

SEEDA Directors Group Meeting

South East Economy Update

February 2009

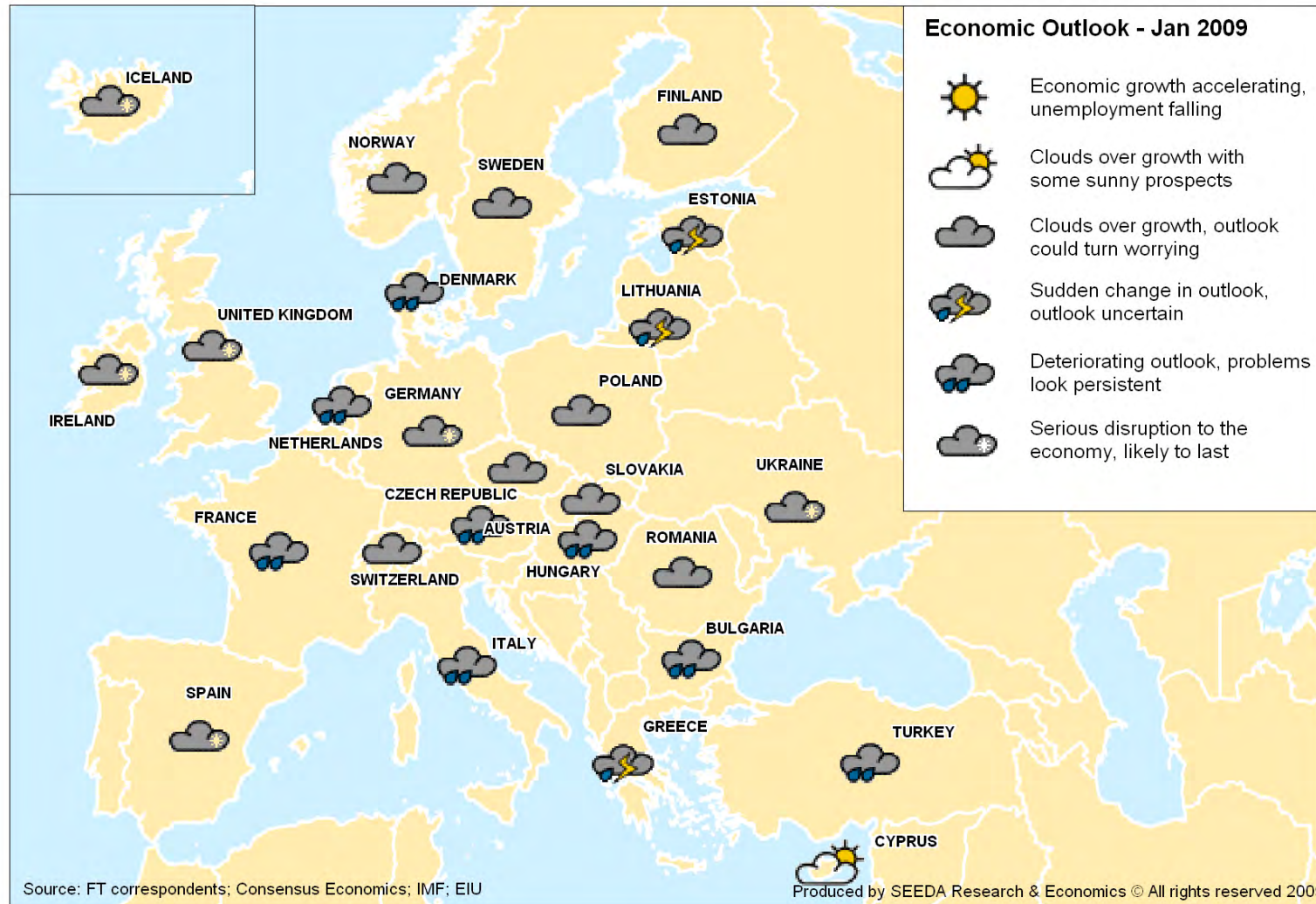
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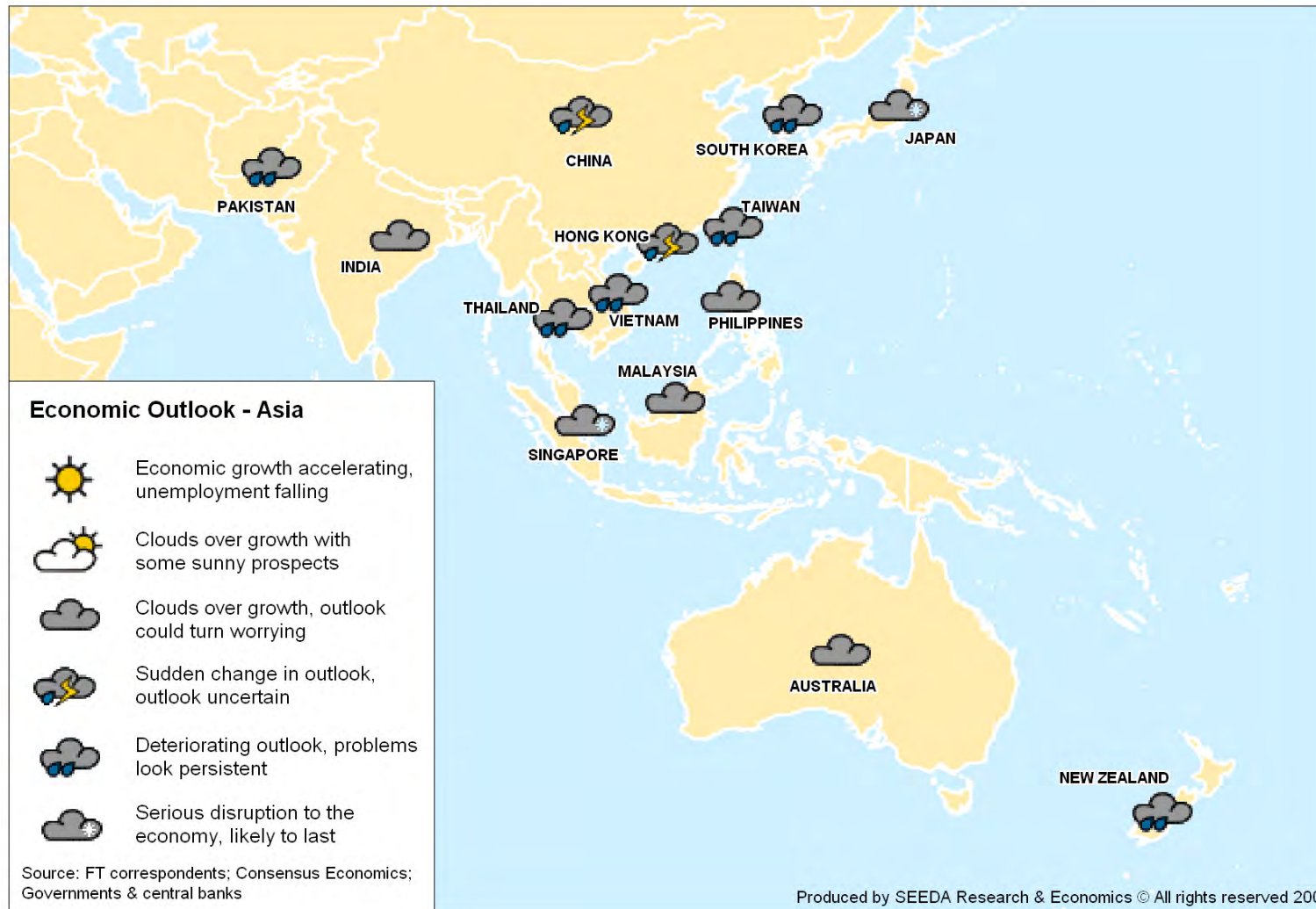
The story so far

- **Supply shock** from **rising inflationary pressures**, followed by ...
- **Demand shock** from the **liquidity squeeze**.
 - A large fall in **asset prices** (from housing to commodities)
 - Worst performance in **equity prices** in decades (falls c.30-40% in UK, US, Eurozone and Japan).
 - Even greater falls in emerging markets.
 - A sharp **contraction in aggregate demand**
 - Major **industrial economies in recession**, ... a sharp slowdown in developing economies.

