

Summary of economic conditions

- Survey evidence from the South East Purchasing Managers' Index (PMI) indicates that the growth of the South East private sector economy continued to regain momentum in February. Output growth accelerated to the fastest rate since June 2010. The second-fastest growth of incoming new business in the last ten months supported the rise in activity. The latest survey data shows that the South East economy is caught in a two-speed recovery, with manufacturing remaining the main driver of output growth. Activity and new work in the service sector continued to rise at weaker rates.
- According to the South East Business Snapshot Survey (conducted in February) business expectations regarding domestic orders and the volume of output are more positive over the next three months. Some 34% businesses now expect to see an increase against 19% expecting to see a decrease in the volume of output in the region over the next three months.
- In the three months to January 2011, unemployment (on the broader Labour Force Survey measure) in the South East increased by 6,000, to 282,000. The claimant count unemployment was 129,600 in February, 600 lower than in January. The latest data from ONS shows that the number of people in employment has increased by 21,000 to 4.19 million over the three months to January.
- In the final quarter of last year public sector employment in the region was some 12,000 (or 1.7%) lower than at the end of 2009. Total employment in the region now stands at the highest level since the early 2009, but it is still around 70,000 lower than at its peak in the summer of 2008.
- The latest survey data (South East PMI) shows that in February overall private sector employment rose at the strongest rate in eight months. However, sector data signalled marked job creation in the manufacturing sector, but a modest decline in services employment.
- The latest South East Business Snapshot Survey shows that eight out of ten employers in the South East expect to have the same level of staff over the next three months, 8% expect higher and 10% lower levels, similar results to the Autumn Survey.

Key challenges and hotspots

- Inflationary pressures continued to build in the South East with the rate of input price inflation in the South East accelerating for a second consecutive month in February to the fastest rate since August 2008. A range of raw materials and commodity price increases are the main factors behind the latest increase in input prices. Manufacturers continued to record much steeper increases in average input prices and were more likely to pass on the increase to their consumers than their counterparts in services.
- Over the past three months the majority of firms in the South East (44%) have reported lower profit margins with similar proportion reporting lower cash flow levels.
- Overall investment in the South East was mixed in the last three months, with about one in five businesses reporting an increase in investment levels, whilst a similar proportion reported a fall. However, the outlook is slightly more positive, with more firms expecting to increase investment in the next three months (27%) than to reduce investment (17%).
- Job insecurity coupled with rising cost of living and low wage growth have contributed to the steepest monthly deterioration in household finances since March 2009 according to the Markit Household Finance Index (HFI). The Nationwide consumer confidence index in February stood at its lowest level in the survey's history.

Business specific intelligence / information on key questions

- Global sales of the Cowley-built Mini rose by more than 19 per cent in February, according to latest figures from parent firm BMW. A total of 16,045 cars were delivered to customers worldwide, compared to 13,444 for the same month last year. Sales for the first two months of 2011 show a year on year increase of 17.6 per cent with a total of 30,170 cars delivered.
- Pharmaceutical company Novartis (the largest employer in Horsham) has announced plans to move out of the county which could result in up to 550 jobs losses. The gastrointestinal research teams are proposed to be co-located with teams in Basel and Cambridge over a 1-2 year period and the over-the-counter operations are recommended to move to (or near to) the Novartis Frimley site. At least 330 jobs are currently secure as it has decided to keep its respiratory research department.
- One in ten businesses in the region are heavily reliant on the public sector (accounts for 50% or more of their sales), and one in five expect to make changes as a result of the public sector budget cuts.
- In the South East 7,161 new businesses started up in February 2011, 282 more than the previous month, and 15% more than in February 2010, according to BankSearch.

Annex - Sectoral Overview - March 2011

Manufacturing

Outlook in the manufacturing sector remains positive. According to the Quarterly National Account GDP figures from the ONS, manufacturing output increased by 1.1% in Q4 2010, compared with a rise of 0.9% in Q3 2010.

Results from the February Business Snapshot Survey suggests that manufacturing companies have found conditions over the past three months challenging with more of those surveyed experiencing deterioration in business performance (balance of -28) and lower domestic orders (balance of +11). Despite the difficult conditions they remain optimistic for the next three months, with a higher proportion expecting business climate to improve (balance of +22) and demand for domestic orders to increase (balance of +11).

