Kent & Medway Economy Update

September 2010

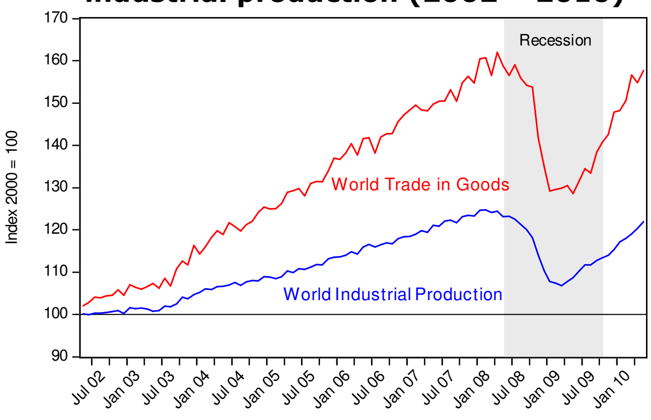
South East England Development Agency (SEEDA)
Research & Economics Team
September 2010

Macroeconomic overview

Evidence continues to point towards a faster than expected recovery across the global economy. The global economic downturn of 2008-2009 has been the worst since the Second World War in terms of speed, scale and length. However, the world economy seems to now be recovering at a faster rate than the medium-term trend. As figure 1 shows, world trade volume increased by 1.8% in May 2010 from April. In May, world trade was 3% below the peak reached in April 2008 and 23% above the trough reached in May 2009. Similarly, world industrial production grew by an impressive 1.0% in May 2010 and re-reached the previous peak level in March 2008.

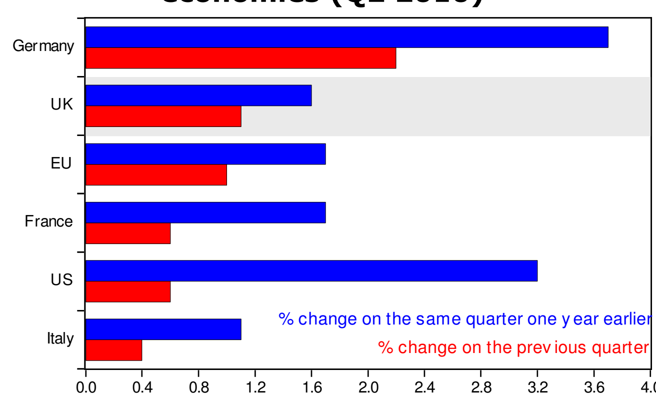
Industrial production grew rapidly in all regions, particularly in the Eurozone and emerging Europe. Figure 2 shows strong GDP quarterly growth in the second quarter of 2010 throughout the Euro area (1%). Growth was particularly high in Germany (2.2%)[1] with modest rates in France (0.6%) and Italy (0.4%). Outside the Eurozone, the UK recorded the highest GDP growth (1.1%) followed by the US (0.6%). Relative to one year earlier, Germany and the US showed the highest GDP growth rate in Q2 2010 at 3.7% and 3.2%, respectively. The other European leading economies (France, UK and Italy) showed modest growth rates of below 1.7% in Q2 2010.

Figure 1. World trade in goods and industrial production (2002 – 2010)



Source: CPB NEtherlands Bureau for Economic Policy Analysis

Figure 2. GDP growth in advanced economies (Q2 2010)



Source: Eurostat

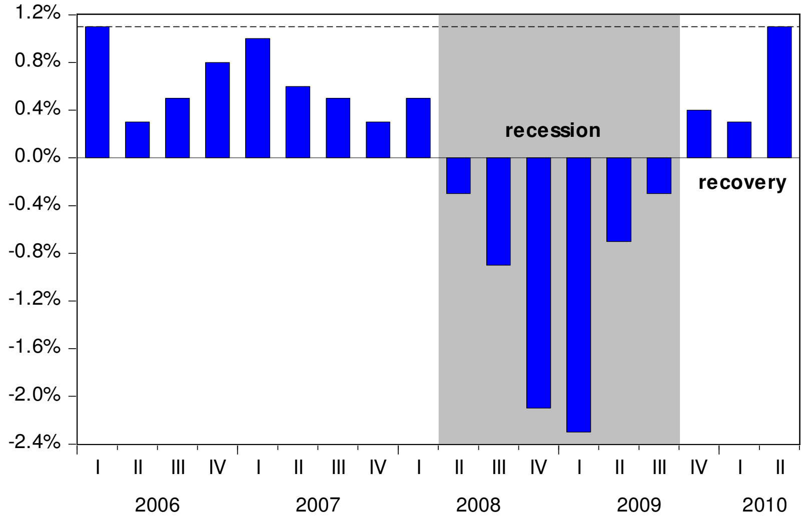
After six quarters of negative growth, the UK came out of recession in Q4 2009 and has set the pace for a potentially sustained recovery in Q2 2010. In the 18 months to September 2009, UK GDP fell by 6.4% making it the deepest post-war economic recession. However, the British economy recovered in the next two quarters (Q4 2009 & Q1 2010) at marginal growth rates of 0.4% and 0.3%, respectively. Despite fears of a double-dip recession, UK economic growth jumped to 1.1% in the second quarter of the year and reached the highest pre-recession growth rate since Q1 2006.

Within the services sector, which accounts for about three-quarters of the UK economy, business and financial services posted their strongest rise in almost three years, rising by 1.3% over the quarter. There was a strong contribution from the construction industry, which grew at its fastest rate since 1963, in part because bad weather at the start of the year led to builders catching up on previously postponed work.

To date, cumulative output growth in the first two quarter of 2010 (1.4%) has already surpassed the official annual growth forecasted for this year (1.2%) by the OBR (Office for Budget Responsibility) and other independent forecasts - see figure 3.

[1] However, quarterly growth in Germany is not expected to continue at such a high rate.