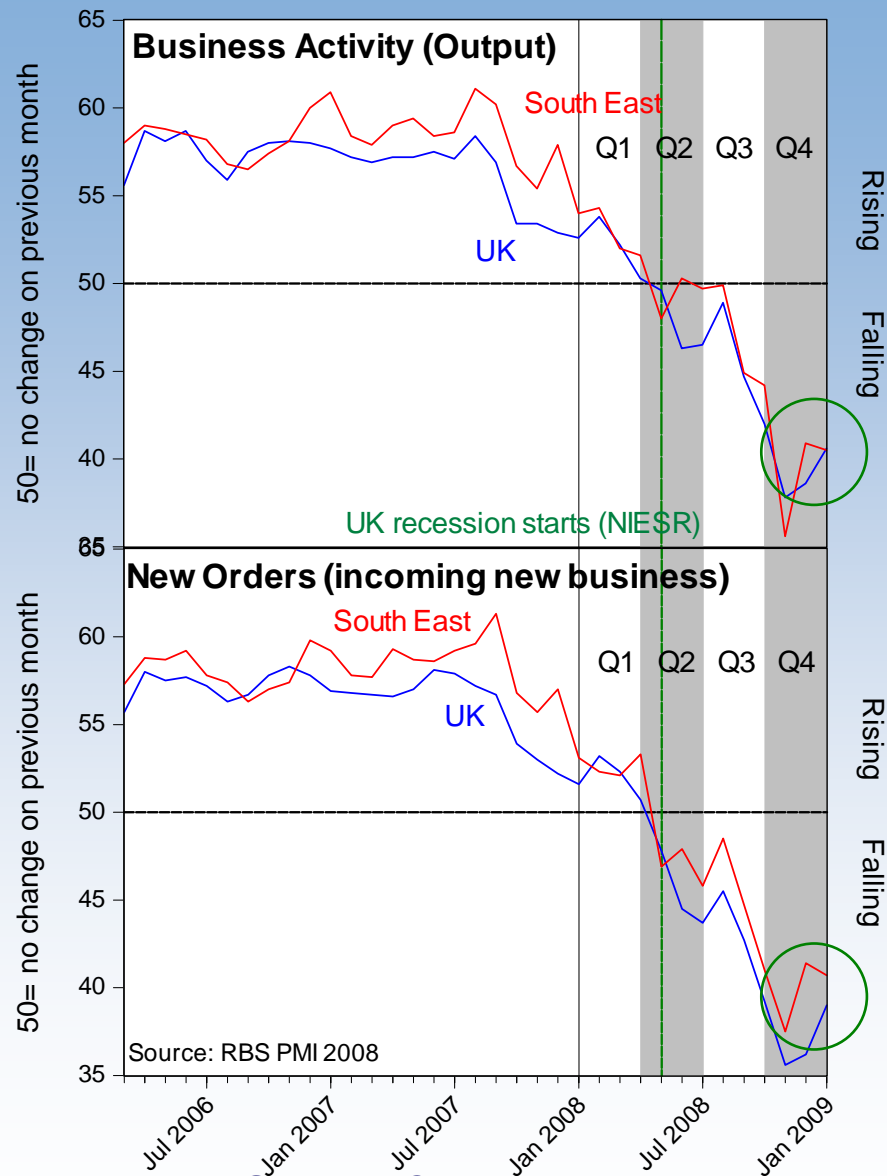
European Economic Outlook (January)



South East Asia and Australia



South East Economy



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- A further weakening of economic conditions in January.
- Marginally higher volume of export orders?
- Lower employment levels and an increase in unemployment.
- Lower input and consumer prices.
- Profit margins and cashflow positions have worsened.
- Investment remains mostly lower.