With regards to employment, the majority of South East companies expect their staffing levels to remain the same over the next three months. The manufacturing sector had the lowest proportion of firms expecting to increase their workforce in the future according to February's Business Snapshot Survey. The manufacturing sector had high levels of job creation in February (Lloyds TSB South East Purchasing Managers' Index) suggesting that firms are now expecting demand to meet their current staffing levels. However, the Bank of England Agents' Summary of Business Conditions and the EEF Manufacturing Outlook both suggest that employment intentions had increased slightly.

Optimism in the sector is reflected in business specific intelligence with a number of companies expanding and investing in the region. Specialist manufacturers such as Arthur Flury and Humiseal Europe Ltd are among companies moving into business parks in the region. Arthur Flury, a Swiss based electromechanical components manufacturer have set up a new UK office in Milton Keynes. Humiseal Europe Ltd, which manufacture and distribute coatings for electrical circuitry have opened an office in Winnersh, Wokingham.

However, uncertainty in the pharmaceutical sector in the region continues with the announcement by Novartis that 550 jobs are at risk at its site in Horsham as the company plans to move out of the county. The Respiratory Research Centre at Horsham is the Novartis worldwide headquarters for respiratory research. The company has eight locations in the UK, four of which are in the South East; Frimley (Pharmaceuticals, Animal Health, Sandoz and vaccines & diagnostics); Farnham (CIBA vision); Southampton (CIBA Vision); Horsham (R&D, Pharmaceutical Operations, Consumer health). Horsham is the global research centre for gastro-intestinal research for Novartis.

Construction

Activity in the construction sector has improved slightly but optimism about the future is weak due to the government spending cuts and their impact according to the March Bank of England Agents' Summary of Business Conditions.

Construction Output statistics from the ONS report that construction output nationally fell 13.9% in the three months to January. Perhaps reflecting the impact of government austerity measures, the biggest fall nationally was in the public repair and maintenance sub sector (22.2% decrease). Within the South East, construction output decreased by -3.5% between Q3 2010 and Q4 2010, only London reported a smaller decrease (-2.6%). The biggest decline in output in the South East was reported in the repair and maintenance of infrastructure sector (-15.3%) and publicly owned premises sector (-11.3%). Activity also decreased in the new private industrial (-11.3%) and commercial (-9.6%) sectors.

Construction companies are cautiously optimistic about the future, according to the February Business Snapshot Survey. When asked about business climate over the next three months, more firms expect it to improve than worsen. In comparison, of those surveyed, more construction firms reported a decline in business performance over the past three months than an improvement.

Contrary to the ONS statistics which state a decline of 4.5% in construction output attributed to new private housing, the house builder Stewart Milne, which employs 115 at its Witney plant has recorded a £0.1 million pre-tax profit for the year 2009/10, compared to a £27 million loss the previous year.

A planning application for more than 1,200 houses, a school, shops and office on an 85 hectare site north of Littlehampton has been submitted to Arun District Council. It is anticipated that the development would bring 800 jobs to the area.

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

Retail, motor trade & wholesale

Nationally, retail sales picked up slightly in March according to the CBI Distributive Trends Survey. Expectations remain subdued with sales below the average for the time of year and orders placed upon suppliers declining.

Business performance over the past three months has worsened for 33% of the retail companies surveyed for the February Business Snapshot and improved for 22%. Whereas 31% expect business climate to improve over the next three months and 16% worsen.

Groceries and clothing remain the two best performing sub-sectors according to the CBI Distributive Trends Survey and business specific intelligence highlights a number of supermarkets and clothing retailers expanding in the South East. In Ashford, both Tesco's and Sainsbury's are looking to expand their existing stores with the creation of 75 and 350 additional jobs respectively. A further 120 jobs have been created in Ashford with the opening of a Dobbies store.

Bucking the trend nationally where motor sales have fallen, UK sales of the Cowley built Mini rose by more than 19% in February. However, sales for the year to date are 10% lower than the same time in 2010 which parent company BMW attributes to customers beating the VAT increase in January.

Business services & finance

The ONS GDP Quarterly National Accounts report that services output decreased by 0.6% in Q4 2010, compared with an increase of 0.6% in Q3 2010.

Uncertainty in the sector is reflected in the number of new business start-ups. According to the latest figures from Banksearch, of new start-ups in the South East 0.2% were in the Activities Auxiliary to Financial Intermediation sector; 0.1% in Insurance Companies and Pension Funds; and 0.3% in Financial Intermediation. In comparison, 31% of all companies in the South East are in the Financial and Business Services sector.

Of all the sectors, companies in Finance and Business Services were most likely to say that business performance had improved over the past three months at 29%. Although, the balance was still negative as 36% companies also reported that business performance had worsened. Perhaps unsurprisingly, when considering their business climate over the next three months companies in the Public and Other Services sector were more likely to predict worsening conditions (41% of companies). Similarly, when considering employment intentions over the next three months only 4% of companies indicated that they would increase their workforce over the next three months, the lowest proportion of all sectors.