Figure 3. GDP Quarterly Growth in the UK



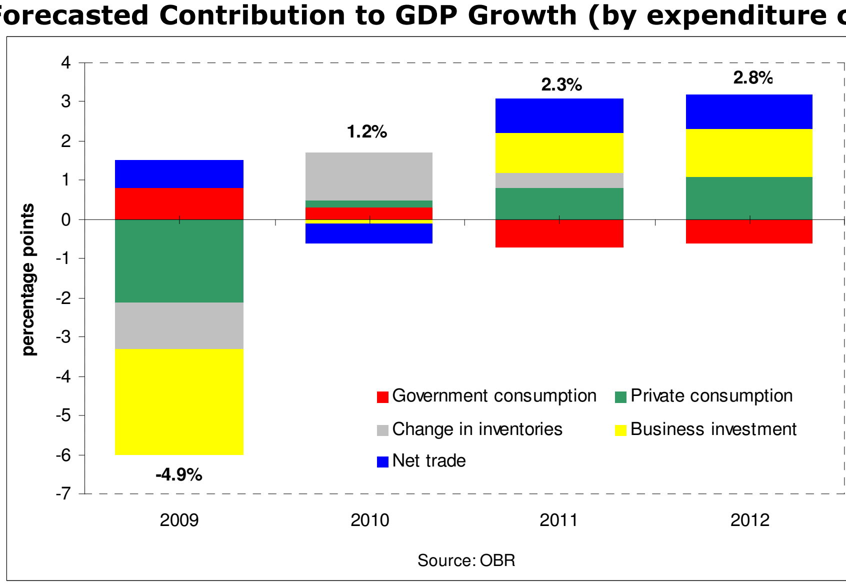
Source: ONS

Private business investment and consumption are expected to be the driving-force behind expansion in the British economy in the years ahead. Figure 4 illustrates the extent to which each GDP component is estimated to contribute to the UK economy, according to the OBR. In 2009 during the recession, government consumption along with exports contributed 0.8% and 0.7% to growth respectively, without which GDP would have fallen further. The main contributors to the 5% output fall were business investment (2.7%) and private consumption (2.1%).

The picture is somewhat different in the current year with net trade expected to be negative (-0.5%) and public spending making a minor contribution (0.3%) to GDP growth. Most of the marginal growth is likely to come from changes in inventories as firms start to re-stock their stores and supplies in order to meet a potential rise in demand, particularly from abroad.

In 2011 and 2012 the OBR expects that the driving forces behind output expansion will be business investment and private consumption from the domestic demand side and exports from abroad. Government consumption is estimated to make a negative contribution to GDP growth which is forecast to basically be offset by the private sector.

Figure 4. Forecasted Contribution to GDP Growth (by expenditure component)



South East overview

Output in the South East private sector continues to expand, but has lost momentum over the past few months. The latest Purchasing Managers Index (PMI) survey shows that growth of private sector business activity in the South East continued in July, although the rate of output expansion slowed to a ten-month low (figure 5). The moderation in growth mainly stemmed from the slowest increase in new orders since last September, although it remained greater than the average for the UK as a whole (figure 6).

Figure 5. Business Activity (output)

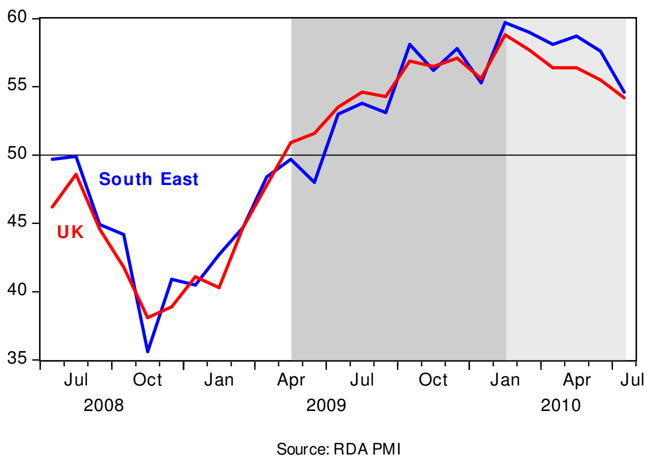
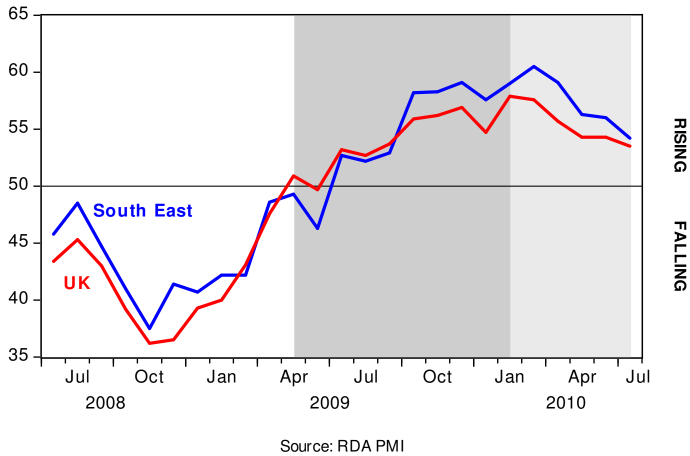
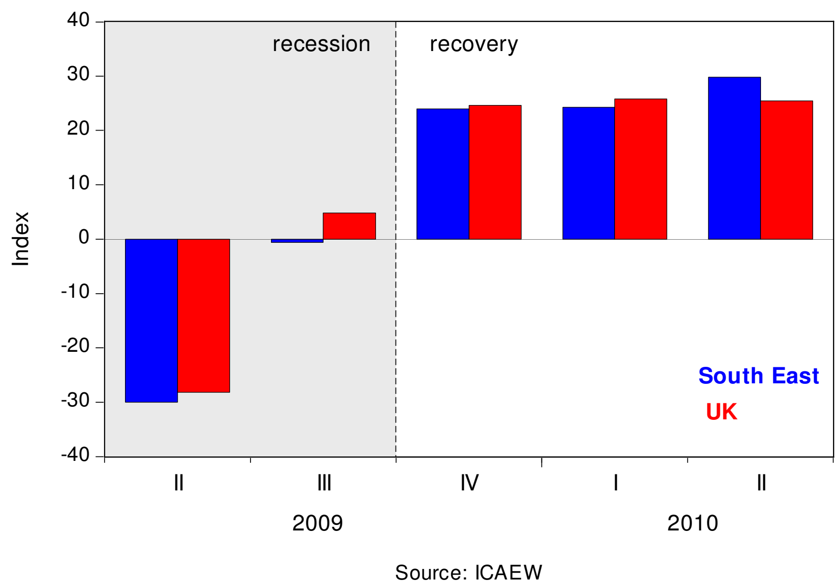


