

# Corporate Cabinet Programme and Partnership Board

## South East Economy Update

January 2009

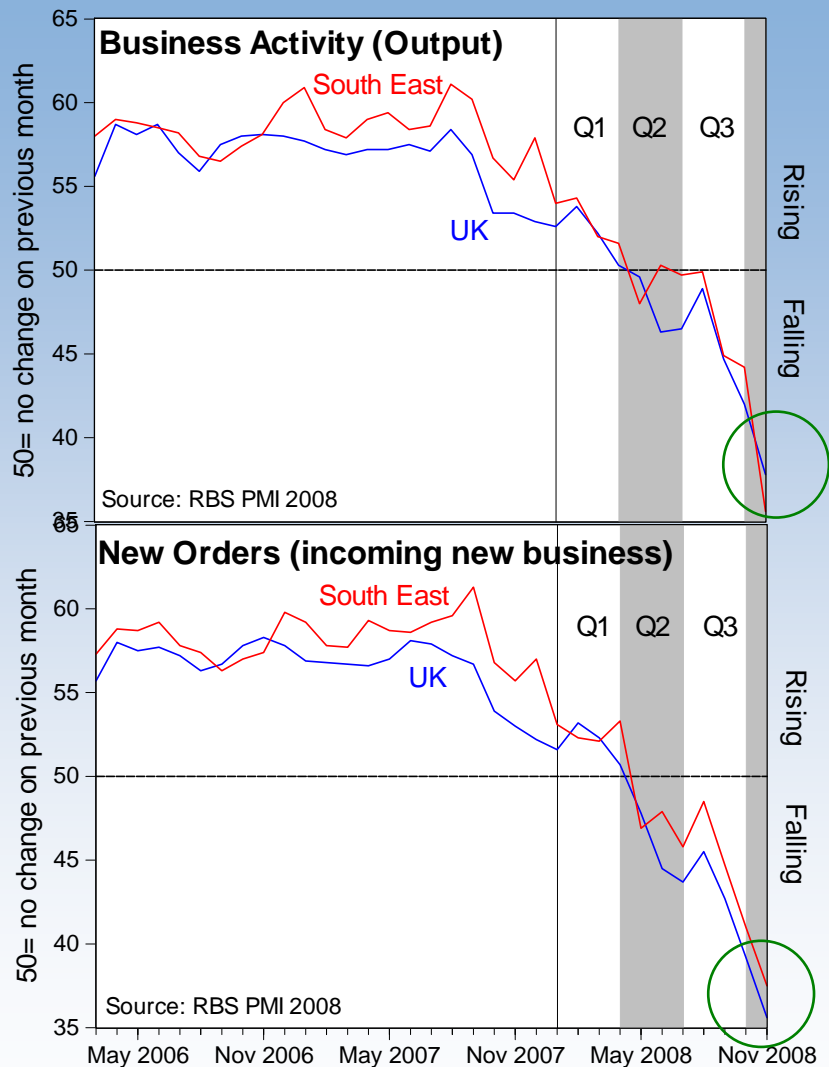
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# The story so far

- **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.
- Global monetary and fiscal response