Source: SEEDA 2009, Regional Intelligence Snapshot for the South East – January 2009.

Level of Output

Is your present level of output below capacity
(i.e. are you working below a full rate of operation)?



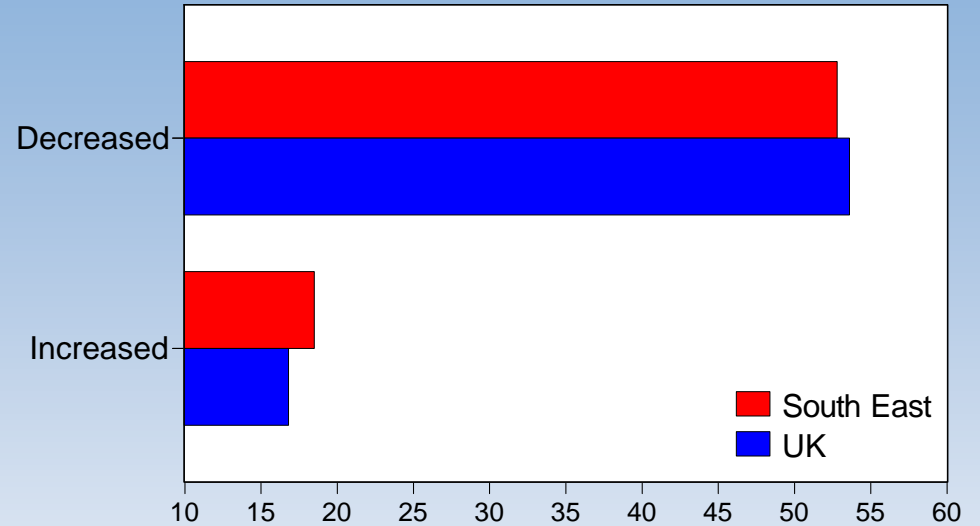
Source: National Business Survey 2009
(Ipsos MORI for SEEDA)

- **Size**

- 1-9 (67%)
- 10-49 (60%)
- 50+ (49%)

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Has your trade in the last 2 months ...



