

Summary of economic conditions

- The latest **South East Purchasing Managers' Index** survey signaled that the bounce in business activity and demand in the South East seen earlier this year has not been sustained during the summer, with **growth in business activity and new orders faltering further in August**. Reflecting weakening business activity and persistent spare capacity in the economy the **PMI employment index fell for the first time since April 2010**.
- The latest ONS data shows that in the three months to July the **number of people in employment in the region fell by 1,000** compared with the previous three months. Almost all of the other regions saw relatively large increases in employment. The **employment rate was 74.7%** in the three months to July – falling by 0.2% points on the previous quarter, but remains the highest of the English regions.
- The **claimant count unemployment in August 2010 was 132,198**, up by 156 compared to July 2010 but 24,427 lower than a year ago. There were **46,800 vacancies notified to Jobcentre Plus in August 2010, which is 6,500 higher than in July**. There are currently 3 claimants per vacancy – compared to 4 claimants per vacancy in August 2009.
- According to the latest RICS Housing Market Survey results for August, **house prices in the South East declined for the second consecutive month since July 2009**, mainly due to further increase in the supply of property. However, the latest **house price index from Land Registry** signaled a **slight increase** in August compared to the previous month.
- Data from BankSearch suggest that the number of business start-ups in the South East fell slightly in August, though levels are around 20% higher than in August 2009.

Key challenges and hotspots

- **Business confidence has significantly weakened in the South East**, according to the latest ICAEW Business Confidence Monitor (BCM) for Q3. The index fell for the first time since Q2 2009, and scores now below the UK average. The outlook for business across the region has become increasingly uncertain as various options being considered to reduce the UK's budget deficit have emerged, according to ICAEW.
- However, the latest Business Link Customer Satisfaction Survey shows an increase in confidence: the proportion of Business Link customers being much more or slightly more confident about the next 12 months increased from 49% in July to 59% in August 2010.
- According to the latest Q4 Manpower Employment Outlook, **a balance of 8% of South East businesses expect headcount gains** in the three months to December (slightly down from Q3) compared to 2% for the UK on average.
- **The proportion of South East firms reporting access to capital as a greater challenge to performance than a year ago has now returned to the level seen before the worst of the credit crunch**, according to the latest ICAEW BCM. However, according to the BoE, credit conditions had become increasingly polarised in recent months, easing for those firms perceived to be better-quality credits, but remaining tight for many smaller firms, and those operating in certain sectors.

Business specific intelligence / information on key questions

- According to the latest ICAEW BCM, research and development budgets are expected to rise by only 0.7% over the next year, compared to expectations of 1.4% growth across the UK as a whole.
- Analysis from **RAISE on the impact of the funding climate on the Voluntary and Community Sector** in the South East shows that 64% of respondents believe that the number of their organisations' service users will increase over the coming year, but over 74% of respondents are not clear about the role their organisation is to play in the Big Society.
- Anecdotal evidence from the Berkshire Observatory show a mixed picture: Business services (e.g. Accountants and Law Firms), are suggesting a small recovery. Businesses who export were reporting a significant increase in turnover, whilst businesses supplying to UK markets were reporting a decline or stagnation in sales. Those that supply to Government and other public sector bodies reported in-year cuts having immediate effects on business.
- Surrey Economic Partnership notes concerns with regard to the potential mismatch between those likely to be made redundant (particularly from the public sector) and the availability of suitable vacancies.

Sectoral Overview

Manufacturing

According to the official statistics, manufacturing output has now seen three consecutive quarters of robust expansion. Growth in the first half of this year has been the strongest for over 15 years and has exceeded the expectations of most forecasters.

The latest EEF Business Trend survey (September) indicates that the balance of responses on the UK manufacturing output and new orders remained strongly positive in the past three months. A balance of 33% of companies reported increased output as manufacturers continue to expand their production from the low levels seen in the recession. The orders balance also increased, although slightly, suggesting that growth in manufacturing output should continue until the next quarter at least. Likewise, the investment balance turned positive this quarter for the first time since Q2 2008. A balance of 7% of companies expect to increase investment. Compared with previous recessions, where investment balance have tended to lag behind increases in output by over a year, this is a somewhat faster recovery in capital expenditure intentions.

In line with the positive national result, a balance of companies in the region took on new orders. The latest EEF survey shows that this balance for the South East (along with London) grew from 52% in Q2 to 54% in Q3 2010, reaching the highest score of any other UK region. Similarly, a balance of 54% of companies in the region expect new orders over the next three months, well above any other UK region. Expectations on cash flow in the region also remain the highest with 22% of companies, on balance, reporting improvements over the next three months, up from 18% in Q3 2010.