Figure 6. New Orders (incoming business)



Economic prospects for the South East are encouraging as business confidence for the next 12 months has increased markedly. According to the latest ICAEW Business Confidence Monitor Report, the South East recorded the highest confidence index (29.8 points) across all English regions in Q2 2010. Compared to last quarter, the regional index gained 5.5 points and is 4.3 points above the UK average, well above any other region (see figure 7).

Figure 7. Business Confidence (for the next 12 months)

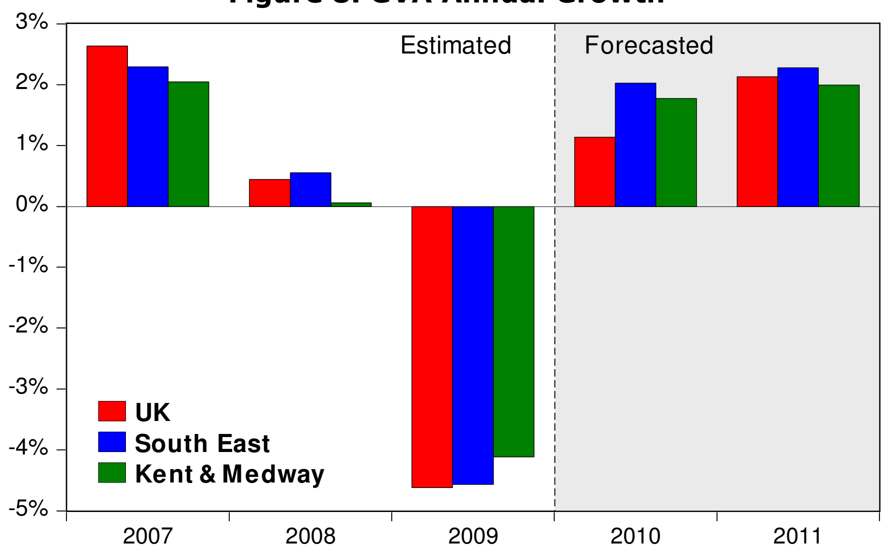


However, the picture is somewhat different for small businesses in the South East. According to the latest FSB 'Voice of Small Business Index' survey, the region showed one of the weakest sentiments on business prospects over the next three months. In June 2010, less than 2.5% of small firms in the South East reported, on balance, an expected net improvement in business conditions over the next three months, well below net balances of 23% and 16% in the East Midlands and London respectively. In this sense, it is not surprising that the South East has showed the largest proportion of small businesses (64%) expecting to operate below capacity over the next three months, compared to any other UK region. This could be also explained by a higher dependence on the service industry, with the main drive behind the recovery so far stemming from manufacturing and production industries.

Kent & Medway - Economy

The Kent & Medway economy is expected to grow slightly faster than the UK in 2010, though at a lower pace than the South East. According to the latest Experian forecast (Spring 2010), GVA in Kent & Medway showed a significant but relatively weaker fall (-4.1%) in 2009, compared to the 4.6% fall in both the South East and the UK. The region is set to recover at a growth rate of 1.8% in 2010, which is higher than the 1.1% forecast for the UK but slightly lower than the 2% for the South East (see figure 8). In 2011, Experian forecasts growth of 2% in Kent & Medway, although this forecast is marginally lower than the average for both the South East (2.3%) and the UK (2.1%).

Figure 8. GVA Annual Growth



Soruce: Experian, Spring 2010

Ashford and Dartford are expected to show the highest rates of recovery across Kent & Medway. Experian projections indicate a strong GVA growth rate this year in Ashford and Dartford at 2.7% and 2.6%, respectively. This is substantially larger than the average growth rate for Kent & Medway (1.8%). In 2011, Ashford and Dartford are expected to continue growing at a relatively fast pace (2.5% and 3.1%, respectively) along with Sevenoaks and Tunbridge Wells (2.3% both), which is slightly above the 2% Kent & Medway average (see figure 9). However, it should be noted that there is a significant margin of error with forecasts at district level, and as a result these figures should be treated with some caution.

With this in mind, at the other end Shepway (1.2%), Swale (1.2%), and Tonbridge & Malling (1.3%) are projected for this year to record GVA growth rates below the county average (1.8%).

In 2011, however, Tonbridge & Malling (along with Tunbridge Wells) is forecast to record one of the largest changes in growth rate, increasing by 1.9% (see figure 9).