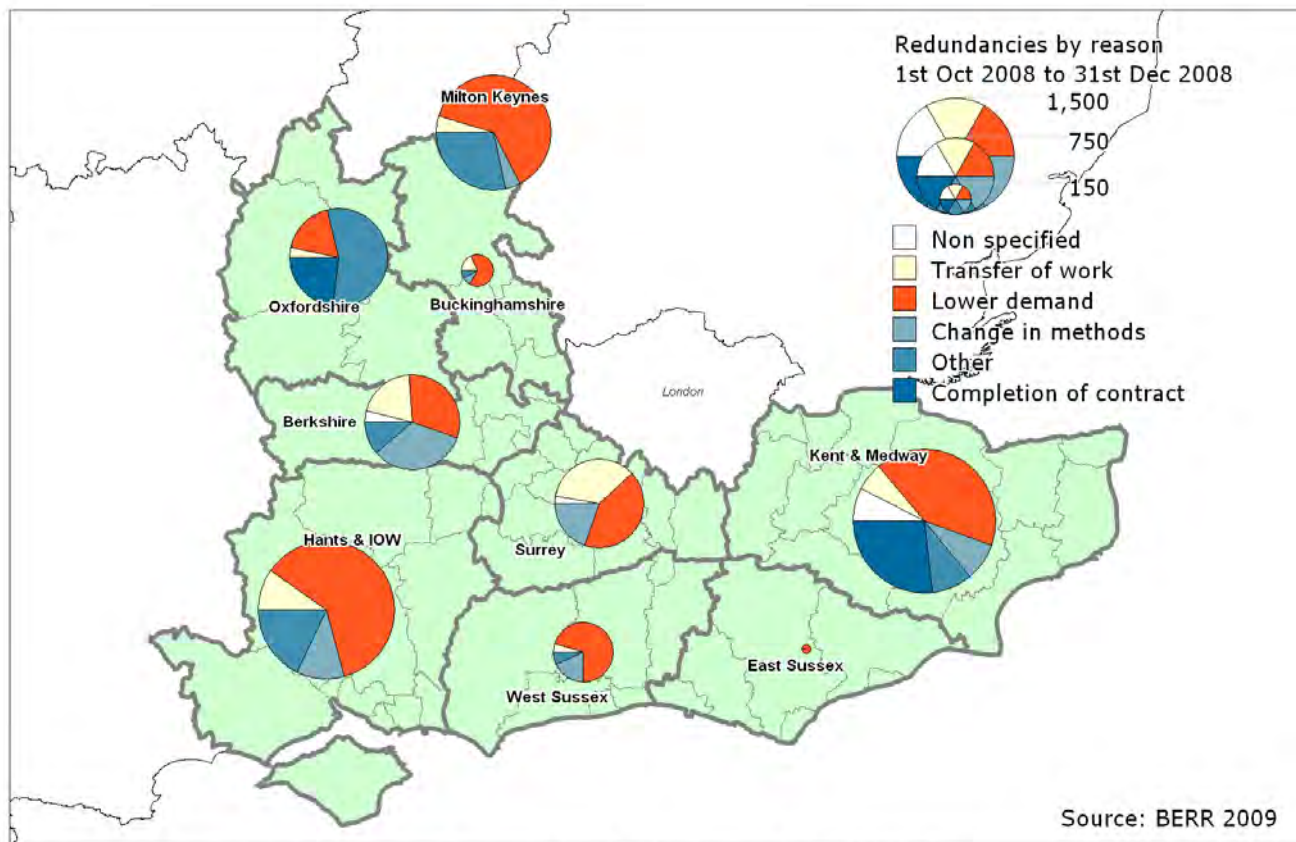
Source: FSB (February 2009)

- **Sector**

- Manufacturing (77%)
- Distribution (67%)
- Hotels & Cat. (67%)
- Finance (65%)

Sectoral Impact

Redundancy Notifications in Q4 2008



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- **Sector**

- Manufacturing (30%)

- Construction (9%)

- Finance (7%)

- ❖ Transport (10%)

- ❖ Telecom (9%)

- **Causes**

- Lower Demand (47%) in Q4, 57% in December

- **Sub-region**

- MK, Oxfordshire, Kent.