A number of acquisitions and facilities expansion announcements from South East-based companies corroborate the improved conditions on total orders and investment intentions. In the engineering industry, business specific intelligence indicates that **Surrey Waste Management** in Dorking is to submit plans to expand its waste recycling facilities in Shepperton, including a gasification plant. While **JP Kenny**, the subsea engineering firm, is in negotiations to set up a new 69,000 sq ft office at Compass Point in Staines. Besides, **BAe Systems** of Farnborough is to acquire the SpecTal, Advanced Concepts and McClendon security operations of US-based L-1 Identity Solutions for £190m. In the food & drinks industry, **Aramark**, the food services company, is setting up a 9,500 sq ft office at 250 Fowler Avenue in Farnborough, while **Natures Way Foods** is investing £5.7m in the expansion of its prepared salad plants in Selsey, Runcton and a new site is due to open in autumn 2011.

Construction

The final revision from ONS for UK GDP in Q2 2010 shows that construction output rose by 9.5%, upwardly revised from 8.5% in the previous estimates. However, anecdotal evidence from sector specialists suggests that construction could see a 'triple-dip' recession in the short term due to a number of factors. On one hand, if bad weather boost to Q2 was true, then this effect will almost certainly end in Q3 2010. On the other hand, the housing market still remains fragile –house price growth is stalling and the level of mortgage approvals and loans remain well below 'normal' levels.

Indeed, the August RICS Housing Market Survey shows more surveyors continued to see falling rather than rising prices, with the headline price net balance declining from -8% to -32%, the lowest reading since May 2009.

The picture is quite similar in the South East, where the proportion of surveyors reporting a price fall is still higher than those reporting a price rise, at -21% on balance. Nonetheless, the August figures show a slight improvement from a balance of -26% in July 2010 as some firms see a potential rise in new orders. Business specific intelligence suggests that, for example, **Wolseley** of Reading is planning to expand its chain of **Parts Center** plumbing spare parts trade counters from 350 to about 500 by early next year.

Retail, motor trade & wholesale

According to the latest CBI Distributive Trades Survey, UK retail sales volume rose strongly for the third month running in the year to September and was reported to be above average for the time of year for the first time since June 2007. The latest rise in sales volumes was spread across several sub-sectors. For the second month running, almost all clothing retailers reported growth in sales volumes on a year ago; near unanimous rises were also seen in non-specialised stores, footwear & leather and furniture & carpets. Grocers and durable household goods also saw a solid increase in sales, although in the former this was the slowest rise since May. Sales fell in most other sectors, the sharpest declines seen in hardware & DIY and cultural goods.

Regional Intelligence Snapshot for the South East (cont'd)

This business climate is particularly positive across the South East counties neighbouring London. According to Berkshire Economic Partnership, Bracknell Forest had fewer vacant retail units in August 2010 than they did a year earlier. Some 7.9% of retail units were vacant in August 2010, compared with 10% in August 2009. Car parking figures for Bracknell Forest were, on average, 6% higher in August 2010 than the same time last year.

Similarly, West Berkshire had nearly half the vacant units in August 2010 that it had in August 2009. Only 7% of retail units were vacant this year compared to 13% last year

Footfall in West Berkshire increased by 33% in August 2010, compared to a year earlier. Over the same period, car parking figures were 4% higher.

Business specific intelligence for Berkshire corroborates the previous statistics. For example, a new **Sainsbury's** store has started recruitment in Slough and they are looking to fill 450 job vacancies, but are advertising only a few jobs at a time. **Ikea** is to submit plans for a new furniture store at Calcot in Reading, which could create 400 jobs.

The picture for the retail sector in Surrey is still positive, although mixed at the moment. According to Surrey Economic Partnership, the latest LDC (Local Data Company Report) on shop vacancies (published in September 2010), has found that while many more town centres are getting worse than are getting better, Guildford is one of only 8 which has shown a consistent improvement over the last year. Camberley has a vacancy rate of 18% (the highest in LDC's 'southern' region). Guildford's rate is 11.2% and Dorking 11.4%.

In contrast to the good performance in retailing, the motor trade sector in the UK is still to recover from the recession. According to the latest CBI Distributive Trades Survey, sales volumes were flat in the year to September, after three months of decline and despite expectations of another sharp fall. The three month moving average of sales volumes remained negative in September. This month's headline motor trades sales figure included a fall in sales of vehicles, offset by growth in parts & accessories volumes.

However, the sector in the South East seems to be faring quite well. Business specific intelligence indicates that **Perodua**, a car distributor, has seen a rise in sales. The Remenham Hill company recorded a 17.7 per cent increase last month, the seventh consecutive monthly rise this year and producing an overall increase for the year of 60.9 per cent. This was largely due to the Myvia super-mini model.

