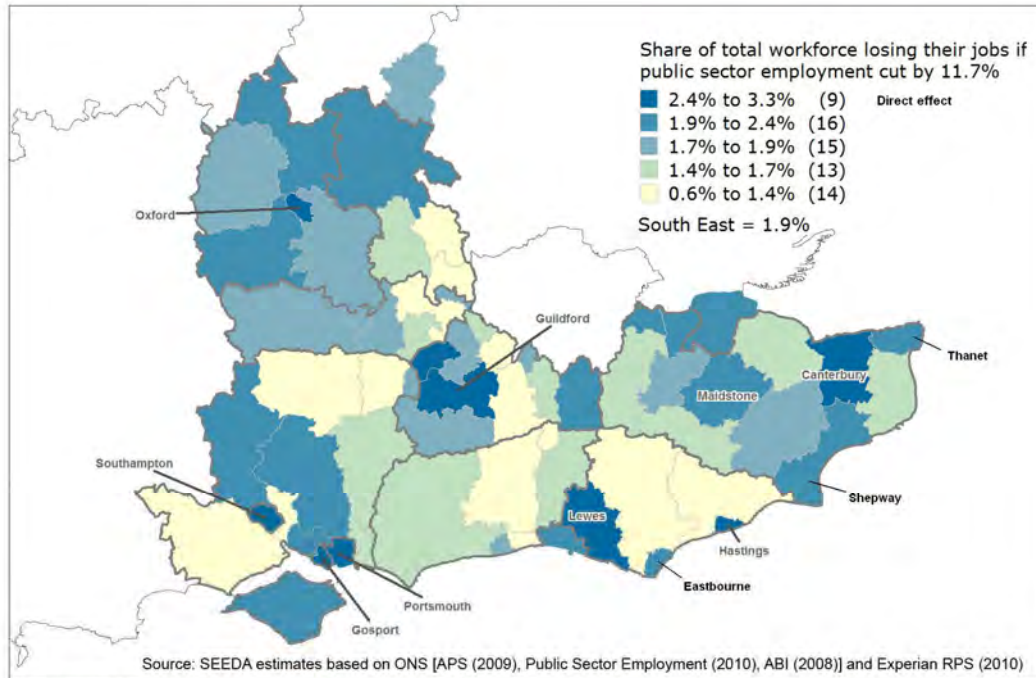


# Base model - methodology



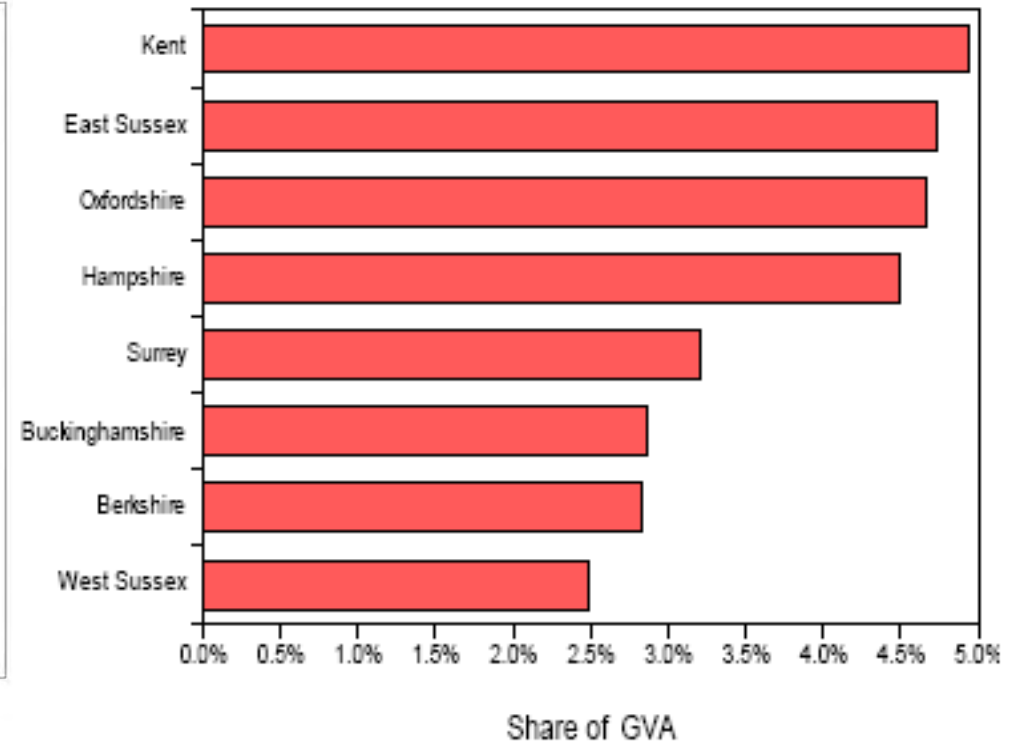
# Results – direct effect

## Employment



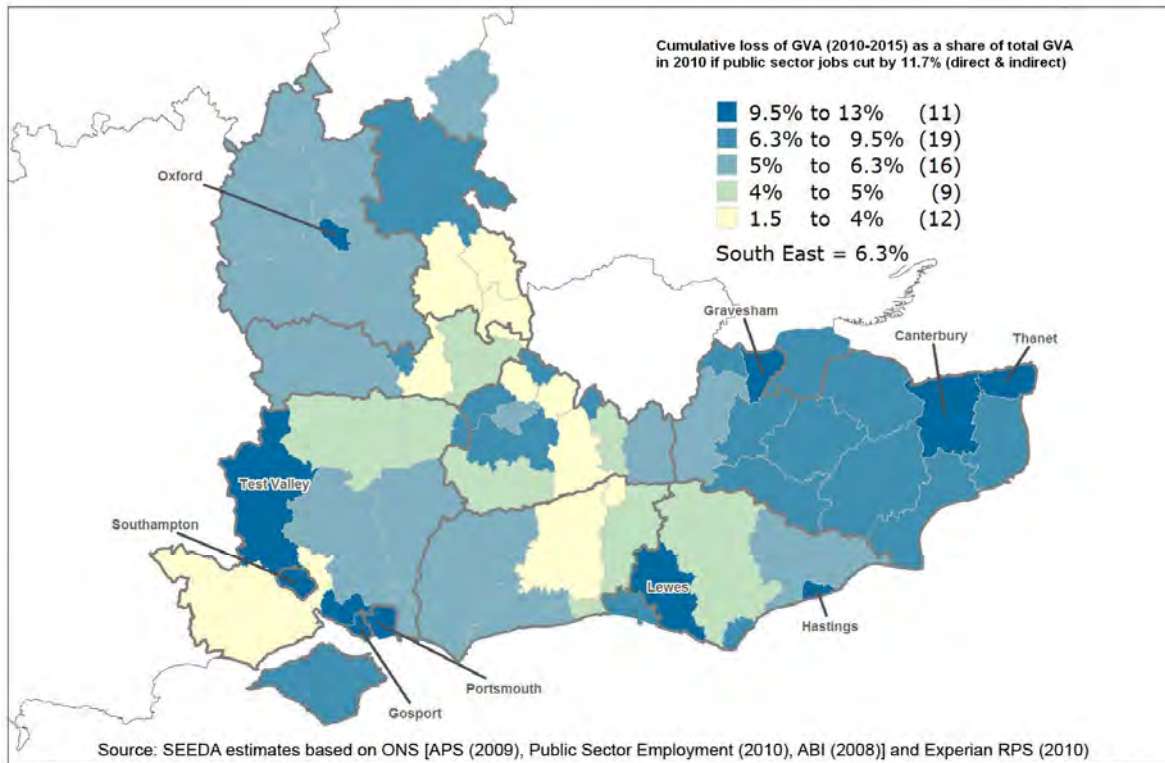
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## GVA – cumulative effect as share of 2010 GVA



- Similar to previous map – many worst affected districts in coastal areas
- 13 out of 16 worst affected districts in Kent, East Sussex or South Hampshire