Figure 9. GVA Annual Growth, forecast 2010-2011

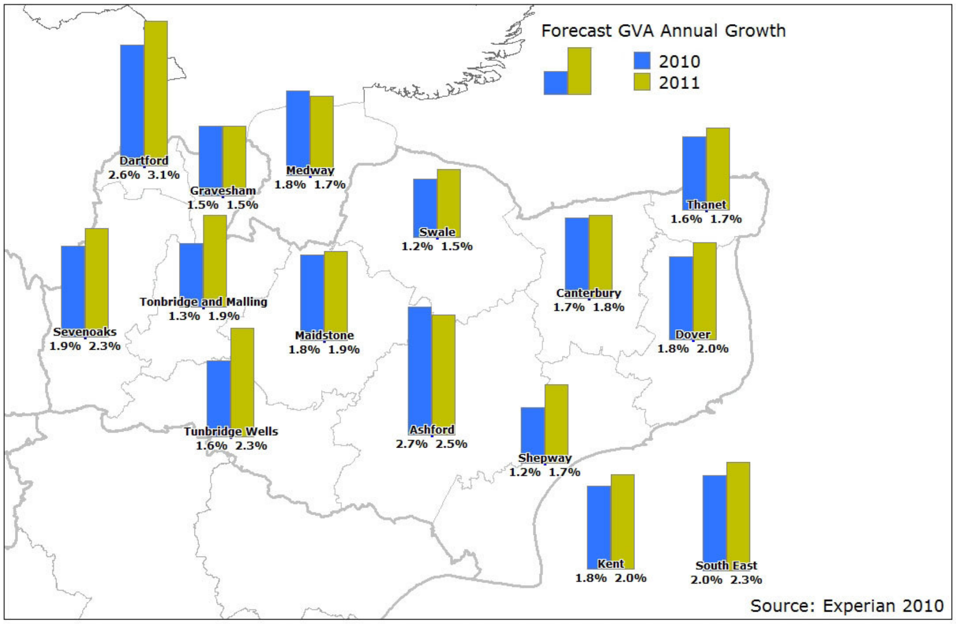


Figure 10 shows when districts in Kent & Medway are projected to return to pre-recession (2007) output levels. According to Experian, the recovery in Dover and Swale is expected to take longer than any other Kent & Medway district, in 2016 and 2015, respectively. Meanwhile Ashford, Canterbury, Sevenoaks, and Tunbridge Wells are projected to reach the pre-recession output level by the end of this year. As before, these figures are forecasts and should be treated with caution.

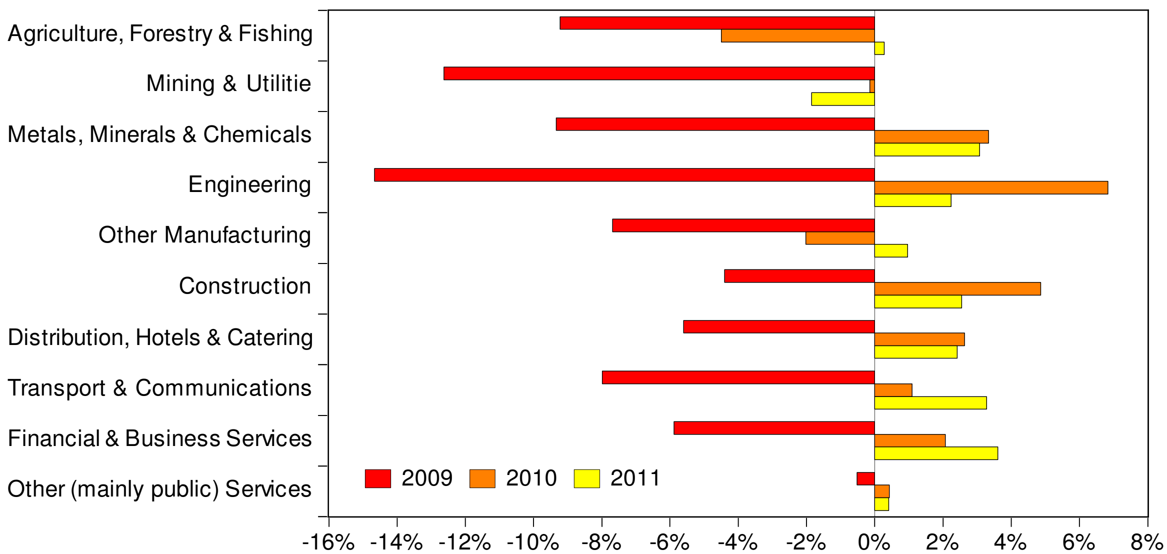
Figure 10: Forecasts for year output will return to pre-recession (2007) levels

Area	GVA recovery year
UK	2012
South East	**2011**
Ashford	2010
Canterbury	2010
Dartford	2011
Dover	2016
Gravesham	2013
Kent	**2012**
Maidstone	2014
Medway	**2014**
Sevenoaks	2010
Shepway	2014
Swale	2015
Thanet	2011
Tonbridge & Malling	2012
Tunbridge Wells	2010

Source: Experian, Spring 2010

Engineering in Kent & Medway has been one of the hardest hit sectors by the 2008/09 recession, although it is expected to lead the recovery in the years ahead. According to the latest Experian forecast, engineering output dropped nearly 15% in 2009, recording the biggest fall across all Kent & Medway sectors. However, the sector is forecast to drive the Kent & Medway recovery in 2010 with a growth rate of nearly 7% in 2010, although it is forecast to slow to 2.2% in 2011.

Figure 11. GVA Annual Growth by sector



Source: Experian, Spring 2010

The Metals, Minerals & Chemicals industry in Kent & Medway shows a similar picture throughout. The sectoral output dropped by -9.3% in 2009, though it is forecast to show a sustained growth of over 3% in the next years.

Similarly, the Mining & Utilities[2] sector has also seen one of the steepest falls in Kent & Medway with a negative GVA growth of nearly 13% in 2009. However, the sector is forecast to continue seeing negative growth in years ahead.

The performance of these three sectors[3] is particularly relevant for Kent & Medway as they are related to some of the key sectors with the highest number of business units in the South East.

According to the latest SEEDA research[4], there are some 9,380 Advanced Engineering & Marine business units in the South East with a relatively high concentration of business units in Kent & Medway (1,607). Indeed, the concentration of business units is between 20% and 50% above the regional average in Dartford, Gravesham, Swale and Ashford (see figure 12). There is also a high concentration of employment in Thanet, Swale and Dover, with the latter recording a location quotient 2.3 times[5] above the regional average.

[2] It is worth mentioning that this sector represents a relatively small part of the Kent & Medway economy.