The UK picture in wholesaling is quite mixed. According to the latest CBI Distributive Trades Survey, whole sales volume rose for the second month running in September, but the increase was slower than in August. Sales were below average for the time of year in September, to a greater extent than expected, after they had risen slightly above average last month.

Once again, the regional performance seems to be more encouraging than that of the UK as a whole. Business specific intelligence suggests that, for example, **Costco** wants to build a wholesale store in Southampton. Up to 250 jobs could be created if it is granted planning permission for the 13,000 sq m store, which would open in late 2012

Consumer services

According to the latest CBI Service Sector Survey (August), consumer services in the UK saw a small drop in business last quarter and profitability fell unexpectedly as well. Besides, a further fall in profitability is predicted for next quarter. At the same time, selling prices are growing at just above their long term average rate. Looking ahead, Britain's firms are concerned about prospective demand and do not expect to expand their businesses in the year ahead, but do expect to increase capital expenditure on IT and vehicles, plant and machinery.

Firms in the South East are also concerned about prospective demand, although expectations have been getting better over the past quarters. According to the latest Business Confidence Monitor from ICAEW (quarter 3), the proportion of South East firms reporting customer demand to be a greater challenge to the performance of their organisation compared to a year ago has fallen for the third consecutive quarter in line with the return to growth in national economic output. Just over one in three firms in the South East (36%) feel customer demand is a greater challenge, down from 45% in Q2 and 52% in Q1.

In line with the improved expectations about customer demand, a number of consumer service businesses in the South East have announced investment plans leading to important job creation. For example, business specific intelligence indicates that **McDonald's** in Ryde has created 30 new jobs, following a £400,000 interior and exterior refurbishment. **BrightHouse**, a homeware store that offers customers credit on electronic

Regional Intelligence Snapshot for the South East (cont'd)

equipment and furniture, is set to open a store in Folkestone. Company bosses have agreed a deal to use both the former Dixons store and the adjacent former shoe shop Stead and Simpson in Sandgate Road for their new branch. About 10 new jobs will be created in October. In the hospitality sub-sector, **Dover Marina Hotel**, which was the Churchill Hotel before it closed down in January will reopen in November and see the creation of dozens of jobs.

Business & professional services

Evidence from the latest CBI Service Sector Survey (August) indicates that the volume of business & professional services in the UK was stable although at still well below normal levels. Deflation in selling prices exceeded predictions for the second quarter running. This combination caused the value of business to drop and the trend in profits to worsen at its fastest rate since February 2009. Looking forward, firms expect to spend a little more on IT but not to expand their business in the year ahead, with demand concerns quite evident. However, the picture is quite different in the South East, where some firms are planning to further expand their business lines. For instance, business specific intelligence indicates that **Fresh Egg** is planning to set up a new headquarters for its web design business at a former Allied Carpets store in Worthing, and its workforce will rise from 40 to 60. Similarly, **Affinion International**, which already has 580 staff at its call centres in Hilsea, is starting up a cold-calling division. The company needs 100 extra staff by year end and about 50 per cent of the roles are part time

Transport & communications

The most recent Business Confidence Monitor ICAEW report for the South East shows that 14% of businesses in Q3 2010 reported transport problems to be a greater challenge to performance, up from 5% a year ago. Indeed, business specific intelligence suggests that the transport sector is still suffering from the recent recession and needs to keep on restructuring costs, particularly in the workforce. For example, **P&O Ferries** is to shed up to 70 of the 475 jobs at its head office in Dover, in order to cut the cost of its call centre, IT and finance departments. Likewise, **Bombardier**, the transport firm, has announced the loss of 155 jobs from its rail maintenance site in Chart Leacon, Ashford. Bombardier plans to implement the cuts through voluntary redundancies and said those still at its Ashford depot would carry on maintaining trains for Southeastern.

On more positive news, air transport seems to be faring better than other means of transport as **Thomas Cook** is to return to Southampton Airport after more than five year's absence by launching flights to Majorca. The Southampton services will be run on chartered Flybe planes.

The cost adjustment scenario is also prevailing in the communications sector where **The Royal Mail** has submitted a planning application to build a new super sorting office in Medway. Business specific intelligence indicates that the site would replace the county's four main centres at Maidstone, Tonbridge, Dartford and Canterbury. The new centre would require 400 fewer staff than the 3,710 employees across the four existing sorting offices, but the intention is to shed the posts without making compulsory redundancies.

Voluntary & community

The latest RAISE Voluntary and Community Sector Economic Climate Survey reveals two consistent messages from participants: a concern over the size and number of in-year cuts to budgets and that wider economic hardship is starting to drive demand for VCS services way beyond the sector's supply capacity.