# Results – direct and indirect effect

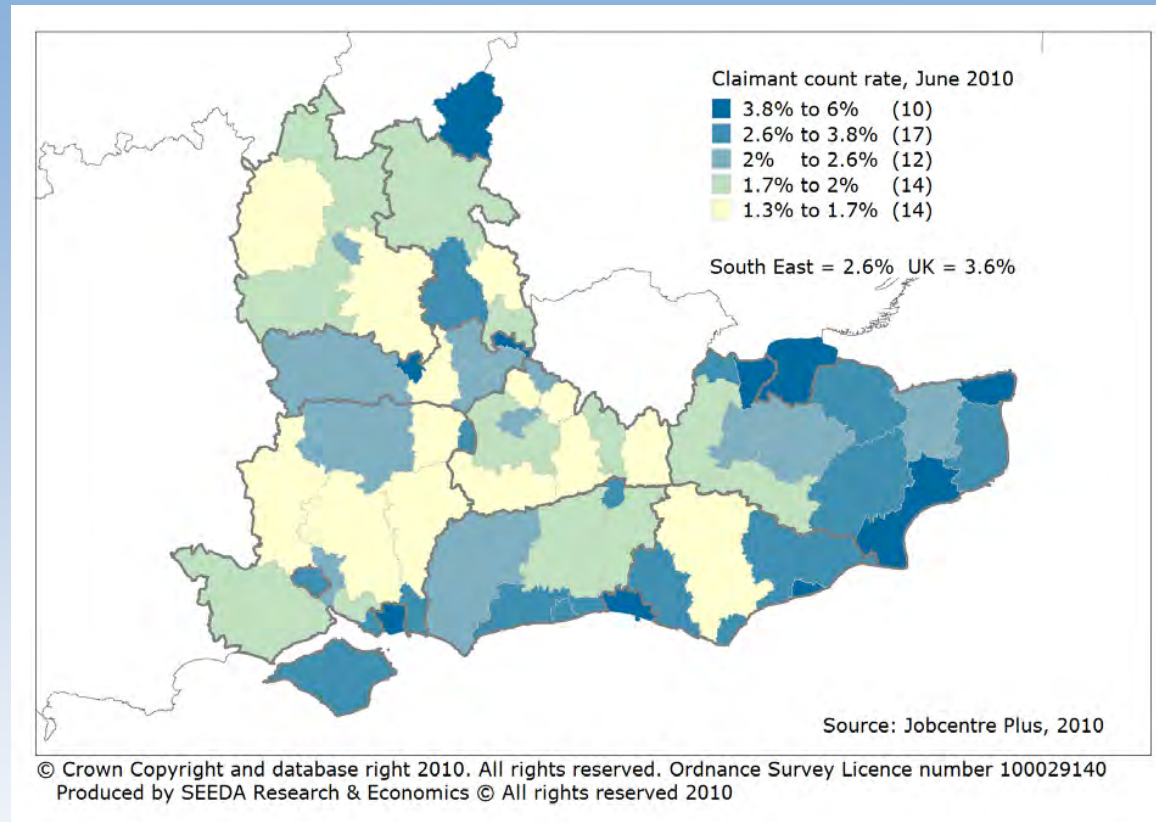


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|                   | Cumulative<br>2010-2015/16 |
|-------------------|----------------------------|
| <b>Employment</b> |                            |
| Direct            | 74,000                     |
| Indirect          | 33,000                     |
| <b>Total</b>      | <b>107,000</b>             |