# South East Economy

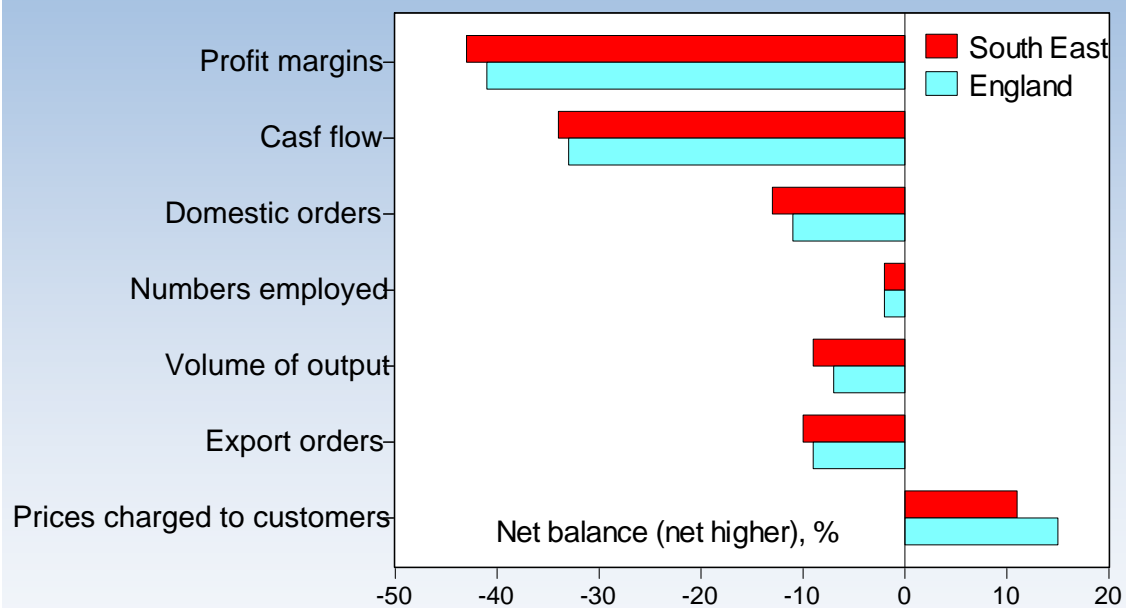


- A further weakening of economic conditions in December.
- A significant weakening in manufacturing.
- Lower employment levels and an increase in unemployment.
- Lower consumer prices and profit margins.
- Cashflow positions have worsened.
- Investment remains mostly flat (lower in some cases).

Source: SEEDA 2009, Regional Intelligence Snapshot for the South East - December

# Business Trends in 2008 and expectations for 2009

Excluding seasonal variations, what has been the trend during the past 12 months with regard to...