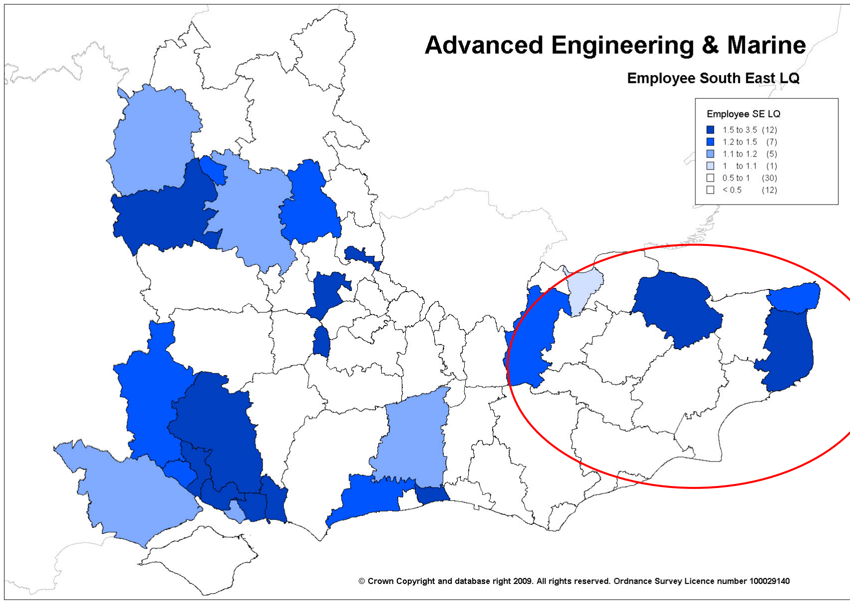
[3] The Engineering sector (ONS) is somehow related to the Advanced Engineering & Marine industry (SEEDA), while the Chemicals sub-sector (ONS) is somehow related to the Pharmaceuticals, Life Science & Health Care industry (SEEDA). Similarly, the Mining & Utilities sector (ONS) is somehow related to the Environment & Energy industry (SEEDA).

[4] See "The geography of key sectors in the South East", SEEDA Research & Economics, April 2010.

[5] A value of >1 implies over-representation of activities in Kent & Medway relative to the South East. Note: some times a value greater than 1.25 has been used as a potential indicator of the presence of clusters.

The forecasted positive growth for the Kent & Medway Engineering sector in the years ahead is likely to have a relatively high impact on both business performance and employment in the Advanced Engineering & Marine key sector, compared to other counties across the South East.

Figure 12. Advanced Engineering & Marine business units (2007)

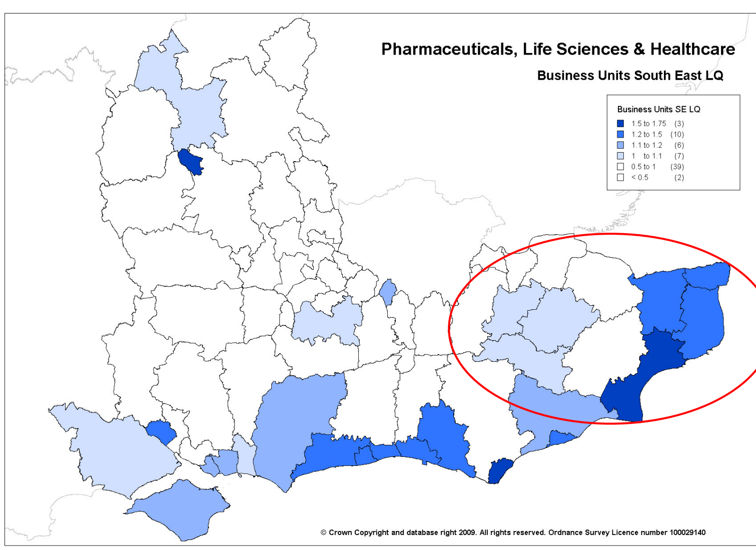


Source: ONS

There are some 12,550 Pharmaceuticals, Life Science & Healthcare business units in the South East with one of the largest concentration located along the coastal area of Kent & Medway (2,426). Indeed, the concentration of business units in Shepway is 52% above the regional average, and between 20% and 50% in both Thanet and Dover (see figure 13). There is also a high concentration of employment in Maidstone, Dover, Thanet, and Ashford, ranging from 20% to 50% above the regional average.

The forecasted positive growth for the Kent & Medway Metals, Minerals & Chemicals sector in the years ahead is likely to have a relatively high impact on both business performance and employment in the Pharmaceuticals key sub-sector, compared to other counties across the region.

Figure 13. Pharmaceuticals, Life Science and Healthcare business units (2007)

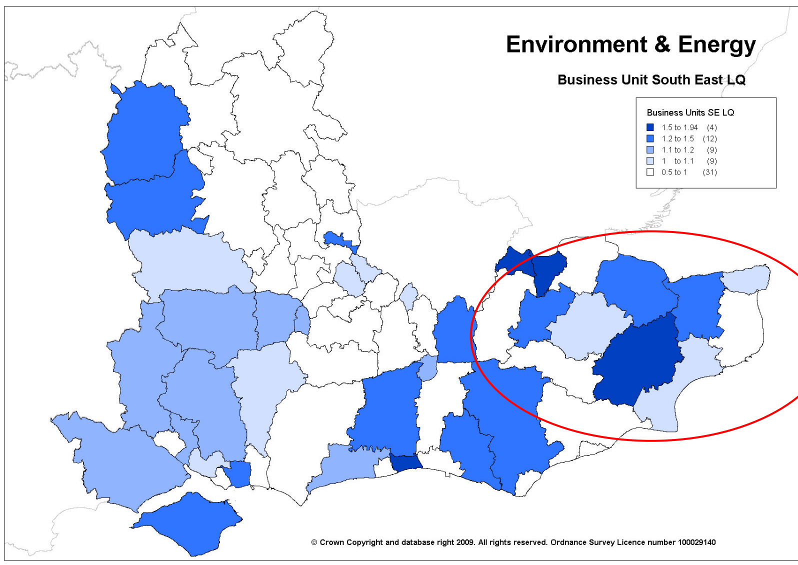


Source: ONS

There are some 2,650 Environment & Energy business units in the South East with one of the largest regional concentrations in Kent & Medway (575). Indeed, the concentration of business units in Gravesham, Dartford and Ashford is 90%, 70%, and 63%, respectively, above the regional average (see figure 14). There is also a high concentration of employment in Shepway, Canterbury, and Gravesham, with location quotients fairly above the regional average (between 1.5 and 2.7 times).