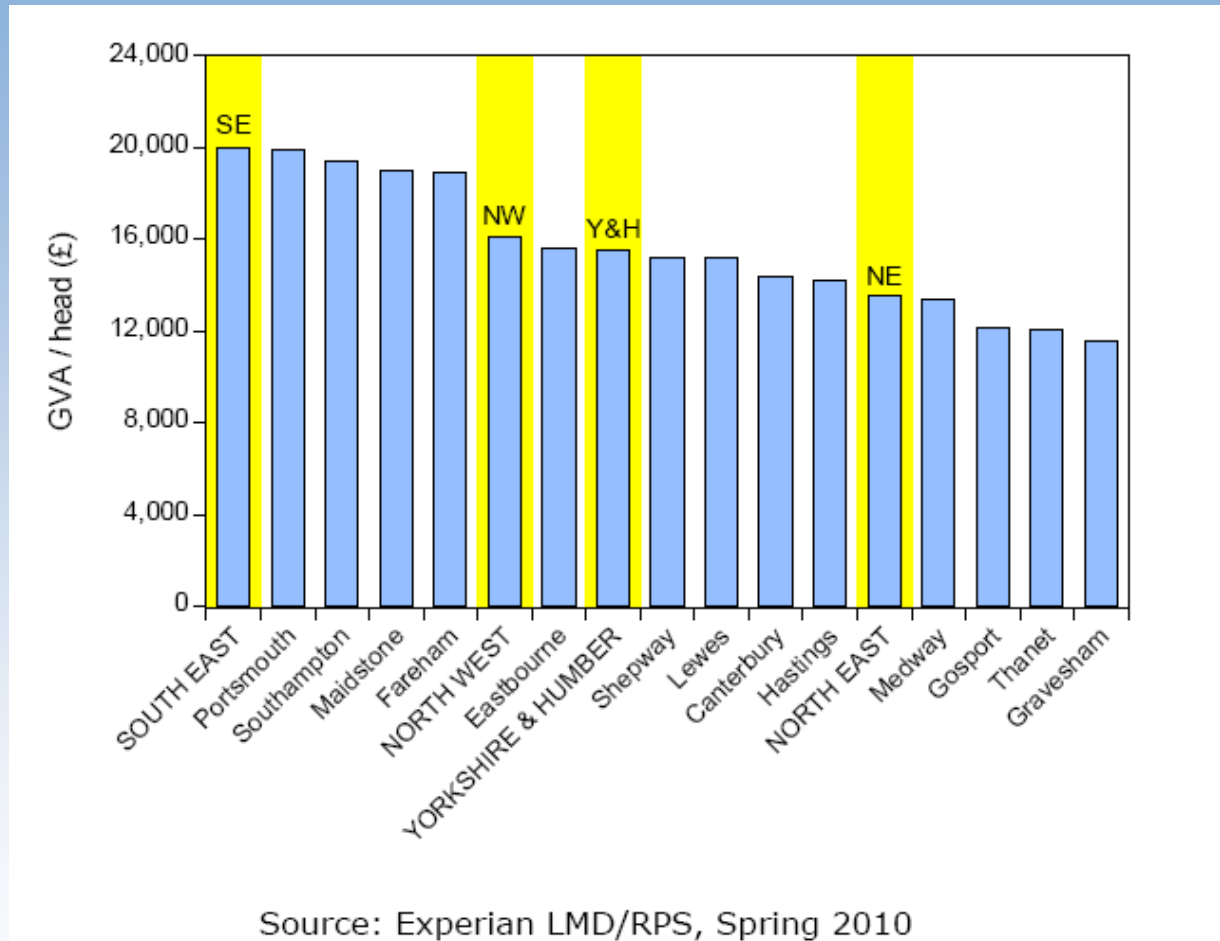
|              | Cumulative<br>2010-2015/16 |
|--------------|----------------------------|
| <b>GVA</b>   |                            |
| Direct       | £6.3bn                     |
| Indirect     | £4.1bn                     |
| <b>Total</b> | <b>£10.4bn</b>             |