Medway Council is one of a number of local authorities in the South East assessing services and staffing levels after receiving their allocated budget. Consequently, they anticipate 157 job losses over the coming financial year as their budget has been cut by 11.9%.

Financial and business services firms expanding in the South East include Finch Commercial Insurance Broker, The Remarkable Group and AXA Wealth according to business specific intelligence. AXA Wealth is looking to recruit 100 new employees as sales have increased by 41%.

Redundancy notifications¹

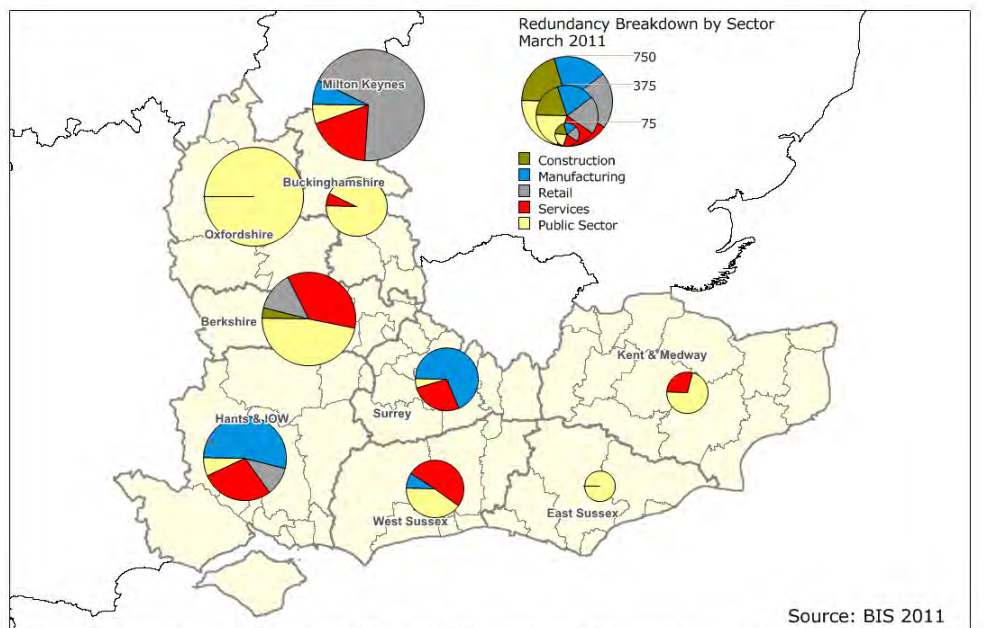
The HR1² data received from BIS is no longer verified by the Continuing Employment Support Service (CESS). Brokers from CESS excluded any notifications which related to redundancies outside the South East or were simply renewals of contract rather than job losses. Therefore the data may now include national figures and those notified as a result of contract changes.

There were 4,829 employees at risk of redundancy in March 2011 compared to 6,058 the previous month. However, the February figure does include the staff placed at risk of redundancy due to the closure of Pfizer's research facility in Kent which employs 2,400 people.³

A third of all notifications in March were in the service sector (including public sector); whilst a further 19% were in the retail sector; 15% in manufacturing and 1% in construction. Continuing the trend seen over previous months, the highest proportion of potential redundancies was in the public sector (44%).

All sub-regions had potential redundancies in the public sector, with Oxfordshire accounting for the highest proportion. Milton Keynes saw the greatest rise in employees at risk this month with the figure rising to above 1,000 from below 100 in February. A high proportion of the redundancies in Milton Keynes were in the retail sector. The proportion of redundancies attributed to Milton Keynes was 23%; Oxfordshire 19%; Berkshire 17%; Hampshire and Isle of Wight 14%; Buckinghamshire 8%; Surrey 8%; West Sussex 7%; Kent and Medway 4% and East Sussex 2%.

**Redundancy notifications by sub-region, volume and sector
March 2011 (Source: HR1 data via BIS)**



Source: BIS 2011
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¹ Please note that 'March' data refers to a one-month period from 20/02/2011 to 19/03/2011.

² Note that this data only captures redundancies of more than 20 employees; some of the job losses are not scheduled to take place until later in 2011/2012; and in some cases the redundancies are happening in another region but are registered in the South East because it is home to the company's headquarters.

³ <http://www.bbc.co.uk/news/business-12335801>