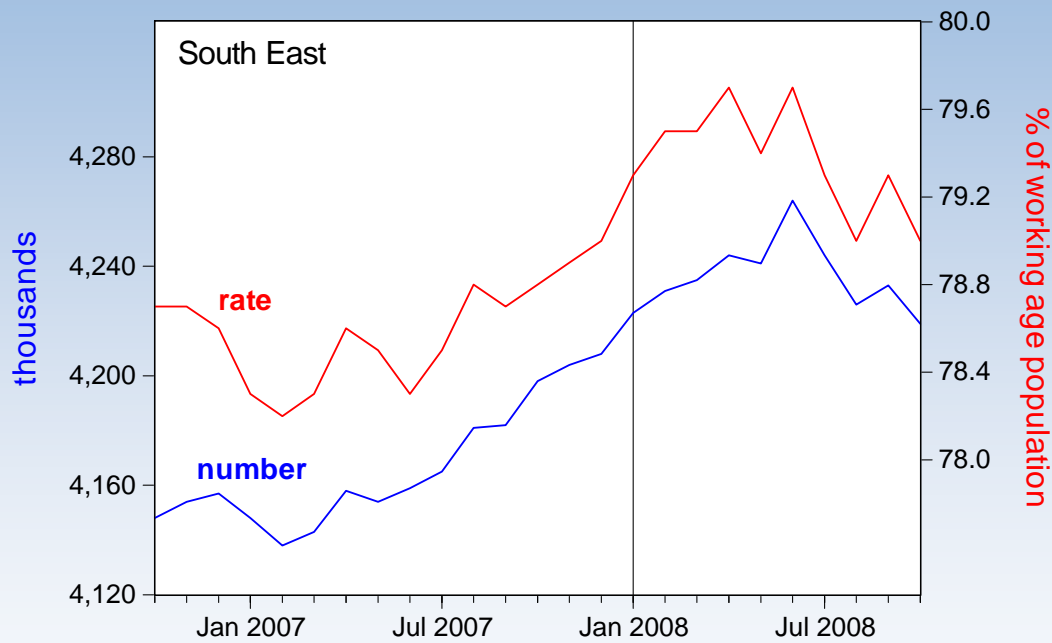
- Jan/Feb: Berkshire, Bucks.

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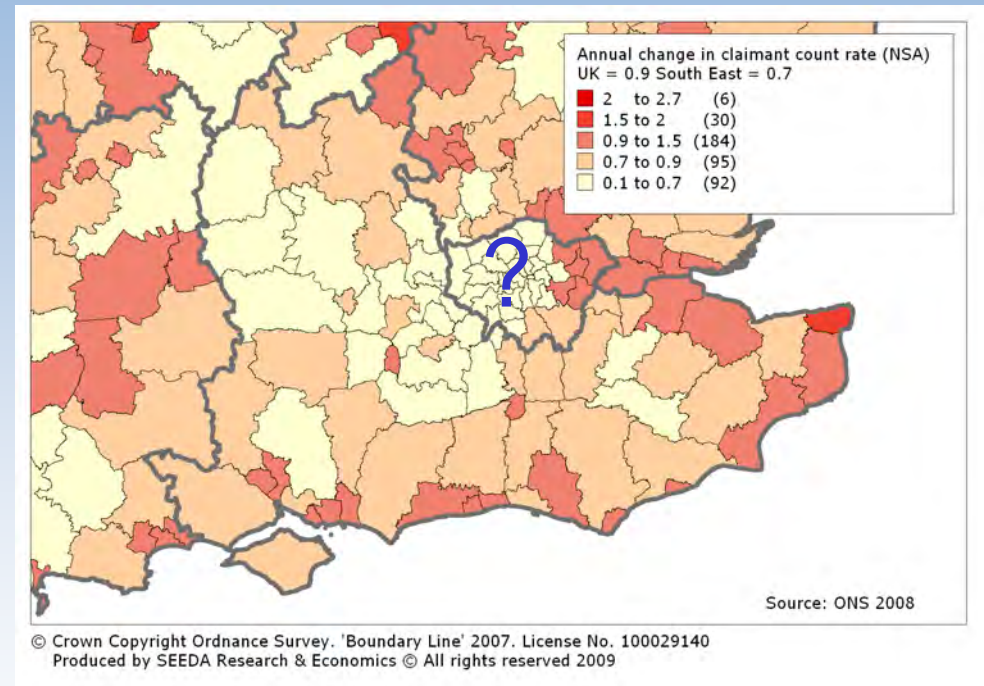
Labour Market

Annual change in claimant count unemployment

Employment



Source: National Statistics 2009



Business Expectations for 2009

- 55% SE businesses expect business climate to deteriorate (balance -44%).