Some 50% of respondents have already suffered in-year cuts to their funding. Of these cuts, over 60% have been imposed by local authorities and over 15% by NHS and central government departments. Besides, of the respondents who have suffered funding cuts in 2010-11, 55% confirmed that this has already impacted on their beneficiaries and the communities they serve.

Furthermore, 64% of respondents believe that the number of their organisations' service users will increase over the coming year. In this sense, 73% of organisations expect to have to collaborate more during the coming year, either through partnership working or mergers.

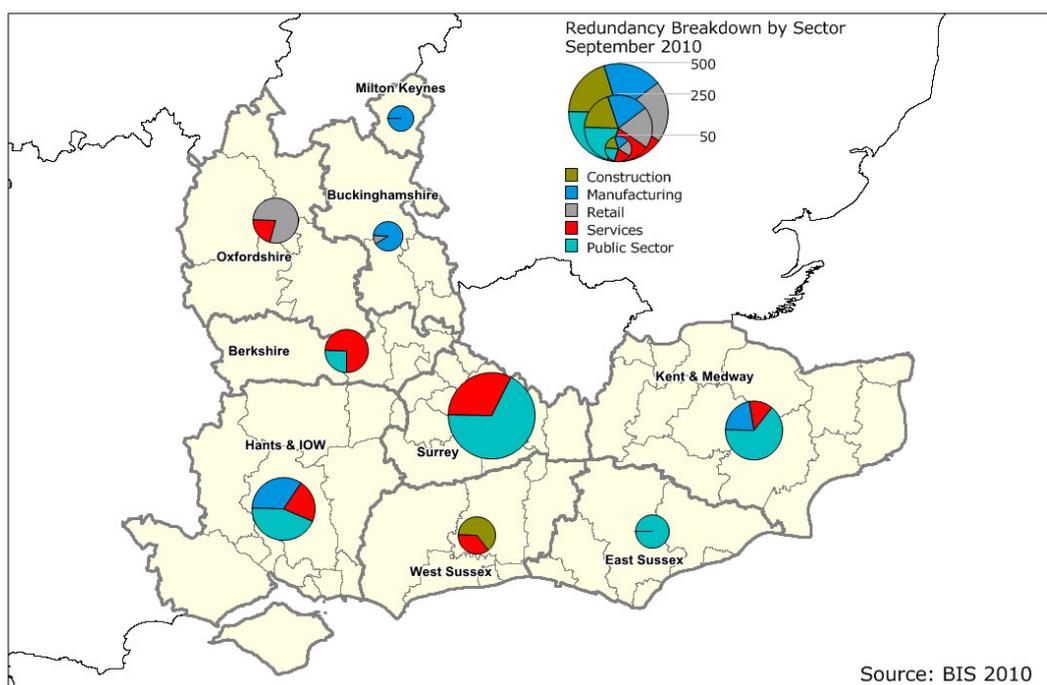
Redundancy notifications¹

According to HR1 data, verified and checked using intelligence from SEEDA's Continuing Employment Support Service² the number of genuine redundancies relating to employees in the South East in September was 1,311. This figure is much lower than the 5,338 redundancies in August, which included a one-off redundancy notification of over 2,000 employees due in April 2011.

Over two-thirds (71%) of all redundancies in September were in the service sector (including public sector). In comparison, the service sector's share of total employment in the South East is 60%. In September the public sector accounted for over 40% of all notifications which is an increase on the proportion of redundancies notified in this sector in August (12%). The share of redundancies in the manufacturing sector dropped to 17% in September from over 40% in August. The September share of manufacturing notifications (17%) is higher than the sector's share of employment in the region (8%). The construction sector accounted for 4% of notifications and the retail sector 8%.

The largest number of notifications this month was in Surrey, which accounted for 30% of all redundancies. All of the redundancies in Surrey were in the service sector, two-thirds of which were in the public sector. The proportion of regional notifications in Hampshire and Isle of Wight was 17%, Kent and Medway 15% and Oxfordshire 10%.

**Redundancy notifications by sub-region, volume and sector
September 2010³ (Source: HR1 data via BIS / Job Centre Plus – verified by South East Continuing Employment Support Service)**



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¹ Please note that 'September' data refers to a one-month period from 20/08/2010 to 19/09/2010.

² Brokers from SEEDA's Continuing Employment Support Service exclude any notifications which relate to redundancies outside the South East or are simply renewals of contract rather than job losses. This helps to provide a more accurate picture of total large redundancies. The data also includes some smaller redundancies, picked up by the brokers, which fall below the threshold of 20 job losses required for a company to submit an HR1 form.

³ Please note: 'September' data refers to a one-month period from 20/08/2010 to 19/09/2010