The forecasted negative growth for the Kent & Medway Mining & Utilities sector in the years ahead is likely to have a relatively high impact on both business performance and employment in the Environment & Energy key sector, compared to other counties across the South East.

Figure 14. Environment & Energy business units (2007)



Source: ONS

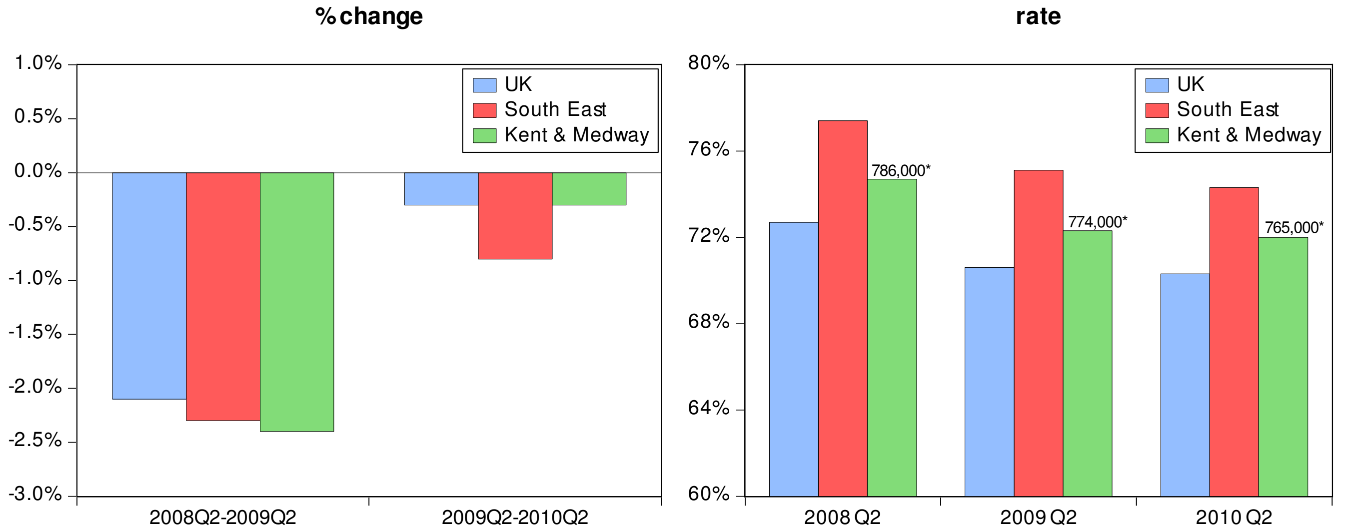
Kent & Medway – Labour market

Employment has continued to decline over the past year in Kent & Medway, but has fallen by less than in the previous 12 months. While the employment rate remains below the South East average, the overall fall in employment between Q2 2008 (the start of the recession) and Q2 2010 (the most recent data[6]) may have been lower. The opposite is true when compared to the UK as a whole, with Kent & Medway having a higher employment rate but having seen a greater fall in employment over this period (see figure 15).

In absolute terms, employment fell by an estimated 9,000 in Kent & Medway in the 12 months to Q2 2010. This reflects an improvement on the previous 12 months, when employment fell by 12,000. The employment rate in Q2 2010 was 72%, compared to 74% for the South East and 70% for the UK.

[6] We are grateful to Neil Park from the Office for National Statistics Regional Presence Team in the South East for providing us with the latest estimates from the Labour Force Survey. It should be kept in mind that quarterly data at sub-regional level are subject to a high degree of volatility and firm conclusions should not be drawn from small differences in the data.

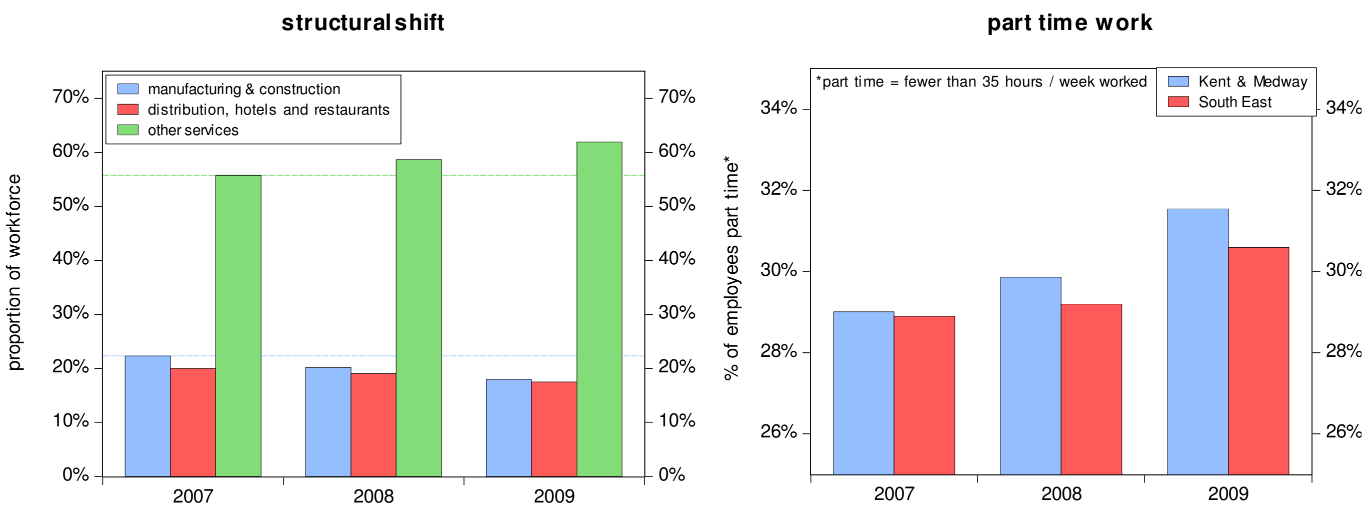
Figure 15: Employment rate 2008-2010[7]



Source: ONS Labour Force Survey 2008-2010

There has been a notable structural shift in employment patterns since 2007, and employees are now on average working fewer hours. Figure 16 shows a clear movement from the manufacturing, construction, distribution and hospitality sectors towards other service-based employment. In addition to this, 32% of workers in Kent & Medway reporting working weeks of less than 35 hours in 2009, up from 29% in 2007. The two trends are most likely related, with part time work more common in the service sector. The trend of increasing part time work has also been seen in the South East as a whole to a slightly lesser degree, though the difference may not be significant.