Source: Ipsos MORI for SEEDA (2009), forthcoming

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

- **Size**

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

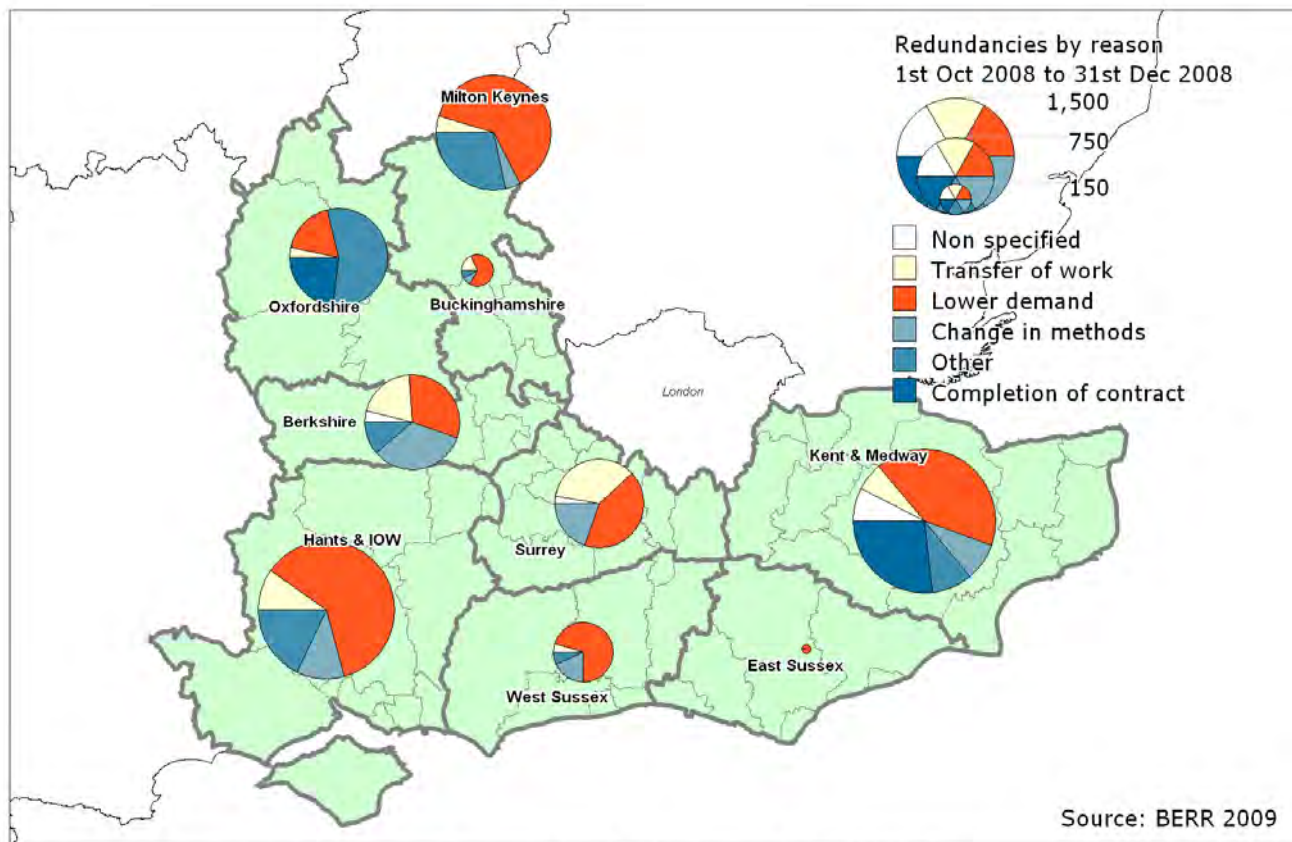
- **Sector**

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

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# Sectoral Impact

## Redundancies 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

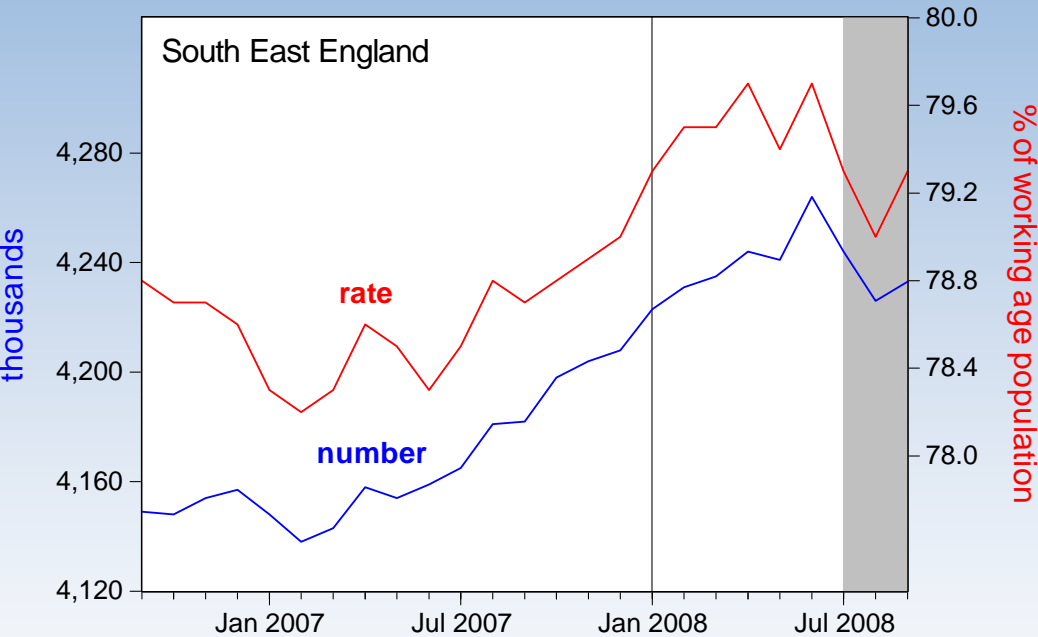
- **Sub-region**

- MK, Oxfordshire, Kent, Hants.