- **Size**

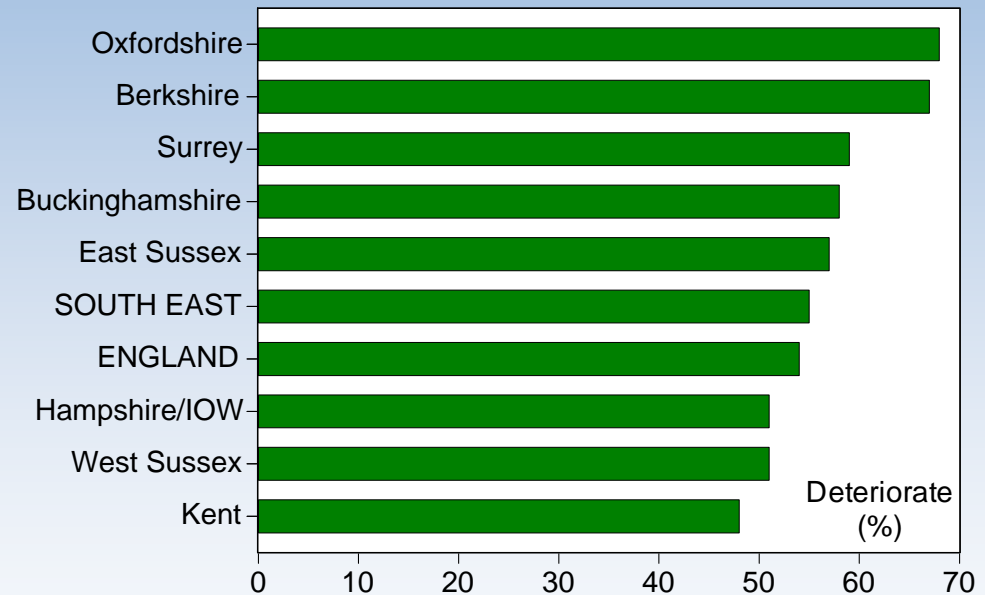
- 1-9 (-46%)
- 10-49 (-43%)
- 50+ (-24%)

- **Sector**

- Construction (-72%)
- Manufacturing (-55%)
- Distribution (-55%)
- Finance (-43%)

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



Source: National Business Survey 2009
(Ipsos MORI for SEEDA)

Who will get out first?

Recessions	1970s	1980s	1990s
Agriculture	0	0	0
Health & Social Work	0	0	0
Education	0	0	0
Other services	n/a	n/a	0
Wholesale & Retail	3	4	4
Electricity, Gas & Water	1	4	0
Mining & Quarrying	4	3	1
Public Admin	7	1	0
Transport & Comm	6	3	3
Hotels & Rest.	3	3	7
Manufacturing	5	5	5
Financial Inter.	n/a	n/a	7
Real Estate	n/a	n/a	7
Construction	7	8	13
Total (GVA)	3	5	5

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Source: RBS 2009

•Last Out:

Real Estate
Finance
Construction
Manufacturing (?)

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

Key Challenges

- **Cost of credit insurance** increased for 52% of small businesses in the South East. *Source: FSB Feb'08*
- Some **credit insurers** now refusing to insure some businesses. Concern about the ability of companies in **supply chain** to withstand recession. *Source: SEEDA 2009, Regional Intelligence Snapshot for the South East – December 2008*
- Lenders reduced the availability of credit to businesses and households in the three months to mid-December. A further fall was expected, BUT demand remains stable!
Source: Bank of England Credit Conditions Survey, January 2009
- 2/3 of small businesses in South East have seen an increase in the overall cost of new credit in the past 2 months. *Source: FSB Feb'08*
- **Restore liquidity – scarcity of money is an issue!**

- Considerable stimulus to the economy:
 - Easing in **monetary and fiscal policy**; further **policy interventions** on the way
 - Policymakers are throwing everything at it!
 - A substantial **fall in sterling**
 - **Decline in inflation; real wages growth**
- In the end, policy response will work!
- How long will it take?
- **South East specific:**
 - Industrial mix
 - Strength of private sector economy
 - High economic activity and Employment
 - High business start-up and survival, etc.

Thank you

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