Figure 16: Structural shift and rise in part time work in Kent & Medway



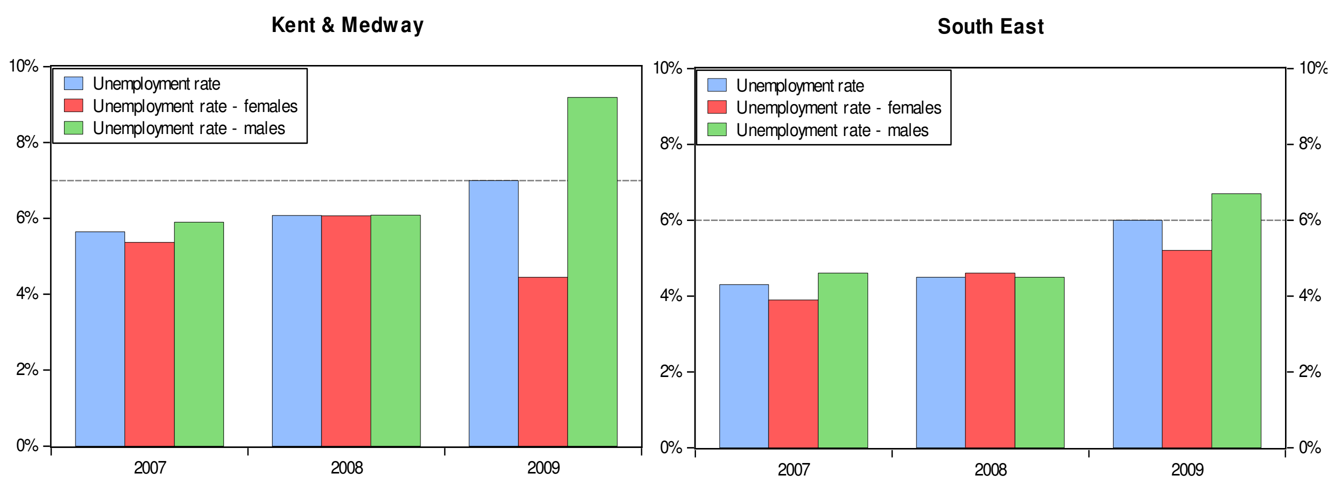
source: ONS Annual Population Survey, 2008-2010

[7] Special attention should be paid to these figures as they are subject to high volatility.

Between 2007 and 2009, male unemployment in Kent & Medway has increased significantly, while female unemployment has actually fallen. International Labour Organization (ILO) unemployment, which measures all those out of work and seeking work as opposed to the number of JSA claimants, was around 1% higher in Kent & Medway in 2009 than in the South East as a whole, at 7%. Between 2007 and 2009, male unemployment increased from 6% to 9%, while female unemployment actually fell from 5% in 2007 to 4% in 2009. This is equivalent to 41,000 men and 17,000 women out of work, taking total unemployment in Kent & Medway to 58,000 in 2009. The difference by gender was more pronounced in Kent & Medway than in the South East (see Figure 17).

The large rise in male unemployment has primarily been due to male employment being concentrated in sectors that have been badly affected, such as manufacturing and construction. Kent & Medway has a higher concentration of employment in these sectors than the South East - for example, a 32% higher concentration of output in construction[8]. On the other hand, as the recession did not spread into services until spring / summer 2009, the effect on female unemployment may not be fully captured in these results. The rise in part time employment in the service sector (i.e. fewer total hours worked) will also mute the headline figure for female unemployment.

Figure 17: Unemployment by gender, 2007-2009



source: ONS Annual Population Survey, 2008-2010

Unemployment levels are in general much higher along the coast, though these same areas have seen the largest falls in recent months – these trends can clearly be seen in the latest claimant count unemployment data in figures 18 and 19.

[8] See Table 2 in the Kent Economy Update from September 2009 for more detail.