# Unemployment – June 2010

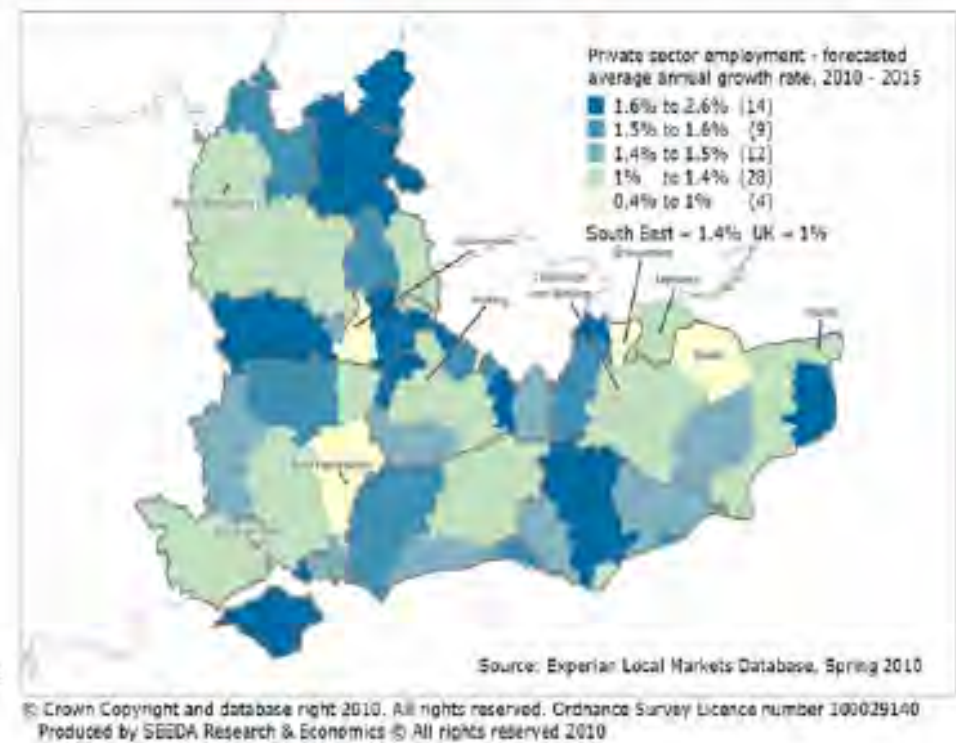
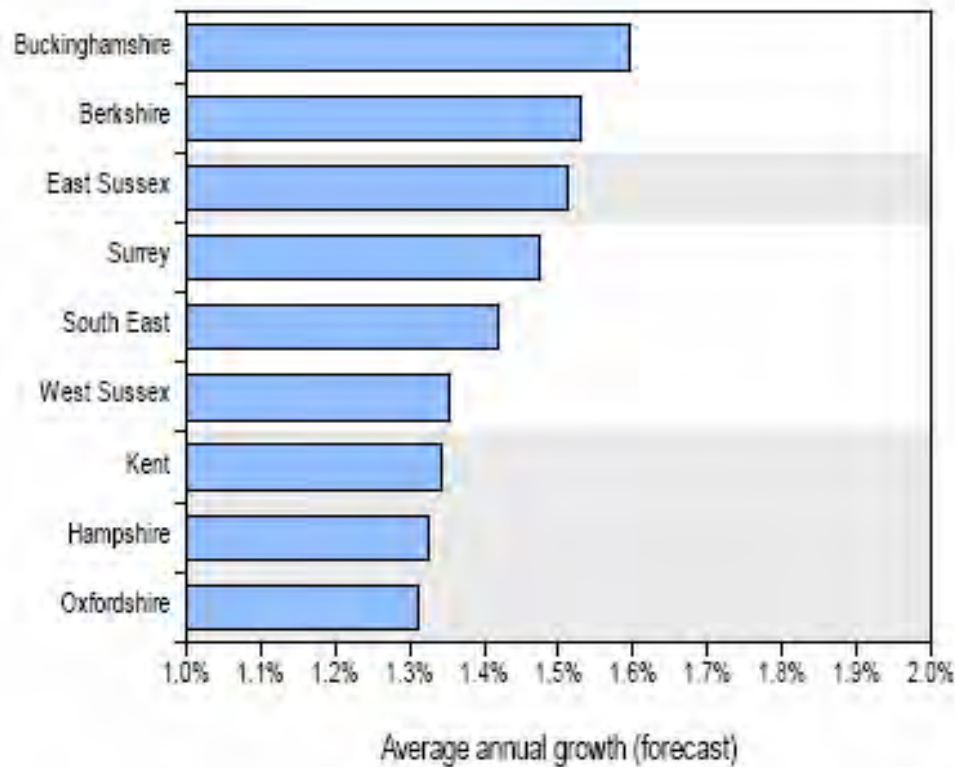


- Higher unemployment in coastal areas
- Correlation between districts forecast to be most affected and districts with high unemployment

# GVA per head – coastal SE and UK regions



# Private sector employment growth forecasts



Source: Experian Local Markets Database, Spring 2010



# Vulnerability 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

**Thank you**

**SEEDA Research & Economics**

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