- December: MK, Oxford. Hants

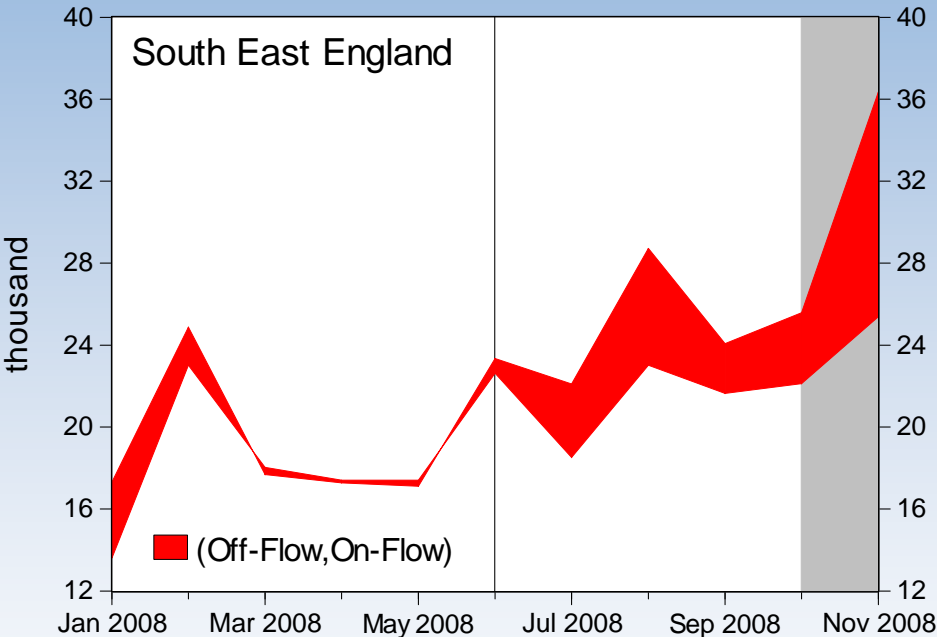
# South East Labour Market

**Employment**



Source: National Statistics 2008

**Claimant Count Unemployment**



Source: National Statistics 2008

# Key Challenges

- **Scarcity of credit** and **cost of credit** remain primary concern to businesses
- 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*

- 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*

- **Restore liquidity – scarcity of money is an issue!**

# Policy Response

- **Monetary Policy** in heavy use
  - UK interest rate: down to 1.5%, ... more cuts to follow?
  - Eurozone rate: down to 2.5%, more cuts to follow
  - US rate: 0 - 0.2%
- “Monetary policy, trade policy, all that is not enough, ... If there has ever been a time in modern economic history when fiscal policy and a fiscal stimulus should be used, it's now.” **IMF Managing Director, D. Strauss-Kahn.**
- **Fiscal Stimulus**
  - UK fiscal stimulus = 1.3% of GDP
  - Eurozone and US fiscal stimulus
  - OECD, need for 2% of global GDP
- **Unorthodox measures on the way?**
  - ‘Quantitative easing’ (US Treasury buying long-term government securities).



- Considerable stimulus to the economy:
  - Easing in **monetary and fiscal policy**
  - A substantial **fall in sterling**
  - **Decline in inflation**
  - Further **policy interventions** on the way
- 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.
- Once growth returns - SE best performing UK region.

# South East Economy Review

- South East Economy Review – Quarterly (SEEDA Research & Economics)
- Labour Market Update – Monthly (SEEDA Research & Economics).
- Redundancy Update - Weekly
- RDA National Business Survey – Quarterly (Ipsos MORI).
- **Regional Intelligence Snapshot** – Monthly (SEEDA Research & Economics).
  - Intelligence collected from across the South East
  - Regional Economic Council
  - National Economic Council

# Regional Intelligence Snapshot

- provide a short monthly brief for each region that provides the RDA's assessment of the economic performance of the region in the previous month; and
- provide a communication channel to allow regions to advance policy suggestions and provide feedback on present policy.
- **Monthly Questionnaire**
  1. Summary of Economic Conditions
  2. Key Challenges and Hotspots
  3. Business Specific Intelligence
  4. Opportunities for action/potential policy responses

**Thank you**

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