Figure 18: Claimant count unemployment rate, July 2010

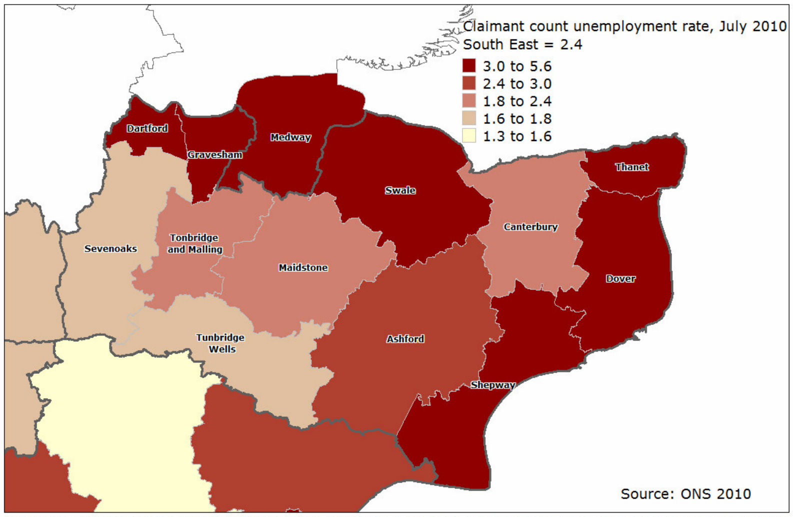
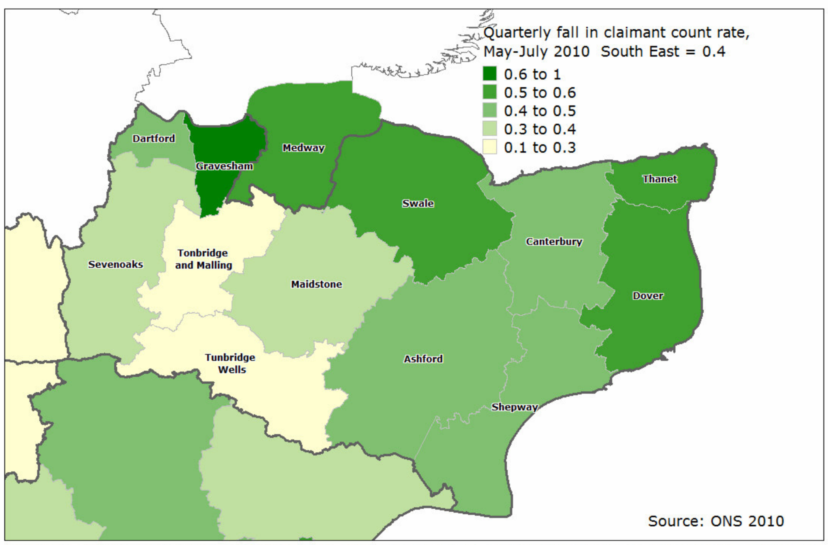
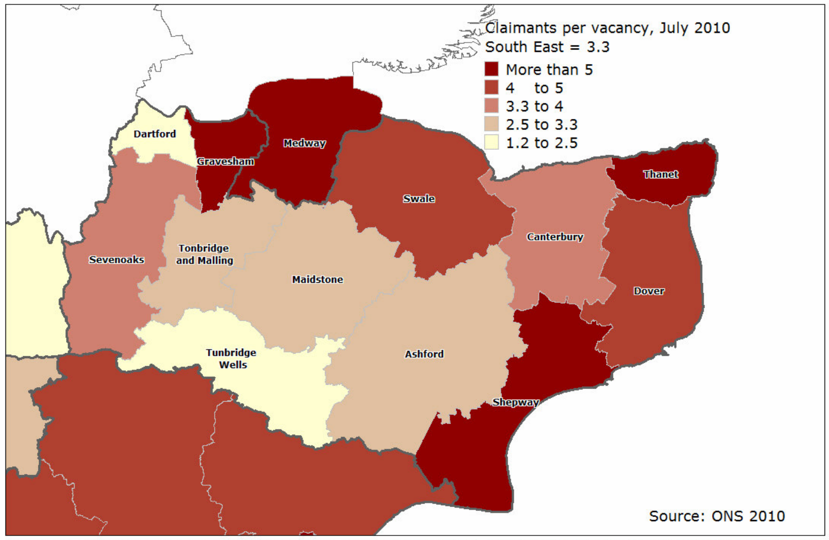


Figure 19: Quarterly fall in claimant count rate, May-July 2010



Despite these falls over the last quarter, the claimant per vacancy ratio remains high in many districts - of the six districts in the South East with the worst ratios, 4 are in Kent & Medway – these are Thanet, Medway, Gravesham and Shepway (figure 20). While there has been some improvement, this remains an area of concern.

Figure 20: Claimants per vacancy, July 2010



Over the 12 months to June 2010, over half (56%) of redundancies in Kent & Medway were in the manufacturing and construction sectors. However, the first half of 2010 has seen the public sector accounting for a much larger proportion of redundancies (40%), while the manufacturing and construction sectors have in general seen improvements. In particular, preliminary estimates for national GDP for Q2 indicate that the construction sector was the largest contributor to growth nationally (though this may reflect postponed construction due to extreme weather conditions in Q1).

Figure 21: Redundancies Q3 2009 – Q2 2010

Sector	2009 Q3 – 2010 Q2	2010 Q1 – 2010 Q2
Construction	31%	21%
Manufacturing	25%	19%
Services	18%	17%
Retail	4%	4%
Public sector	22%	40%
Total redundancies	4750	2600

Source: BIS/JC+, 2010

Recent research by SEEDA[9] has found that many areas in Kent & Medway are relatively exposed to public sector cuts, with high shares of employment in the public sector. SEEDA estimates based on the Budget forecast by the Office for Budget Responsibility (12% cut in public sector employment by 2015/16) show that Kent & Medway could see 14,000 public sector job losses, equivalent to 2.2% of the total workforce (not including the indirect effects of public sector cuts on the private sector).

Many districts have a challenging combination of high exposure to public sector cuts, high unemployment levels and low private sector employment forecasts – this is the case in Medway, Thanet, Shepway and Gravesham. Canterbury and Maidstone may also be significantly affected, though have a better starting point with lower unemployment rates.

[9] See: http://www.seeda.co.uk/_publications/Impact_of_public_sector_redundancies_on_the_South_East_1.pdf

Figure 22 shows forecasts for employment (public and private) from two leading independent forecasters. As before, there is a significant margin of error with forecasts by district, so these figures should be used with caution. When compared to Figure 10, a general trend of output recovering before employment can clearly be seen. In many districts, employment may not recover to 2007 levels until after 2020 (though this may partly be due to demographic or migrational factors).

Figure 22: Forecasts for when employment will return to 2007 levels

Area	Employment - Experian	Employment - Cambridge Econometrics
UK	2014	-
South East	**2013**	**2015**
Ashford	2010	2010
Canterbury	2010	2010
Dartford	2012	2014
Dover	2022	2016
Gravesham	2021	2019
Kent	**2012**	**2014**
Maidstone	2025+	2019
Medway	**2021**	**2016**
Sevenoaks	2010	2010
Shepway	2013	2017
Swale	2025+	2024
Thanet	2012	2014
Tonbridge & Malling	2012	2014
Tunbridge Wells	2010	2010

Source: Experian, Spring 2010; Cambridge Econometrics 2010